The following is the text of a report, prepared for the purpose of incorporation in this document, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

[●] 2009

The Directors
Futong Technology Development Holdings Limited
[●]

Dear Sirs,

Introduction

We set out below our report on the financial information relating to Futong Technology Development Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements of the Group, for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 (the "Relevant Period") and the combined balance sheets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009, together with the notes thereto (the "Financial Information"), for inclusion in the document of the Company dated [●] 2009 (the "Document").

The Company was incorporated in the Cayman Islands on 29 July 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganization completed on 11 November 2009 (the "Reorganization") as detailed in the section headed "Group reorganization" in Appendix VI to the Document, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganization.

As at the date of this report, no audited financial statements have been prepared for the Company and Beijing Futong Dongfang Unica Technology Co. Ltd. ("Futong Unica") as they were newly incorporated and have not carried on any business since the date of incorporation. The audited consolidated financial statements of Futong Technology Co. Ltd. ("Futong BVI") for the years ended 31 December 2006, 2007 and 2008 which were prepared in accordance with International Financial Reporting Standards ("IFRSs") are prepared for management purposes. We have reviewed all significant transactions of Futong BVI from the date of its incorporation to 30 June 2009 for the purpose of this report.

The statutory financial statements of other companies now comprising the Group, which were prepared in accordance with either the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China (the "PRC") or Hong Kong Financial Reporting Standards ("HKFRSs"), were audited during the Relevant Period by the following auditors:

Name of company	Financial period	Statutory auditors
Futong Technology (HK) Company Limited ("Futong HK")	Years ended 31 December 2006, 2007 and 2008	KPMG Certified Public Accountants Hong Kong
北京富通東方科技有限公司 Beijing Futong Dongfang Technology Co., Ltd. ("Futong Dongfang")*	Years ended 31 December 2006, 2007 and 2008	北京中博華會計師事務所 Beijing ZhongBoHua Certified Public Accountants* The PRC

* The English translation of the company name is for reference only. The official name of this entity is in Chinese.

Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements to conform with accounting policies referred to in Section C below, which are in accordance with IFRSs promulgated by the International Accounting Standards Board ("IASB"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). IFRSs include International Accounting Standards ("IASs") and Interpretations.

Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRSs, the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the Listing Rules. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that is 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.

Our responsibility is to form an opinion on the Financial Information based on our audit procedures.

Basis of opinion

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform our work to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information 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 Information.

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

We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 30 June 2009.

Opinion

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section A below and in accordance with the accounting policies set out in Section C below, gives a true and fair view of the Group's combined results and cash flows for the Relevant Period, and the state of affairs of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009.

Corresponding financial information

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the combined income statement, combined statement of comprehensive income, combined statement of changes in equity and combined cash flow statement for the six months ended 30 June 2008, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A Basis of presentation

As the ultimate controlling shareholder, Mr Chen Jian, who controlled the companies now comprising the Group before and after the Reorganization is the same and, consequently there was a continuation of the risks and benefits to the ultimate controlling shareholder, the Financial Information has been prepared using the merger basis of accounting as if the Reorganization had occurred as of the beginning of the earliest period presented. The net assets of the companies now comprising the Group are combined using the existing book values from the ultimate controlling shareholder's perspective.

The combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements of the Group as set out in Sections B1, B2, B4 and B5 below respectively include the results of operations of the companies now comprising the Group for the Relevant Period (or where the companies were incorporated/established at a date later than 1 January 2006, for the period from their respective dates of incorporation/establishment to 30 June 2009) as if the current group structure had been in existence throughout the entire Relevant Period. The combined balance sheets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 as set out in Section B3 below have been prepared to present the state of affairs of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates.

All material intra-group transactions and balances have been eliminated on combination.

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up/ registered capital	Attributable equity interest Direct	Indirect	Principal activities
Futong BVI	British Virgin Islands ("BVI") 8 July 1999	United States Dollars ("US$") 50,000	100%	—	Investment holding
Futong HK	Hong Kong 26 November 1999	Hong Kong Dollars ("HK$") 1,000,000	—	100%	Sale of enterprise IT products
Futong Dongfang (Note (i))	The PRC 4 December 2003	Renminbi ("RMB") 100,000,000	—	100%	Distribution of enterprise IT products and provision of IT services
北京富通東方優尼卡科技有限公司 Futong Unica (Notes (ii), (iii) and (iv))	The PRC 24 July 2009	RMB500,000	—	55%	Distribution of data analysis software

Notes:

(i) This entity is a wholly foreign-owned enterprise established in the PRC.

(ii) This entity is a limited liability company established in the PRC.

