2008 annual report

中天

Zhongtian International Limited
中 天 國 際 控 股 有 限 公 司*

Incorporated in the Cayman Islands with limited liability

Stock Code: 02379

* for identification purposes only

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Corporate Information

Executive Directors
CHEN Jun
ZHAO Yun

Independent Non-executive Directors
HUNG Randy King Kuen
CHEN Wen Ping
QI Fa Cheng

Company secretary
Cheung Siu Yiu

Audit committee
HUNG Randy King Kuen
CHEN Wen Ping
QI Fa Cheng

Hong Kong legal adviser
Loong & Yeung Solicitors

Authorised representatives
CHEN Jun
ZHAO Yun

Stock code
02379

Company's website
www.irasia.com/listco/hk/zhongtian

Principal place of business in Hong Kong
Suites 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 KY1-1107
Cayman Islands

Registered office
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business
21st Floor
Huaren International Mansion
No. 2 Shandong Road
Shinan District
Qingdao City
Shandong Province
The People's Republic of China ("PRC")

To Stay Calm in Dealing with Problems, to Develop and Innovate, to Seize Opportunities and to Achieve Brilliant Results Again

On behalf of the board of directors (the "Board") of Zhongtian International Limited (the "Company") 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 2008.

The Group experienced a series of severe tests in the year of 2008:

1. The world financial tsunami, which swept through Europe and the United States, also resulted in a profound effect on the economy of Mainland China, causing overall market depression due to a slowdown in its economic growth.

2. The provision of electronic network services for Rural Credit Co-operatives ("RCCs") had used to be the core business and major source of income of the Group. However, subsequent to the upgrade and overall revision of the RCCs electronic network system, the orders received by the Group in this domain and the corresponding turnover generated continued to decrease.

3. The property development and investment market, being a focus of the Group's diversified businesses, experienced certain difficulties due to the prolong depression and downturn in the property market since the second half of 2008 as a result of the world financial tsunami and the relevant state policies on the property industry. Consequently, the Board had decided to temporarily postpone the development and construction of "Zhongtian International Venture Plaza", the project located in Laoshan District in Qingdao City (the "Project").

Since 2007, the Group's management has fully realised the risk involved in the heavy reliance of the Group's business on providing software services to the financial industry. The world's financial crisis also exerted serious impact on the Group's customers in 2008, causing them to postpone or cancel their plans for upgrading. The number of contracts signed by the Group was still inadequate in spite of the fact that the Group maintained close contact and negotiations with its customers. As at 31 December 2008, the above business generated a turnover of approximately RMB376,000 for the year, making less than remarkable financial contribution to the Group.

During the year, the Group achieved certain results in the area of building intelligent control system and the development and sale of electronic products, realising a turnover of approximately RMB8,450,000 for the year, which was an initial manifestation that the strategy to diversify the Group's operation was feasible. The development of the business defused the crisis faced by the Group arising from heavy reliance on a single business in the past. In the process of its future development, the Group will continue to develop this project, which has the advantages of low investment, high output, extensive market and bright future, so as to generate higher income for the Group.

The Group had invested considerable resources in developing the Project. Besides planning and constructing its R&D center, the Group intended to utilise the remaining part of the land on which the Project is located for long-term property investment or for sale. The Project has a good prospect due to its nature and geographical location even though the Board decided to slow down the pace of its construction. Although for the time being, there had been no direct contribution to the Group's operating results from the Project, the Board believes that the Project, being an integral part of the Group's business diversification, would definitely enable the Company to make breakthrough and boost its results in the future.

In spite of experiencing severe tests, the Board has been full of confidence to lead the team out of the downturn. The Group's management stayed calm in dealing with the financial crisis by carrying out various addressing strategies such as business transformation, management realignment, and maximisation of income and minimisation of costs. The Board believes that the positive work attitude, team efforts and endless vitality of the employees together with optimistic corporate culture, solid goodwill and excellent reputation gained in the industry will enable the Group to take the lead out of the crisis in the near future. Looking forward, the Group's management believes that the Group will definitely be able to adhere to its traditions, to stay calm in the current situation, to develop and innovate, to seize opportunities, to seek breakthroughs and to achieve brilliant results again.

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.

Information Technology

The Group's Information Technology segment is divided into four operating divisions, including (i) provision of system integration services; (ii) research and development of customised software products; (iii) sale of software and hardware products; and (iv) provision of maintenance and other services.

The provision of system integration, customised software products and maintenance and other services for Rural Credit Co-operatives ("RCCs") in the PRC was used to be the core business and major source of income of the Group. For the past few years, the orders received and business generated from RCCs has continuously dropped. As the diversification of business of the Group has not been completed, the drop in business with RCCs caused significant impact on the overall turnover of the Group.

The sale of hardware and software products has increased by 183.8% as compared to the year 2007. The sale of hardware and software products, which was best represented by the sale of intelligent control components for buildings, amounted to a cumulative turnover of approximately RMB8,450,000 during the reporting year. Taking the advantage of the Group's self-possessed technology, human and marketing resources, the sale of hardware and software products has created high return to the Group at relatively low cost during the reporting year. The Group will place more emphasis on the development of this domain for its potential market growth and business opportunities.

Property Development and Investment

The Group has fully realised that the future development of the Group will rely on the implementation of diversified operation and new sources of income. The Group has invested considerable resources in developing the Project, which is located on the piece of land at the south of Wanjie Hospital, Laoshan District, Qingdao City, Shangdong Province, the PRC with a site area of approximately 10,000 sq.m. Besides planning and constructing its R&D center, the Group intended to utilise the remaining part of the piece of land for long-term property investment or for sale. For the time being, there had been no direct contribution to the Group's operating results from the Project as it was still at the construction stage. During the year, the raging financial tsunami caused downward spiral of the property sale market. To avoid the situation in which the Group advanced or utilised too much fund which could not be recovered or earn profit for a long period of time, the Board decided with reference to its policy and market condition to temporarily postpone the Project. However, as the Project has a good prospect taking into account its nature and geographical location, the Board believes that the Project, being an integral part of the Group's business diversification, will definitely enable the Group to make breakthrough and boost its results in the future.

Management Discussion and Analysis

Financial Review

Turnover and gross profit margin

For the year ended 31 December 2008, consolidated turnover and cost of sales of the Group was RMB8,826,000, representing an increase of 26.7% from RMB6,966,000 in 2007 and RMB8,367,000, representing an increase of 53.2% from RMB5,463,000 in 2007, respectively. The gross profit decreased by 69.5% to RMB459,000 from RMB1,503,000 in 2007 as a result of the decline in turnover in system integration, customised software products and maintenance and other services.

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 53.4% in selling and distribution costs to RMB970,000 from RMB2,081,000 in 2007, representing 11% to the Group's turnover in 2008. The decrease in selling and distribution expenses was also further affected by decrease in the number and salaries of sales representatives during the year.

General and administrative expenses

The Group's administrative expenses for the year ended 31 December 2008 were approximately RMB9,158,000 (2007: approximately RMB11,026,000, excluding the factor that a fair value of the share options of RMB8,216,000 granted to employees and consultants recognised as an expense), representing a decrease of approximately 16.9% as compared to 2007.

Provision for impairment loss on property under development and land use rights

The Project, at its preliminary stage under construction, is erected on the piece of land located in Qingdao, PRC and held under medium term lease of 40 years.

The Project was suspended subsequent to the balance sheet date after due consideration of the Directors on the impact of the continual global economic and financial turmoil which adversely affected the property market in the PRC; and the difficulty to raise funds in view of the global financial crisis. Based on the Directors' review of the carrying value of the Project with reference to an independent professional valuation carried out by Asset Appraisal Limited, full impairment on costs of the Project and an impairment loss for land use rights of RMB16,146,000 and RMB28,654,000 respectively have been recognised in the consolidated income statement for the current year (2007: nil). The balance of upfront payments of construction cost which amounted to RMB28,798,000 was refunded by the main constructor to the Group based on a commercial settlement.

As the Project was suspended, compensations has been paid in the amount of RMB400,000 to the supplier for the construction raw materials at a result of the termination of the purchase contract.

Net loss

For the year ended 31 December 2008, the Group recorded a net loss of approximately RMB55,553,000 as compared with the net loss of approximately RMB33,004,000 for the previous year. The loss was further increased mainly due to (i) the provision for impairment loss in respect of the Project and its land use rights totalling RMB44,800,000 and (ii) a decline in demands of RCCs market which led to a substantial decrease in income from system integration, customised software products and maintenance & other services for the period. Basic loss per share in 2008 was RMB13.89 Cents as compared with basic loss per share in 2007 of RMB8.25 Cents.

Business Review

Analysis by business segment

The following is an analysis of the Group's turnover for the year ended 31 December 2008 by business segment:

	For the year ended 31 December			
	2008		2007	
	RMB'000	**%**	RMB'000	%
Provision of system integration services	**376**	**4.3**	2,150	30.9
Development of customised software products	**—**	**—**	516	7.4
Sale of software and hardware products	**8,450**	**95.7**	2,977	42.7
Provision of maintenance and other services	**—**	**—**	1,323	19.0
Total	**8,826**	**100**	6,966	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 95.7% and 4.3% respectively of the total turnover of the Group.

Due to the rapid diminishing demand of the market, the income from provision of system integration services, development of customised software products and provision of maintenance and other services has experienced serious decline. The income from the provision of system integration services accounted for RMB376,000, representing a decrease of 82.5% from RMB2,150,000 in 2007, while there was no income from development of customised software products and the provision of maintenance and other services as compared with RMB516,000 and RMB1,323,000 in 2007, respectively.

Despite the aforementioned, given that the Group has comprehensive products of RCCs information network system in store and no significant investment for the relevant 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 opportunity, meeting the demand of RCCs market and accelerating the construction progress of information networks.

Management Discussion and Analysis

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 and hardware in addition to RCCs segment, including state-owned banks that are undergoing radical reforms and other leading commercial banks in the PRC.

The Group will also place more emphasis and resources on the sale of hardware and software products for its potential market growth and business opportunities.

It is believed that the Group will explore potential market in the non-finance sector by leveraging on its experience 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.

Liquidity, Financial Resources and Capital Structure

During the year, the Group has fully repaid its interest-bearing bank and other borrowings. As at 31 December 2008, the Group had no borrowings (2007: RMB30,359,000). Accordingly, the gearing ratio, measured on the basis of total borrowings as a percentage of net assets, as at 31 December 2008 has been reduced to nil whereas the ratio was 27% as at 31 December 2007.

As at 31 December 2008, the Group had cash and cash equivalents of RMB20,081,000 (2007: RMB28,354,000), more than 90% of which was held in RMB.

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 had not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the year. No instruments had been adopted by the Group for foreign currency hedging purposes during the period under review.

Substantial Investment and Acquisition

During the reporting year, the Group did not have any substantial investment, material acquisition, disposals of subsidiaries and associated companies.

Charge on Assets

As at 31 December 2008, the Group had no pledged assets.

Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2008.

Employees and Remuneration Policy

As at 31 December 2008, the Group had 14 employees (2007: 28), substantially all of whom were based in the head office of the Group in Qingdao City of Shandong Province in the PRC. The number of staff employed by the Group varies from time to time depending on needs and they are remunerated based on industry practice. 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 2008 was RMB2,811,000 (2007: RMB2,896,000 excluding the fair value of share options of RMB8,216,000 granted to employees and consultants recognised as staff cost in that year).

Capital Reorganisation

On 22 December 2008, the Board announced that it proposed to put forward a proposal for capital reorganisation and a proposal for change in board lot size to the shareholders of the Company as follows:

(i) the nominal value of all the issued shares of the Company be reduced from HK$0.10 each to HK$0.0025 each by cancelling HK$0.0975 paid up on each issued share by way of a reduction of capital;

(ii) each of the authorised but unissued shares of the Company of nominal value of HK$0.10 shall be divided into 40 shares of nominal value of HK$0.0025 each;

(iii) every four issued and unissued shares of the Company of nominal value of HK$0.0025 each be consolidated into one new share of nominal value of HK$0.01 ("the Adjusted Share(s)");

(iv) the credit arising from such reduction will be applied to set-off the accumulated losses of the Company as of the effective date of the capital reorganisation with the balance (if any) to be transferred to the distributable capital reduction reserve account of the Company; and

(v) the board lot size of the shares of the Company be changed from 4,000 shares of nominal value of HK$0.10 each to 5,000 Adjusted Shares upon the capital reorganisation becoming effective.

The proposals were approved by the shareholders of the Company by way of a special resolution duly passed at an extraordinary general meeting held on 13 February 2009.

The capital reorganisation is further conditional upon:

(i) sanction by the Grand Court of the Cayman Islands ("the Court");

(ii) compliance with any conditions imposed by the Court; and

(iii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Shares in issue upon the capital reorganisation becoming effective.

As of the date of this report, none of the above conditions has been fulfilled.

For details of the above, please refer to the announcement and the circular of the Company dated 22 December 2008 and 9 January 2009 respectively.

Directors' and Senior Management's Biographies

Directors

Executive Directors

CHEN Jun（陳軍）, Chairman of the Board, aged 36, appointed as an executive Director on 6 March 2007 and as the Chairman of the Board on 27 March 2007, is currently a director of Success Advantage Limited（成益有限公司）, Money Chain Worldwide Limited（富連環球有限公司）, 青島中天信息技術有限公司 (Qingdao Zhongtian Information Technology Co., Ltd.) and a supervisor of 青島中天企業發展有限公司 (Qingdao Zhongtian Enterprise Development Co., Ltd.), all are wholly owned subsidiaries of the Company.

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 12 years of experience in corporate planning and management. Save as disclosed above, Mr. Chen did not hold any directorship in any listed company in the last 3 years.

ZHAO Yun（趙贇）, Chief Executive Officer of the Group, aged 36, appointed as an executive Director on 6 March 2007, is currently a director of Success Advantage Limited (成益有限公司), Money Chain Worldwide Limited (富連環球有限公司), Sunny Pearl Limited (日緯有限公司), Golden Century Trade Limited (金世紀貿易有限公司), Best Sight Limited (瑋邦有限公司), 青島中天企業發展有限公司 (Qingdao Zhongtian Enterprise Development Co., Ltd.), Boxing Group Limited (寶勝集團有限公司), Macro Vantage Limited (豪瑋有限公司), New East Glory Limited (東耀有限公司), Sunny Legend Limited (耀瑋有限公司) and a supervisor of 青島中天信息技術有限公司 (Qingdao Zhongtian Information Technology Co., Ltd.), all are wholly owned subsidiaries of the Company. 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 graduated from 南開大學 (Nankai University) and 中國人民解放軍海軍潛艇學院 (The People's Republic of China's Marine and Submarine College). Mr. Zhao has over 7 years of experience in corporate investment. Save as disclosed above, Mr. Zhao did not hold any directorship in any listed company in the last 3 years.

Independent non-executive Directors

HUNG Randy King Kuen（孔敬權）, aged 43, is an independent non-executive Director and joined the Group in July 2004. Mr. Hung holds a MBA degree from the University of London, 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) and an independent non-executive director of Zhongyu Gas Holding Limited (stock code: 8070). Mr. Hung is a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants, council member of the Hong Kong Institute of Directors and a member of the Hong Kong Securities Institutes.

CHEN Wen Ping (陳文平), aged 35, is an independent non-executive Director and joined the Company since May 2007. He 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. Save as disclosed above, Mr. Chen did not hold any directorship in any listed company in the last 3 years.

QI Fa Cheng (亓發成), aged 59, is an independent non-executive Director and joined the Company since May 2007. He 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). Save as disclosed above, Mr. Qi did not hold any directorship in any listed company in the last 3 years.

Senior Management

WANG Yan Pei (王艷培), aged 47, is a deputy general manager of the Group. She joined the Group since December 2006. 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.

Report of the Directors

The Board presents their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2008.

Principal Activities

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 19 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement. The Board does not recommend the payment of any dividend for the year ended 31 December 2008.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 15 to the financial statements.

Share Capital

Details of movements during the year in the share capital of the Company are set out in note 29 to the financial statements.

Reserves

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

As at 31 December 2008, the Company had reserves available for distribution of RMB17,986,000 (2007: RMB46,624,000).

Group Financial Summary

A summary of the results and of the assets and liabilities of the Group for last five financial years is set out on page 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
Mr. Zhao Yun

Independent non-executive Directors

Mr. Hung Randy King Kuen
Mr. Qi Fa Cheng
Mr. Chen Wen Ping

Each of Mr. Qi Fa Cheng, Mr. Chen Wen Ping and Mr. Zhao Yun will retire at the forthcoming annual general meeting. Mr. Chen Wen Ping and Mr. Zhao Yun, being eligible, offer themselves for re-election in accordance with Article 87 of the Articles of Association.