(iii) The English translation of the company name is for reference only. The official name of this entity is in Chinese.

(iv) On 24 July 2009, Futong Unica was established by Futong Dongfang and an independent third party for proposed distribution of data analysis software in the PRC. Futong Unica has not commenced its operations since the date of its incorporation.

B Financial information

1 Combined income statements

	Section C Note	Years ended 31 December 2006 HK$'000	2007 HK$'000	2008 HK$'000	Six months ended 30 June 2008 HK$'000 (unaudited)	2009 HK$'000
Revenue	2	1,846,684	2,018,822	2,554,539	1,282,757	1,183,906
Cost of sales		(1,745,103)	(1,847,796)	(2,365,375)	(1,183,671)	(1,076,527)
Gross profit		101,581	171,026	189,164	99,086	107,379
Other income	4	7,495	2,202	2,811	1,698	521
Distribution costs		(55,259)	(65,853)	(81,655)	(39,315)	(41,631)
Administrative expenses		(14,926)	(39,984)	(22,740)	(15,530)	(16,512)
Profit from operations		38,891	67,391	87,580	45,939	49,757
Finance costs	5(a)	(29,876)	(30,810)	(34,209)	(17,566)	(11,529)
Profit before taxation	5	9,015	36,581	53,371	28,373	38,228
Income tax	6(a)	(1,454)	(4,643)	(4,377)	(2,359)	(3,096)
Profit for the year/ period		7,561	31,938	48,994	26,014	35,132
Earnings per share						
- Basic and diluted (HK$)	10	[●]	[●]	[●]	[●]	[●]

The accompanying notes form part of the Financial Information.

2 Combined statements of comprehensive income

	Section C Note	Years ended 31 December 2006	2007	2008	Six months ended 30 June 2008	2009
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Profit for the year/ period		7,561	31,938	48,994	26,014	35,132
Other comprehensive income for the year/period						
- Exchange differences on translation of financial statements of operations outside Hong Kong		826	3,912	8,552	8,332	67
Total comprehensive income for the year/period		8,387	35,850	57,546	34,346	35,199

The accompanying notes form part of the Financial Information.

3 **Combined balance sheets**

	Section C Note	At 31 December 2006	2007	2008	At 30 June 2009
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	11	33,776	40,191	39,881	38,745
Deferred tax assets	12(a)	2,392	960	3,299	3,887
		36,168	41,151	43,180	42,632
Current assets					
Inventories	13	301,773	402,385	367,021	291,679
Trade and other receivables	14	430,487	573,965	646,918	679,891
Tax recoverable		2,734	333	—	—
Pledged deposits	15	39,309	92,220	90,071	89,515
Cash and cash equivalents	16	140,706	131,778	132,684	75,233
		915,009	1,200,681	1,236,694	1,136,318
Current liabilities					
Trade and other payables	17	683,866	845,775	828,714	669,982
Bank loans	18	109,399	202,870	208,726	222,013
Tax payable		—	—	3,329	5,390
		793,265	1,048,645	1,040,769	897,385
Net current assets		121,744	152,036	195,925	238,933
Total assets less current liabilities		157,912	193,187	239,105	281,565
Non-current liabilities					
Bank loans	18	12,203	11,628	—	7,261
		12,203	11,628	—	7,261
NET ASSETS		145,709	181,559	239,105	274,304
CAPITAL AND RESERVES					
Capital	19	390	390	390	390
Reserves	20	145,319	181,169	238,715	273,914
TOTAL EQUITY		145,709	181,559	239,105	274,304

The accompanying notes form part of the Financial Information.

4 Combined statements of changes in equity

	Attributable to equity holders of the Company					
	Capital	Share premium	Translation reserve	Statutory reserves	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 19)	*(Note 20(a))*	*(Note 20(b))*	*(Note 20(c))*		
At 1 January 2006	390	50,041	39	—	86,852	137,322
Total comprehensive income for the year	—	—	826	—	7,561	8,387
Appropriations	—	—	—	790	(790)	—
At 31 December 2006	390	50,041	865	790	93,623	145,709
At 1 January 2007	390	50,041	865	790	93,623	145,709
Total comprehensive income for the year	—	—	3,912	—	31,938	35,850
Appropriations	—	—	—	3,282	(3,282)	—
At 31 December 2007	390	50,041	4,777	4,072	122,279	181,559
At 1 January 2008	390	50,041	4,777	4,072	122,279	181,559
Total comprehensive income for the year	—	—	8,552	—	48,994	57,546
Appropriations	—	—	—	5,688	(5,688)	—
At 31 December 2008	390	50,041	13,329	9,760	165,585	239,105
At 1 January 2009	390	50,041	13,329	9,760	165,585	239,105
Total comprehensive income for the period	—	—	67	—	35,132	35,199
Appropriations	—	—	—	2,942	(2,942)	—
At 30 June 2009	390	50,041	13,396	12,702	197,775	274,304
Unaudited						
At 1 January 2008	390	50,041	4,777	4,072	122,279	181,559
Total comprehensive income for the period	—	—	8,332	—	26,014	34,346
Appropriations	—	—	—	2,694	(2,694)	—
At 30 June 2008	390	50,041	13,109	6,766	145,599	215,905

The accompanying notes form part of the Financial Information.