Mr. Qi Fa Cheng, although eligible, will not offer himself for re-election. The Board has proposed Ms. Yuan Kai Hong to be appointed as independent non-executive Director at the forthcoming annual general meeting.

Directors' and Senior Management's Biographies

Biographical details of the Directors and the senior management of the Group are set out on pages 10 to 11 of this annual report.

Directors' Service Contract

Each of the 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.

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 22 May 2008 and ending at the conclusion of the forthcoming annual general meeting.

Each of Mr. Qi Fa Cheng, Mr. Chen Wen Ping and Mr. Zhao Yun will retire at the forthcoming annual general meeting. Mr. Chen Wen Ping and Mr. Zhao Yun, being eligible, offer themselves for re-election in accordance with Article 87 of the Articles of Association.

Mr. Qi Fa Cheng, although eligible, will not offer himself for re-election. The Board has proposed Ms. Yuan Kai Hong to be appointed as independent non-executive Director at the forthcoming annual general meeting.

None of the Directors, including those to be re-elected 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' Renumeration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group. In addition, the directors' remuneration is reviewed by the Remuneration Committee annually.

Directors' and Chief Executives' Interests in Shares and Underlying Shares

As at 31 December 2008, 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 2008, none of the Directors nor chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders

As at 31 December 2008, 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 Company 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 2008, 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 Company pursuant to section 336 of the SFO.

Directors' Interests in Contracts of Significance

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

Directors' Rights to Acquire Shares or Debentures

Apart from the 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 Company 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 Company 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:

	2008	2007
	%	%
Percentage of purchases:		
From the largest supplier	**99%**	57%
From the five largest suppliers	**100%**	86%
Percentage of turnover:		
From the largest customer	**95%**	46%
From the five largest customers	**100%**	85%

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

Purchase, Sale and Redemption of the Shares

During the year ended 31 December 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Directors' Interest in a Competing Business

As at 31 December 2008, the Directors were not aware of any business or interest of the Directors or any substantial shareholder (as defined under the Listing Rules) of the Company 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 Company 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 had complied with such code of conduct during the year ended 31 December 2008.

Public Float

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital are held by the public at all times from 1 January 2008 up to the date of this report.

Share Option

There was no share option granted, cancelled or lapsed during the year ended 31 December 2008. Details of share option scheme of the Company are set out in note 31 to the financial statements.

Pre-Emptive Rights

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

Corporate Governance

The Board considered that the Company had complied with the code provisions set out in the Code of Corporate Governance Practices (the "CG Code") as stipulated in Appendix 14 to the Listing Rules during the year.

The Group's compliance with the code provisions is set out in the Corporate Governance Report from page 19 to page 23 of this annual report.

Post Balance Sheet Events

Save as disclosed in note 35 to the financial statements, there are no significant events occurred after the balance sheet date.

Closure of Share Register

The register of members of the Company will be closed from 22 April 2009 to 24 April 2009 (both days inclusive), during which no share transfers will be registered.

Auditors

Deloitte Touche Tohmatsu ("Deloitte") has acted as the 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 confirmed by the shareholders in an extraordinary general meeting on 10 April 2007.

CCIF CPA Limited has acted as auditors of the Company for the years ended 31 December 2006, 2007 and 2008. CCIF CPA Limited was re-appointed as the new auditors of the Company and the appointment was confirmed by the shareholders in the annual general meeting on 22 May 2008.

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 will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chen Jun
Chairman

Hong Kong, 18 March 2009

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 to the Listing Rules.

The Board considered that the Company had complied with the Code Provisions of the CG Code during the year.

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)*
Zhao Yun *(Chief Executive Officer)*

Independent Non-executive Directors

Hung Randy King Kuen
Qi Fa Cheng
Chen Wen Ping

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 Company.

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 22 May 2008 and ending at the conclusion of 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 Company's Articles of Association.

Each of Mr. Qi Fa Cheng, Mr. Chen Wen Ping and Mr. Zhao Yun will retire at the forthcoming annual general meeting. Mr. Chen Wen Ping and Mr. Zhao Yun, being eligible, offer themselves for re-election in accordance with Article 87 of the Articles of Association.

Mr. Qi Fa Cheng, although eligible, will not offer himself for re-election. The Board has proposed Ms. Yuan Kai Hong to be appointed as independent non-executive director at the forthcoming annual general meeting.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to the requirements of the Listing Rules. The Group considers all independent non-executive Directors to be independent in accordance with the 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, four 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	4/4
Zhao Yun	4/4
Independent Non-executive Directors	
Hung Randy King Kuen	3/4
Qi Fa Cheng	4/4
Chen Wen Ping	3/4

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 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 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 since 2007. The two positions are assumed by different persons, in order to ensure that their independence, accountability and power are clear. Mr. Chen Jun, the Chairman, is responsible for the operation of the Board and the formulation of the Group's strategies and policies. Mr. Zhao Yun, the Chief Executive Officer, 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 Company will receive induction and reference materials to enable them to familiarise 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 three years. The Directors to retire in every year shall be those appointed by the Board during the year and those who have been longest in office since their last election or re-election. New Directors appointed by the Board during the year shall retire and submit themselves for re-election at the annual general meeting immediately following their appointments.

Each of Mr. Qi Fa Cheng, Mr. Chen Wen Ping and Mr. Zhao Yun will retire at the forthcoming annual general meeting. Mr. Chen Wen Ping and Mr. Zhao Yun, being eligible, offer themselves for re-election in accordance with Article 87 of the Articles of Association.

Mr. Qi Fa Cheng, although eligible, will not offer himself for election. The Board has proposed Ms. Yuan Kai Hong to be appointed as independent non-executive Director for the forthcoming annual general meeting.

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 2008.

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)*
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 2008 and all the members have attended to review 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.

Communication with Shareholders

Information of the Company and the Group are delivered to its shareholders through a number of channels, which includes annual report, interim report, announcements and circulars. The latest information of the Company and the Group together with the published documents are also available on the Company's website.

Internal Control

The Board is committed to manage business risks and to maintain a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets. The Board, through the Audit Committee, has conducted annual review of the effectiveness of the Group's system of internal control covering all controls, including financial, operational and compliance controls, and risk management processes. The 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 2008 as set forth in the CG Code.

Auditors' Remuneration

The remuneration paid or payable to the external auditors of the Group in 2008 comprised of fees for audit services of HKD250,000. There have been no non-audit services rendered by the Company's independent auditors during the year.

Audit Committee

The Audit Committee is primarily responsible for reviewing and supervising the financial reporting process and internal control system of the Group with 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	2/2
Chen Wen Ping	2/2

The Audit Committee held two meetings during the year ended 31 December 2008 to review the financial results and reports (including the interim results of the Group for the six months ended 30 June 2008). Financial controls, internal controls, risk management systems, and the reappointment of the external auditor. The Group's annual report for the year ended 31 December 2008 has been reviewed by the Audit Committee. There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditors.

Directors' and Auditors' Responsibility for Financial Statements

All Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2008. The auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2008. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the financial statements.

Independent Auditor's Report

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 26 to 83, which comprise the consolidated and Company balance sheets as at 31 December 2008, 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 2008 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
18 March 2009

Leung Chun Wa
Practising Certificate Number P04963

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Turnover	6	**8,826**	6,966
Cost of sales		**(8,367)**	(5,463)
Gross profit		**459**	1,503
Other income	7	**969**	1,173
Distribution costs		**(970)**	(2,081)
Administrative expenses		**(9,158)**	(19,242)
Impairment loss of trade receivables	20(b)	**—**	(1,674)
Impairment loss of other receivables	21	**(206)**	(12,289)
Impairment loss of development costs	16	**—**	(280)
Impairment loss of land use rights and property under development	17, 18	**(44,800)**	—
Loss on disposal of property, plant and equipment		**(143)**	(104)
Loss from operations		**(53,849)**	(32,994)
Finance costs	8	**(1,704)**	(10)
Loss before income tax	8	**(55,553)**	(33,004)
Income tax	11	**—**	—
Loss for the year		**(55,553)**	(33,004)
Attributable to:			
Equity holders of the Company	12	**(55,553)**	(33,004)
Dividends	13	**—**	—
Loss per share (RMB)	14		
— Basic		**(13.89 Cents)**	(8.25 Cents)
— Diluted		**(13.89 Cents)**	(8.25 Cents)

The notes on pages 32 to 83 form an integral part of these financial statements.

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	15	**612**	1,753
Development costs	16	**—**	—
Land use rights	17	**34,028**	63,654
Property under development	18	**—**	41,315
		34,640	106,722
Current assets			
Trade receivables	20	**6,077**	—
Other receivables	21	**4,792**	2,838
Land use rights	17	**972**	1,746
Securities held for trading	22	**19**	6,180
Cash and bank balances	23	**20,081**	28,354
		31,941	39,118
Current liabilities			
Interest-bearing bank borrowings	24	**—**	30,000
Trade and other payables	25	**8,896**	3,435
Obligations under finance leases	26	**—**	100
Amounts due to directors	27	**1,733**	427
Income tax payable		**1,100**	1,100
		11,729	35,062
Net current assets		**20,212**	4,056
Total assets less current liabilities		**54,852**	110,778
Non-current liabilities			
Obligations under finance leases	26	**—**	259
Net assets		**54,852**	110,519
Capital and reserves			
Share capital	29	**42,428**	42,428
Reserves	30	**12,424**	68,091
Total equity		**54,852**	110,519

The financial statements on pages 26 to 83 were approved and authorised for issue by the board of directors on 18 March 2009 and are signed on its behalf by:

Chen Jun
Director

Zhao Yun
Director

The notes on pages 32 to 83 form an integral part of these financial statements.

Balance Sheet

At 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	15	**65**	438
Interests in subsidiaries	19	**53,347**	80,379
		53,412	80,817
Current assets			
Other receivables	21	**342**	1
Cash and bank balances	23	**1,276**	4,777
		1,618	4,778
Current liabilities			
Other payables	25	**317**	529
Obligations under finance leases	26	**—**	100
Amount due to a subsidiary	19	**729**	744
Amounts due to directors	27	**946**	77
		1,992	1,450
Net current (liabilities)/assets		**(374)**	3,328
Total assets less current liabilities		**53,038**	84,145
Non-current liabilities			
Obligations under finance leases	26	**—**	259
Net assets		**53,038**	83,886
Capital and reserves			
Share capital	29	**42,428**	42,428
Reserves	30	**10,610**	41,458
Total equity		**53,038**	83,886

The notes on pages 32 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 (Note 2)	Public welfare fund RMB'000 (Note 3)	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
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 and at 1 January 2008	42,428	47,246	6,740	(1,816)	12,065	5,331	8,216	(9,691)	110,519	–	110,519
Exchange differences on translation of foreign subsidiaries	–	–	–	(114)	–	–	–	–	(114)	–	(114)
Loss for the year	–	–	–	–	–	–	–	(55,553)	(55,553)	–	(55,553)
At 31 December 2008	42,428	47,246	6,740	(1,930)	12,065	5,331	8,216	(65,244)	54,852	–	54,852

Notes:

1. The special reserve of the Group 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 prior to listing of the Company's shares. Subject to the Companies Law of the Cayman Islands and the Article of Association of the Company, the special reserve is distributable to the shareholders of the Company.

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.

3. 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 employee 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 PRC subsidiaries.

Consolidated Cash Flow Statements

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES			
Loss before income tax		**(55,553)**	(33,004)
Adjustments for:			
Interest income	7	**(63)**	(613)
Interest expenses	8(a)	**1,624**	—
Finance lease interest	8	**80**	10
Amortisation of development costs	16	**—**	210
Depreciation of property, plant and equipment	15	**802**	884
Impairment loss of development costs	16	**—**	280
Impairment loss of trade receivables	20	**—**	1,674
Impairment loss of other receivables	21	**206**	12,289
Loss on disposal of property, plant and equipment		**143**	104
Loss on dissolution of a subsidiary		**—**	(1)
Gain on disposal of securities held for trading	7	**(93)**	—
Impairment loss on property under development land and land use rights	17,18	**44,800**	—
Equity compensation benefits	31	**—**	8,216
Operating cash flows before movements in working capital		**(8,054)**	(9,951)
Decrease in inventories		**—**	3,389
(Increase)/decrease in trade receivables		**(6,077)**	2,993
(Increase)/decrease in other receivables		**(2,160)**	6,997
Decrease in amount due from a director		**—**	118
Increase/(decrease) in trade and other payables		**5,461**	(2,080)
Increase in amounts due to directors		**1,306**	5
NET (USED IN)/GENERATED FROM OPERATING ACTIVITIES		**(9,524)**	1,471
INVESTING ACTIVITIES			
Interest received		**63**	613
Upfront payments for property development costs refunded		**28,798**	—
Repayment of loan receivables		**—**	12,000
Purchase of property, plant and equipment		**—**	(516)
Payments/upfront payments for property under for development		**(1,883)**	(37,429)
Purchase of securities held for trading		**—**	(6,180)
Proceeds from disposal of property, plant and equipment		**247**	—
Proceeds from disposal of securities held for trading		**6,254**	—
NET CASH USED IN INVESTING ACTIVITIES		**33,479**	(31,512)

	Notes	2008 RMB'000	2007 RMB'000
FINANCING ACTIVITIES			
Proceeds from interest-bearing bank borrowings		—	30,000
Capital element of finance lease rentals paid		(359)	(43)
Interest element of finance lease rentals paid		(80)	(10)
Interest paid		(1,624)	—
Repayment of interest-bearing bank borrowings		(30,000)	—
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		(32,063)	29,947
NET DECREASE IN CASH AND CASH EQUIVALENTS		(8,108)	(94)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		28,354	29,173
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(165)	(725)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR REPRESENTING BANK BALANCES AND CASH	23	20,081	28,354

The notes on pages 32 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") on 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 19.

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

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

The Group has not early adopted the following new and revised standards or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRS[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKAS 32 &1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKFRS 32 &1 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Association[2]
HKFRS 1 (Revised)	First Time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 2 (Amendment)	Share-based Payment-Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) — Int 18	Transfers of Assets from Customers[6]

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

[1] Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 July 2009

[4] Effective for annual periods beginning on or after 1 July 2008

[5] Effective for annual periods beginning on or after 1 October 2008

[6] Effective for transfers on or after 1 July 2009

The adoption of HKAS 1 (Revised) may result in a change in presentation of the primary statements of the financial statements. The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The Directors anticipate that the applications of the new and revised standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

3. Summary of Significant Accounting Policies

(a) 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. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The Group incurred a significant loss of RMB55,553,000 for the year ended 31 December 2008, which included impairment loss of RMB44,800,000 on the redevelopment project (land use rights (note 17) and property under development (note 18)) caused by the suspension of the project as detailed in notes 17 and 18. The Company is actively discussing with its bankers for the renewal of credit facilities for the project. The directors are confident that the Group will be able to obtain support from its bankers. At 31 December 2008, the Group has net current assets of RMB20,212,000 and no borrowings. Subsequent to 31 December 2008, the capital commitments in respect of the redevelopment project were cancelled upon the termination of the construction contract and a material supply contract as referred to in note 35 (b) and (c). Consequently, the financial statements have been prepared on a going concern basis.

3. Summary of Significant Accounting Policies *(Continued)*

(c) Basis of presentation

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 5.

(d) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Company. Control exists when the Company 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.

3. Summary of Significant Accounting Policies *(Continued)*

(d) Subsidiaries and minority interests *(Continued)*

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.

Loans from minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 3 (j)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sales).

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

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

3. Summary of Significant Accounting Policies *(Continued)*

(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.

Dated 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 (see note 3 (j)).

Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. 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 in accordance with the policy set out in note 3 (s) (iii). When these investments are derecognised or impaired, the cumulative gain or loss previously recognised directly in equity is recognised in the consolidated income statement.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such quoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

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

3. Summary of Significant Accounting Policies *(Continued)*

(g) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and accumulated impairment losses (see note 3 (j)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs.

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

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

Motor vehicles	20%
Furniture, fixtures and equipment	20%

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

(h) Property under 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.

3. Summary of Significant Accounting Policies *(Continued)*

(i) Leased assets *(Continued)*

(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.

(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 is included in property, plant and equipment 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 3(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(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.

3. Summary of Significant Accounting Policies *(Continued)*

(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;

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

— 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.