5 Combined cash flow statements

	Section C Note	Years ended 31 December 2006 HK$'000	2007 HK$'000	2008 HK$'000	Six months ended 30 June 2008 HK$'000 (unaudited)	2009 HK$'000
Operating activities						
Cash generated from/(used in) operations	16(b)	46,891	(20,287)	34,165	(18,467)	(64,890)
Income tax refund		—	8,129	7	—	—
Income tax paid		—	(8,764)	(3,093)	(1,559)	(1,615)
Net cash generated from/(used in) operating activities		46,891	(20,922)	31,079	(20,026)	(66,505)
Investing activities						
Proceeds from disposal of trading securities		14,521	—	—	—	—
Advance to a director		(784)	784	—	—	—
Payment for the purchase of property, plant and equipment		(2,402)	(8,471)	(2,884)	(2,280)	(1,095)
Payment for purchase of trading securities		(11,933)	—	—	—	—
Interest received		1,215	1,790	2,683	1,574	521
Net cash generated from/(used in) investing activities		617	(5,897)	(201)	(706)	(574)
Financing activities						
Proceeds from new bank loans		264,092	451,239	418,710	102,393	189,801
Repayment of bank loans		(172,564)	(358,343)	(424,482)	(124,447)	(169,253)
(Placement)/withdrawal of pledged deposits		(3,380)	(52,911)	2,149	536	556
Interest paid		(29,876)	(30,810)	(34,209)	(17,566)	(11,529)
Net cash generated from/(used in) financing activities		58,272	9,175	(37,832)	(39,084)	9,575

	Section C Note	Years ended 31 December 2006	2007	2008	Six months ended 30 June 2008	2009
		HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Net increase/(decrease) in cash and cash equivalents		105,780	(17,644)	(6,954)	(59,816)	(57,504)
Cash and cash equivalents at beginning of the year/period		34,340	140,706	131,778	131,778	132,684
Effect of foreign exchange rate changes		586	8,716	7,860	8,342	53
Cash and cash equivalents at end of the year/period	16(a)	140,706	131,778	132,684	80,304	75,233

The accompanying notes form part of the Financial Information.

C Notes to the Financial Information

1 Significant accounting policies

(a) *Statement of compliance*

The Financial Information set out in this report has been prepared in accordance with IFRSs, which collective term includes IASs and related interpretations, promulgated by the IASB. Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The IASB has issued a number of new and revised IFRSs. For the purposes of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the six months ended 30 June 2009. The revised and new accounting standards and interpretations issued but not yet effective for the six months ended 30 June 2009, are set out in note 27.

This Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) *Basis of combination*

The Financial Information comprises the Company and its subsidiaries and has been prepared using the merger basis of accounting as if the Group had always been in existence, as further explained in Section A.

(c) *Basis of measurement*

The Financial Information is presented in HK$, rounded to the nearest thousand. The functional currency of the entities within the Group is HK$ except for Futong Dongfang, where the functional currency is RMB. It is prepared on the historical cost basis.

(d) *Use of estimates and judgements*

The preparation of Financial Information in conformity with IFRSs 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 that are 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 that are 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 recognized 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 IFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 24.

(e) ***Subsidiaries***

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

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

(f) ***Property, plant and equipment***

Property, plant and equipment are stated in the combined balance sheets at cost less accumulated depreciation and impairment losses (see note 1(h)).

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 disposal proceeds and the carrying amount of the item and are recognized in the combined income statement 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 the estimated useful lives:

Buildings	— The shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion
Leasehold improvements	— The shorter of the remaining term of the lease or 5 years
Furniture, fittings and equipment	— 3 to 5 years
Motor vehicles	— 4 years

When 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.

(g) ***Operating lease charges***

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the combined income statement 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 recognized in the combined income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the combined income statement in the accounting period in which they are incurred.

(h) ***Impairment of assets***

(i) *Impairment of trade and other receivables*

Trade and other receivables that are carried at cost or amortized cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, 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. This assessment is made collectively where financial assets carried at amortized cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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 recognized, the impairment loss is reversed through the combined income statement. 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 recognized in prior years.