3. 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)

— 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.

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.

3. Summary of Significant Accounting Policies *(Continued)*

(j) Impairment of assets *(Continued)*

(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;
— land use rights;
— property under development; and
— interests in subsidiaries

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).

— Recognition of impairment losses

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

3. Summary of Significant Accounting Policies *(Continued)*

(j) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a 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.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepared an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 3 (j) (ii)).

Impairments losses recognised in an interim period in respect of goodwill, available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period related.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less 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 (see note 3 (j)).

3. Summary of Significant Accounting Policies *(Continued)*

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost 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.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities, 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.

(n) Cash and cash equivalents

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

(o) 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.

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.

3. Summary of Significant Accounting Policies *(Continued)*

(o) Income tax *(Continued)*

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.

3. Summary of Significant Accounting Policies *(Continued)*

(o) 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.

(p) 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.

3. Summary of Significant Accounting Policies *(Continued)*

(q) Foreign currency transactions

(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.

(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.

3. Summary of Significant Accounting Policies *(Continued)*

(r) 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.

(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).

(iii) Termination benefits

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

3. Summary of Significant Accounting Policies *(Continued)*

(s) Revenue recognition

Provided it is probable that the economic 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) Sale of goods

Revenue from sale 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) Services income

Services income is 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.

(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.

(t) Borrowing costs

Borrowing costs are expenses in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use for sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

3. Summary of Significant Accounting Policies *(Continued)*

(u) 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 influenced by, that individual in their dealings with the entity.

(v) Dividend distribution

Dividend distribution to the Company's shareholders 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.

(w) 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. Summary of Significant Accounting Policies *(Continued)*

(x) Development costs

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.

(y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economics environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purpose of these financial statements.

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 group entities within a single segment. Inter-segment pricing is based on similar terms as those available 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.

4. Financial Risk Management Objectives and Policies

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 arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate 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

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.

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 are set out in notes 20 and 21 respectively.

At the balance sheet date, the Group has a significant concentration of credit risk as 100% (2007: Nil) and 100% (2007: Nil) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 31 December 2008, respectively.

(ii) Deposits with banks

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

4. Financial Risk Management Objectives and Policies *(Continued)*

(b) Liquidity risk

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

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

Group

	2008				2007			
	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
Interest-bearing bank borrowings	–	–	–	–	30,000	32,465	32,465	–
Trade and other payables	8,896	8,896	6,685	2,211	3,435	3,435	3,435	–
Amounts due to directors	1,733	1,733	1,733	–	427	427	427	–
Obligations under finance leases	–	–	–	–	359	442	123	319
	10,629	10,629	8,418	2,211	34,221	36,769	36,450	319

Company

	2008				2007			
	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	317	317	317	–	529	529	529	–
Amounts due to directors	946	946	946	–	77	77	77	–
Amount due to a subsidiary	729	729	729	–	744	744	744	–
Obligations under finance leases	–	–	–	–	359	442	123	319
	1,992	1,992	1,992	–	1,709	1,792	1,473	319

4. Financial Risk Management Objectives and Policies *(Continued)*

(c) Interest rate risk

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

At 31 December 2008, it is estimated that a general increase/decrease 100 basis points in interest rates, with all other variable held constant, the Group's loss would increase/decrease by RMB201,000 (2007: RMB16,000) and the Company's loss for the year would decrease/increase by RMB13,000 (2007: RMB50,000). This is mainly attributable to the interest earned from bank balances.

The sensitivity analysis above, which include interest rate exposure on variable interest bearing deposits, have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. A 100 basis point change is used which represents the management's assessment of the possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

(d) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of change in levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments as disclosed in note 22 to the financial statements. Certain of those investments are publicly quoted equities and are subject to variations in value. However, they represent a small percentage of the Group's net assets and the risk is minimal.

(e) Business risk

The Group's sales for the current year are primarily made to one major customer. The Group has a certain concentration of business risk as 100% (2007: 85%) 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 one major supplier. 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 100% (2007: 86%) 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.

4. Financial Risk Management Objectives and Policies *(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.

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
US dollars	**348**	329	**309**	328
HK dollars	**1,074**	4,543	**954**	4,183

(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.

	2008			2007		
	Increase/ (decrease) in foreign exchange rates	**Effect on loss after tax and accumulated losses RMB'000**	**Effect on other components of equity RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and accumulated losses RMB'000	Effect on other components of equity RMB'000
US dollars	**5%**	**–**	**17**	5%	–	16
	(5%)	**–**	**(17)**	(5%)	–	(16)
HK dollars	**(5%)**	**–**	**(54)**	(5%)	–	(227)
	5%	**–**	**54**	5%	–	227

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.

4. Financial Risk Management Objectives and Policies *(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 2008 and 2007.

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. Debts comprise secured bank borrowings, trade and other payables, amounts due to directors and obligations under finance leases. Shareholders' equity comprises all components of equity attributable to the equity shareholders of the Company.

The net debt-to-capital ratios as at 31 December 2008 and 2007 were as follows:

The Group

	2008 **RMB'000**	2007 RMB'000
Interest-bearing bank borrowings	**–**	30,000
Trade and other payables	**8,896**	3,435
Amounts due to directors	**1,733**	427
Obligations under finance leases	**–**	359
Total debts	**10,629**	34,221
Less: Cash and bank balances	**(20,081)**	(28,354)
Adjusted net debt	**N/A**	5,867
Shareholders' equity	**54,852**	110,519
Net debt-to-capital ratio	**N/A**	5.3%

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

4. Financial Risk Management Objectives and Policies *(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 and other receivables, trade and other payables, cash and cash equivalents without a specific maturity and variable rate financial instruments.

5. Accounting Estimates and Judgements

Key sources of estimation uncertainty

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) Going concern

The Group's assessment of the going concern assumption involves making a judgement, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. Major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out in note 3 (b) above.

(b) Useful lives and residual values of property, plant and equipment and land use rights

Useful lives of the Group's property, plant and equipment and land use rights are defined as the period over which they are expected to be available for use by the Group. This estimate is based 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.

5. Accounting Estimates and Judgements *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(c) Impairment of land use rights and property under development

As described in notes 17 and 18, the land use rights and development costs for project under development were revalued by the independent professional valuer on an open market value basis at the balance sheet date. The decrease in the value of land use rights and development costs for the redevelopment project was recognised in the profit or loss for the current year (2007: nil). Such valuation is based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. Any increase or decrease in the valuation would affect the net asset value and the results of the Group in future years.

(d) Impairment of property, plant and equipment

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

(e) Impairment of trade and other receivables

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

(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.

(g) Impairment on interests in subsidiaries

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

6. Turnover and Segments Information

Business segments

The Group is organised into two 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*

No turnover and profit were contributed by this new segment in the current year as the project is still at early stage of development and was suspended during the year.

Business segments for the year are as follows:

2008

	Information technology					Property development	Unallocated	Group
	System integration RMB'000	Customised software products RMB'000	Sale of hardware & software products RMB'000	Maintenance & other services RMB'000	Sub total RMB'000	RMB'000	RMB'000	RMB'000
Turnover – external	376	–	8,450	–	8,826	–	–	8,826
Turnover – inter-segment	–	–	–	–	–	–	–	–
	376	–	8,450	–	8,826	–	–	8,826
Segment results	277	–	182	–	459	–	–	459
Unallocated other income					969	–	–	969
Impairment loss of other receivables					(206)	–	–	(206)
Impairment loss of land use rights and property under development					–	(44,800)	–	(44,800)
Loss on disposal of property, plant and equipment					(143)	–	–	(143)
Unallocated expenses						–	(10,128)	(10,128)
Loss from operation								(53,849)
Finance costs					–	(1,704)	–	(1,704)
Loss before income tax								(55,553)
Income tax					–	–	–	–
Loss for the year								(55,553)

6. Turnover and Segments Information *(Continued)*

Business segments *(Continued)*

2007

	Information technology					Property development	Unallocated	Group
	System integration	Customised software products	Sale of hardware & software products	Maintenance & other services	Sub total			
	RMB'000	RMB'000	RMB'000	RMB'000	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 loan receivables					–	–	(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)

6. Turnover and Segments Information *(Continued)*

Business segments *(Continued)*

	Information technology		Property development		Group	
	2008	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Assets						
Segment assets	**7,481**	3,853	**39,000**	107,453	**46,481**	111,306
Securities held for trading					**19**	6,180
Unallocated assets					**20,081**	28,354
Total assets					**66,581**	145,840
Liabilities						
Segment liabilities	**8,665**	3,350	**400**	30,085	**9,065**	33,435
Unallocated liabilities					**2,664**	1,886
Total liabilities					**11,729**	35,321

Other information

	Information technology		Property development		Group	
	2008	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Capital expenditure	**70**	932	**–**	39,553	**70**	40,485
Depreciation	**802**	884	**–**	–	**802**	884
Amortisation	**–**	210	**–**	–	**–**	210
Cost of inventories recognised as expense	**8,367**	5,463	**–**	–	**8,367**	5,463

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.

7. Other Income

	2008 RMB'000	2007 RMB'000
Government subsidy (note 25 (a))	**724**	320
Interest income on bank deposits	**63**	192
Interest income on loan receivables	**—**	421
Gain on disposal of securities held for trading	**93**	—
Others	**89**	240
	969	1,173

8. Loss Before Income Tax

	2008 RMB'000	2007 RMB'000
Loss before income tax has been arrived at after charging:		
Auditor's remuneration		
— audit services	**228**	447
Amortisation of development costs	**—**	210
Cost of inventories recognised as expense	**8,367**	5,463
Compensation for termination of a purchase contract for construction materials (note (b))	**400**	—
Depreciation of property, plant and equipment	**802**	884
Finance costs:		
Interest on bank borrowings wholly repayable within five years (note (a))	**1,624**	—
Interest on finance leases	**80**	10
	1,704	10
Operating lease rentals on rented premises	**1,300**	885
Staff costs:		
Directors' emoluments (note (9))	**1,092**	766
Equity compensation benefits	**—**	8,216
Retirement benefits scheme contributions	**193**	309
Other staff costs	**1,526**	1,821
	2,811	11,112

Notes:

(a) The interest on bank borrowings was related to the bank loans drawn down entirely for financing the property under development referred to in note 18. As the whole redevelopment project was suspended for reasons as stated in note 18, all the borrowing costs were charged to the income statement for the current year.

(b) As the property under development was suspended as detailed in note 18 and the construction contract was terminated as referred to note 35 (c), the Group also terminated a purchase contract of construction materials pursuant to a settlement agreement dated 23 January 2009, under which the Group was liable to pay for a compensation in the amount of RMB400,000 to the independent third party supplier of construction raw materials for the termination of the purchase contract dated 11 March 2008.

9. Directors' Emoluments

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	2008 Total RMB'000
Executive directors				
Chen Jun	—	617	21	638
Zhao Yun	—	324	21	345
Independent non-executive directors				
Hung Randy King Kuen	55	—	—	55
Qi Fa Cheng	27	—	—	27
Chen Wen Ping	27	—	—	27
	109	941	42	1,092

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	2007 Total RMB'000
Executive directors				
Chen Jun	—	434	12	446
Zhao Yun	—	216	10	226
Independent non-executive directors				
Hung Randy King Kuen	58	—	—	58
Qi Fa Cheng	18	—	—	18
Chen Wen Ping	18	—	—	18
	94	650	22	766

None of the directors waived any emoluments for both years.

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2008 and 2007.

10. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, two (2007: none) were directors of the Company which emoluments are included in the disclosure in note 9 above. The emoluments of the remaining three (2007: five) individuals were as follows:

	2008 RMB'000	2007 RMB'000
Salaries, allowances and benefits in kind	194	224
Equity compensation benefits	—	4,108
Pension contributions	34	36
	228	4,368

The remuneration of above three (2007: three) non-director and highest paid employees fell within the following bands:

	Number of employees	
	2008	2007
Nil — HK$1,000,000 (equivalent to Nil — RMB972,000)	3	5

11. Income Tax

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profits arising in 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 25% (2007: 33%).

Qingdao Zhongtian Information Technology Co., Ltd. ("Zhongtian Information"), a wholly-owned subsidiary of the Company 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 year 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 years ended 31 December 2008 and 2007.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council issued Implementation Regulations of the New Law. The New Law and Implementation Regulation changed the tax rate of the PRC subsidiaries to 25% from 1 January 2008 onwards.

11. Income Tax *(Continued)*

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

	2008		2007	
	RMB'000	**%**	RMB'000	%
Loss before income tax	**(55,553)**		(33,004)	
Tax at PRC Enterprise Income Tax rate of 25% (2007: 33%)	**(13,888)**	**(25.0)**	(10,891)	(33.0)
Tax effect of income not subject to tax	**(1,722)**	**(3.1)**	(5,101)	(15.5)
Tax effect of expenses that not deductible for tax purposes	**14,939**	**26.9**	13,960	42.3
Tax effect on unrecognised tax loss	**671**	**1.2**	2,032	6.2
Tax expense and effective tax rate for the year	**–**	**–**	–	–

12. Loss Attributable to Equity Holders of the Company

The consolidated loss attributable to equity holders of the Company includes a loss of RMB28,638,000 (2007: RMB11,612,000) which has been dealt with in the financial statements of the Company.

13. Dividends

No dividend was paid or declared by the Company for both years.

14. 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 RMB55,553,000 (2007: RMB33,004,000) and weighted average number of 400,000,000 (2007: 400,000,000) ordinary shares in issue.

There were no dilutive potential shares during 2008 and 2007. The diluted loss per share is same as the basic loss per share.

15. Property, Plant and Equipment

Group

	Motor vehicles RMB'000	Furniture, fixture and equipment RMB'000	Total RMB'000
COST			
At 1 January 2007	2,359	1,867	4,226
Additions	828	104	932
Disposals	—	(536)	(536)
Exchange difference	1	—	1
At 31 December 2007 and 1 January 2008	3,188	1,435	4,623
Additions	—	70	70
Disposals	(633)	(324)	(957)
Exchange difference	(29)	—	(29)
At 31 December 2008	**2,526**	**1,181**	**3,707**
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
At 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 and 1 January 2008	1,941	929	2,870
Provided for the year	549	253	802
Eliminated on disposals	(250)	(321)	(571)
Exchange difference	(6)	—	(6)
At 31 December 2008	**2,234**	**861**	**3,095**
NET BOOK VALUE			
At 31 December 2008	**292**	**320**	**612**
At 31 December 2007	1,247	506	1,753

The carrying amount of the motor vehicles includes an amount of RMB Nil (2007: RMB438,000) in respect of assets held under finance leases.

15. Property, Plant and Equipment *(Continued)*

Company

	Motor vehicles RMB'000	Furniture, fixture and equipment RMB'000	Total RMB'000
COST			
At 1 January 2007	—	—	—
Additions	478	—	478
Exchange difference	1	—	1
At 31 December 2007 and 1 January 2008	479	—	479
Additions	—	70	70
Disposals	(450)	—	(450)
Exchange difference	(29)	—	(29)
At 31 December 2008	**—**	**70**	**70**
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
At 1 January 2007	—	—	—
Provided for the year	41	—	41
Eliminated on disposal	—	—	—
At 31 December 2007 and 1 January 2008	41	—	41
Provided for the year	70	5	75
Eliminated on disposal	(105)	—	(105)
Exchange difference	(6)	—	(6)
At 31 December 2008	**—**	**5**	**5**
NET BOOK VALUE			
At 31 December 2008	**—**	**65**	**65**
At 31 December 2007	438	—	438

The motor vehicle was held under a finance lease as at 31 December 2007, as referred to note 26.

16. Development Costs

	GROUP RMB'000
COST	
At 1 January 2007, 31 December 2007 and 31 December 2008	8,429
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2007	7,939
Provided for the year	210
Impairment loss	280
At 31 December 2007 and 31 December 2008	**8,429**
NET BOOK VALUE	
At 31 December 2008	**–**
At 31 December 2007	–

The costs were related to the development of information technology.

17. Land Use Rights

	GROUP	
	2008 RMB'000	2007 RMB'000
COST		
At 1 January 2007, 31 December 2007 and 31 December 2008	**67,524**	67,524
ACCUMULATED AMORTISATION AND IMPAIRMENT		
At 1 January	**2,124**	–
Impairment loss	**28,654**	–
Amortisation for the year transferred to property under development (note 18)	**1,746**	2,124
At 31 December	**32,524**	2,124
NET BOOK VALUE		
At 31 December	**35,000**	65,400
Classified as non-current assets	**34,028**	63,654
Classified as current assets	**972**	1,746
	35,000	65,400

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

The land is held for redevelopment into an office complex.

17. Land Use Rights *(Continued)*

During the year, the Group carried out a detailed review of the recoverable amount of the land use rights, having regard to the slump in the property market in the PRC due to the global financial turmoil and suspension of the redevelopment project (as referred to notes 18 and 35(b) below) on the land with reference to the valuation performed by an independent firm of professional qualified valuers, which led to the recognition of an impairment loss of RMB28,654,000 (2007: Nil) on the land use rights, that has been recognised in the consolidated income statement for the current year.

An independent professional valuation on the Group's land use rights was performed by Asset Appraisal Limited, with qualification and experience for similar properties in the PRC, on an open market basis at existing status amounted to RMB35,000,000, as at 31 December 2008.

The carrying value of land use rights were pledged as security for the Group's bank borrowings and the pledge was released upon the full repayment of the bank borrowings during the year.

18. Property Under Development

	GROUP	
	2008	2007
	RMB'000	RMB'000
At 1 January	**41,315**	1,762
Upfront payments for construction costs advanced to an independent third party main contractor	**1,639**	37,050
Amortisation of land use rights	**1,746**	2,124
Other direct costs	**244**	379
Refund received from an independent third party main contractor (note 35 (b))	**(28,798)**	—
	16,146	41,315
Impairment loss	**(16,146)**	—
	—	41,315

The redevelopment project is at its preliminary stage under construction with mainly some foundation works and architectural design and related works performed on the land located in Qingdao, PRC as referred to note 17 above.

18. Property Under Development *(Continued)*

The redevelopment project was suspended subsequent to the balance sheet date as referred in note 35 (b). The directors of the Company considered carefully (a) the impact of the prevailing global economic conditions and financial turmoil which adversely affected the property market in the PRC and (b) the difficulty to raise funds in view of the global financial crisis. Based on the directors' review of the recoverable value of the redevelopment project with reference to an independent professional valuation carried out by Asset Appraisal Limited, as referred to note 17 above, full impairment on costs of redevelopment project of RMB16,146,000 has been recognised in the consolidated income statement for the current year (2007: nil). The balance of upfront payments for the construction costs amounted to RMB28,798,000 (after deduction of incurred costs of construction and related works performed and penalties of RMB500,000 for early termination of construction contract) was refunded by the independent third party main contractor to the Group based on the termination agreement subsequently made on 22 January 2009 as referred to note 35(b).

19. Interests in Subsidiaries

	COMPANY	
	2008	2007
	RMB'000	RMB'000
Unlisted shares, at cost	**53,347**	56,598
Amount due from a subsidiary	**58,243**	61,756
	111,590	118,354
Impairment loss	**(58,243)**	(37,975)
Interests in subsidiaries	**53,347**	80,379
Amount due to a subsidiary	**(729)**	(744)

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed repayment terms. An allowance for amount due from a subsidiary of RMB58,243,000 (2007: RMB37,975,000) was recognised as at 31 December 2008 because the related recoverable amount of the balance due from the subsidiary was estimated to be less than its carrying amount. The amount due from a subsidiary of RMB58,243,000 (2007: RMB61,756,000) was in substance an equity contribution.

19. Interests in Subsidiaries *(Continued)*

Details of the Company's subsidiaries as at 31 December 2008 are as follows:

Name	Form of business structure	Place of incorporation/ establishment and operation	Issued and fully paid share capital	Interest held directly	Interest held indirectly	Principal activities
Success Advantage Limited ("Success Advantage")	Limited liability company	British Virgin Islands ("BVI")	US$100	100%	–	Investment holding and trading of hardware and software products
Qingdao Zhongtian Information Technology Co., Ltd. ("Zhongtian Information")	Wholly foreign-owned enterprise	PRC	RMB20,000,000	–	100%	Provision of system integration, applications and maintenance services and sale of hardware and software products
Qingdao Zhongtian Software Park Co., Ltd.	Limited liability company	PRC	RMB10,000,000	–	100%	Property development and provision of software training services
Qingdao Zhongtian Enterprise Development Co., Ltd. ("Zhongtian Enterprise")	Wholly foreign-owned enterprise	PRC	RMB70,000,000	–	100%	Provision of service related to consultancy and property development
Best Sight Limited	Limited liability company	Hong Kong	HK$1	–	100%	Investment holding
Sunny Pearl Limited	Limited liability company	Hong Kong	HK$1	–	100%	Investment holding
Money Chain Worldwide Limited	Limited liability company	BVI	US$1	–	100%	Investment holding
Golden Century Trade Limited	Limited liability company	BVI	US$1	–	100%	Investment holding

Notes:

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

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, based on due date, as of the balance sheet date was as follows:

	GROUP	
	2008	2007
	RMB'000	RMB'000
Current to 30 days	**6,077**	—
31 to 90 days	**—**	—
91 to 180 days	**—**	1,987
181 to 270 days	**—**	1,770
271 to 365 days	**—**	—
More than 365 days	**5,585**	2,591
	11,662	6,348
Less: Allowance for doubtful debts	**(5,585)**	(6,348)
	6,077	—

(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	
	2008	2007
	RMB'000	RMB'000
At 1 January	**6,348**	4,674
Impairment loss recognised, net	**—**	1,674
Amounts recovered during the year	**(763)**	—
At 31 December	**5,585**	6,348

20. Trade Receivables *(Continued)*

(b) Impairment of trade receivables *(Continued)*

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

	GROUP	
	2008	2007
	RMB'000	RMB'000
Neither past due nor impaired		
Current to 30 days	**6,077**	—

Receivables that were neither past due or impaired 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. Other Receivables

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits	**375**	—	**316**	—
Prepayment for construction materials (note (a))	**4,000**	830	**26**	—
Other receivables	**7,088**	7,679	**—**	1
Value-added tax refundable	**—**	962	**—**	—
Loan receivables (note (b))	**11,469**	11,469	**—**	—
Tax refundable	**168**	—	**—**	—
	23,100	20,940	**342**	1
Less: Allowance for doubtful debts	**(18,308)**	(18,102)	**—**	—
	4,792	2,838	**342**	1

21. Other Receivables *(Continued)*

Notes:

(a) Prepayment of RMB4,000,000 was paid in pursuant to the purchase contract dated 11 March 2008 for construction raw material made with an independent third party supplier. The purchase contract was subsequently terminated after the balance sheet date. Details are set out in note 35 (b).

(b) The loans were advances to two independent third parties, 青島易貝科技有限公司 and 青島銀通科技開發有限公司, which were unsecured and overdue. There were no collaterals held for these loan receivables. Legal actions were taken by the Group to recover the loans due from 青島易貝科技有限公司 and 青島銀通科技開發有限公司 during the year ended 31 December 2007 but in vain. However, 青島銀通科技開發有限公司 and 青島易貝科技有限公司 were dissolued during 2007 and 2009 respectively. Full impairment on these loans was recognised.

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.

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

	GROUP	
	2008	2007
	RMB'000	RMB'000
At 1 January	**18,102**	5,813
Impairment recognised for the year	**206**	12,289
At 31 December	**18,308**	18,102

22. Securities held for Trading

	GROUP	
	2008	2007
	RMB'000	RMB'000
At fair value:		
Investment fund outside Hong Kong	**–**	500
Listed securities outside Hong Kong	**19**	5,680
	19	6,180
Market value of listed securities	**19**	5,680

23. Cash and Bank Balances

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**20,081**	28,354	**1,276**	4,777

Cash and deposits with banks are interest bearing at an average rate of 0.36% (2007: 3%) per annum.

24. Interest-Bearing Bank Borrowings

	GROUP	
	2008	2007
	RMB'000	RMB'000
Bank loans repayable within one year:		
— Secured	**—**	30,000

All bank loans were interest bearing at rates of 8.21% (2007: 8.21%) per annum. Interest-bearing bank borrowings were secured by the Group's land use rights as referred to in note 17. The pledge was released upon the full repayment of the relevant bank borrowings to the bank.

25. Trade and Other Payables

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**6,523**	656	**—**	—
Other payables				
— Accruals	**598**	531	**317**	529
— Receipts in advance	**166**	166	**—**	—
— Deferred grant income (note a)	**344**	1,068	**—**	—
— Others	**1,265**	1,014	**—**	—
	8,896	3,435	**317**	529

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.

25. Trade and Other Payables *(Continued)*

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current to 30 days	**6,523**	656	**–**	—

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

26. Obligations Under Finance Leases

Obligations under finance leases are analysed as follows:

	GROUP AND COMPANY	
	2008	2007
	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 liabilities	**–**	259

Obligations under finance lease were related to the leasing of motor vehicle. Interest rate underlying all obligations under finance leases was fixed at 6% (2007: 6%) per annum.

27. Amounts Due to Directors

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

28. Deferred Taxation

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements as the Group has accumulated losses as at 31 December 2008.

At the balance sheet date, the Group has not recognised deferred tax assets in respect of unused tax losses of RMB5,455,000 (2007: RMB5,150,000) because it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses expire five years after the year the loss occurred under the current tax legislation.

29. Share Capital

	COMPANY			
	Number of shares		Share capital	
	2008	2007	**2008**	2007
			HK$'000	HK$'000
Ordinary shares of HK$0.10 each				
Authorised:				
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.

30. 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 pages 28 to 29 of the financial statements.

Company

	Share premium RMB'000	Special reserve RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 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 and 1 January 2008	47,253	50,837	(13,382)	8,216	(51,466)	41,458
Exchange differences on translation	–	–	(2,210)	–	–	(2,210)
Loss for the year	–	–	–	–	(28,638)	(28,638)
At 31 December 2008	47,253	50,837	(15,592)	8,216	(80,104)	10,610

Nature and purpose of reserves

(a) Share premium

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

(b) Special reserve

The special reserve of the Group 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 Reorganisation prior to listing of the Company's shares. Subject to the Companies Law of the Cayman Islands and the Article of Association of the Company, the special reserve is distributable to the shareholders of the Company.

30. Reserves *(Continued)*

Nature and purpose of reserves *(Continued)*

(c) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies in note 3(q).

(d) Share option reserve

The share option reserve represents the fair value of the actual or estimated number of unexpected share options granted to the eligible participants recognised in accordance with the accounting policy adopted for equity-settled payments in note 3(r).

(e) Distributability of reserves

The Company's reserves available for distribution represent the share premium, special reserve and accumulated losses. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors, as at 31 December 2008, the Company had reserves available for distribution to equity shareholders of RMB17,986,000 (2007: RMB46,624,000).

31. 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.

31. Share Option Scheme *(Continued)*

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

The total number of shares available for issue under the Scheme as at the date of this report was 40,000,000 shares which represented 10% of the issued share capital of the Company as at the date of this report. There is no minimum period for which an option must be held before it can be exercised under the Scheme.

The following table shows the movement of the Company's share options held by employees during the years ended 31 December 2008 and 2007:

FOR THE YEAR ENDED 31 DECEMBER 2008

Employees

Date of share options granted	Outstanding at the beginning of the year	Granted during the year	Exercised 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

No share option has been granted and no share option expense has been recognised during the year ended 31 December 2008. All outstanding share options with vesting period on 11 May 2007.

FOR THE YEAR ENDED 31 DECEMBER 2007

Employees

Date of share options granted	Outstanding at the beginning of the year	Granted during the year	Exercised 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

31. Share Option Scheme *(Continued)*

In assessing the theoretical aggregate value of the share options granted and fully accepted during year ended 31 December 2007, the Binomial option pricing model has been used. In 2007, an amount of share option expense of RMB8,216,000 has been recognised.

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	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.

32. Commitments

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

(a) Capital commitments

At 31 December 2008, the Group had capital commitments not provided for in the financial statements as follows:

	GROUP	
	2008	2007
	RMB'000	RMB'000
Authorised but not contract for	**—**	—
Contracted but not provided for (note below)	**227,730**	227,730
	227,730	227,730

Note:

Subsequent to the balance sheet date, the construction contract for the redevelopment project (as referred to note 18) was terminated as detailed in note 35(b) and the related capital commitments of RMB225,450,000 under the said contract was subsequently cancelled on 22 January 2009.

The Company has no capital commitments at the balance sheet date (2007: Nil).

(b) Operating lease commitments

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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,391**	424	**1,234**	91
Two to five years	**456**	—	**456**	—
	1,847	424	**1,690**	91

33. Retirement Benefits 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 RMB193,000 (2007: RMB309,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

34. Related Party Transactions

Other than the balance due to a director as disclosed in note 27 to the financial statements, the Group had no other outstanding balance and other transaction with related parties during the year.

(a) Key management personnel remuneration

Remuneration for key management personnel, including amount paid to the Company's directors as disclosed in note 9 is as follows:

	GROUP	
	2008	2007
	RMB'000	RMB'000
Salaries and allowances	**941**	650
Retirement scheme contributions	**42**	22
Share-based payments	**—**	—
	983	672

Total remuneration is included in staff cost in note 8.

35. Post Balance Sheet Events

(a) On 13 February 2009, the Company passed a special resolution to approve the capital reorganisation of the Company, which involved (i) share consolidation by consolidating every 4 shares of HK$0.0025 each into 1 consolidated share of HK$0.01 each; (ii) capital reduction by reducing the nominal value of the then issued consolidated shares from HK$0.10 to HK$0.0025 each; (iii) subdivision by subdividing each authorised but unissued share capital of the Company into 40 new shares of HK$0.01 each; as a result of the capital reorganisation, the authorised share capital of the Company will remain at HK$100,000,000 and is represented by 10,000,000,000 shares of HK$0.01 each after capital reduction and subdivision and the issued share capital is approximately HK$1,000,000, represented by 100,000,000 shares of HK$0.01 each. The conditions for the capital reorganisation have not yet been fulfilled at the date of approval for the financial statements on 18 March 2009.

(b) On 22 January 2009, Qingdao Zhongtian Software Park Co Ltd ("Zhongtian Software"), a wholly owned subsidiary of the Company and the independent third party main contractor for the redevelopment project (as referred to in note 18) entered into a termination agreement. Pursuant to the terms of the termination agreement, the construction contract dated 7 June 2007 was terminated with effect on 22 January 2009 and both parties shall be released and discharged from their respective obligations under the construction contract thereafter. Zhongtian Software had received the unused upfront payments of RMB28,798,000 (after deduction of incurred costs of the construction and related works performed and penalties of RMB500,000) (note 18) from the independent third party main contractor before the balance sheet date at 31 December 2008.

(c) On 23 January 2009, Zhongtian Software entered into a settlement agreement with the independent third party supplier of construction materials under which the purchase contract of the construction materials (steels) dated 11 March 2008 was terminated with effect on 23 January 2009 and Zhongtian Software was liable to pay a compensation of RMB400,000 which has been recognised in the financial statements for the year ended 31 December 2008, and the deposit paid on the purchase contract of RMB4,000,000 (note 21) was subsequently refunded.

Five Years Financial Summary

For the year ended 31 December 2008

	For the year ended 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Results					
Turnover	114,956	103,303	23,466	6,966	**8,826**
Profit/(loss) from operations	34,871	10,296	(16,115)	(32,994)	**(53,849)**
Share of result of an associate	(52)	218	(81)	—	**—**
Finance costs	—	—	—	(10)	**(1,704)**
Profit/(loss) before income tax	34,819	10,514	(16,196)	(33,004)	**(55,553)**
Income tax	—	(1,100)	—	—	**—**
Profit/(loss) for the year	34,819	9,414	(16,196)	(33,004)	**(55,553)**
Attributable to:					
Equity holders of the Company	34,901	9,469	(16,192)	(33,004)	**(55,553)**
Minority interests	(82)	(55)	(4)	—	**—**
	34,819	9,414	(16,196)	(33,004)	**(55,553)**
Earnings/(loss) per share					
— Basic	11.21 Cents	2.37 Cents	(4.05 Cents)	(8.25 Cents)	**(13.89 Cents)**
— Diluted	10.67 Cents	2.37 Cents	(4.05 Cents)	(8.25 Cents)	**(13.89 Cents)**

	As at 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and liabilities					
Total assets	175,820	175,854	143,055	145,840	**66,581**
Total liabilities	(18,471)	(20,184)	(7,037)	(35,321)	**(11,729)**
	157,349	155,670	136,018	110,519	**54,852**
Equity attributable to equity holders of the Company	157,197	155,665	136,017	110,519	**54,852**
Minority interests	152	5	1	—	**—**
	157,349	155,670	136,018	110,519	**54,852**