(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 recognized no longer exists or may have decreased:

— property, plant and equipment

If any such indication exists, the asset's recoverable amount is estimated.

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

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(i) ***Inventories***

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

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

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

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

(j) ***Trade and other receivables***

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less allowance for impairment of doubtful debts (see note 1(h)), 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 allowance for impairment of doubtful debts.

(k) ***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 changes in value, having been within three months of maturity at acquisition.

(l) ***Interest-bearing borrowings***

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in the combined income statement over the period of the borrowings, together with any interest and fees payable, using an effective interest method.

(m) ***Trade and other payables***

Trade and other payables are initially recognized at fair value and subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) ***Employee benefits***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(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 recognized in the combined income statement except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially 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.

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 utilized, are recognized. 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 utilized.

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 that 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 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 recognized is measured based on the expected manner of realization 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 utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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 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 Group intends either to settle on a net basis, or to realize 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 realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(p) ***Provisions and contingent liabilities***

Provisions are recognized for liabilities of uncertain timing or amount when the Group 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.

(q) ***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 recognized in the combined income statement as follows:

(i) *Sale of goods*

Revenue is recognized when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) *Services fee income*

Services fee income is recognized when services are rendered to customers.

(iii) *Interest income*

Interest income from bank deposits is recognized as it accrues using the effective interest method.

(r) ***Translation of foreign currencies***

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognized in the combined income statement.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Balance sheet items are translated into Hong Kong dollars at foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognized in other comprehensive income and presented separately in equity in the translation reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the combined income statement when the profit or loss on disposal is recognized.

(s) ***Borrowing costs***

Borrowing costs are expensed in the combined income statement in the period in which they are incurred.

(t) ***Related parties***

For the purposes of this Financial Information, a party is considered to be related to the Group if:

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

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

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

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

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

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

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.

(u) ***Segment reporting***

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Revenue

The principal activities of the Group are distribution of enterprise IT products and provision of services.

Revenue represents the sales value of goods sold to customers excluding value added tax or other sales taxes and is after allowances for goods returned and deduction of any trade discounts. The amounts of each significant category of revenue recognized during the Relevant Period are as follows:

	Years ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Sales of goods	1,819,785	1,985,382	2,540,370	1,281,615	1,178,425
Provision of services	26,899	33,440	14,169	1,142	5,481
	1,846,684	2,018,822	2,554,539	1,282,757	1,183,906

3 Segment reporting

The directors consider that the Group operates in a single business and geographical segment as the turnover and profit are derived entirely from the distribution of enterprise IT products and provision of services to the customers in the PRC. Accordingly, no segmental analysis is presented.

4 Other income

	Years ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Gain on disposal of trading securities *(note)*	2,588	—	—	—	—
Interest income on bank deposits	1,215	1,790	2,683	1,574	521
Service fee *(note 22(b)(i))*	3,669	—	—	—	—
Others	23	412	128	124	—
	7,495	2,202	2,811	1,698	521

Note: In December 2006, Futong HK subscribed for certain shares in a company at its initial public offering in the Stock Exchange. A gain on disposal of HK$2,588,000 was realized upon the disposal of these shares one week after that company's listing. There were no such gain or loss on disposal of trading securities for the years ended 31 December 2007 and 2008 and the six months ended 30 June 2008 and 2009.

5 **Profit before taxation**

Profit before taxation is arrived at after charging/(crediting):

	Years ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
(a) Finance costs:					
Interest on bank borrowings	20,582	18,294	23,087	11,579	8,036
Other borrowing costs	9,294	12,516	11,122	5,987	3,493
	29,876	30,810	34,209	17,566	11,529
(b) Staff costs:					
Salaries and allowances	32,539	40,801	56,844	26,574	30,103
Contributions to retirement schemes	2,221	2,794	3,701	1,727	2,195
	34,760	43,595	60,545	28,301	32,298

Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiary in the PRC participates in a defined contribution retirement benefit scheme (the "Scheme") organized by the local authorities whereby the subsidiary is required to make contributions to the Scheme at rates ranging from 18% to 22% of the eligible employees' salaries for the three years ended 31 December 2008 and the six months ended 30 June 2008 and 2009. Contributions to the Scheme vest immediately.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

Save for the above, the Group has no other material obligation for payment of retirement benefits beyond the contributions described above.

	Years ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
(c) Other items:					
Cost of inventories	1,745,103	1,847,796	2,365,375	1,183,671	1,076,527
Compensation *(note 17(d))*	—	—	994	994	—
Depreciation	1,688	2,657	3,917	1,857	2,235
Net foreign exchange loss/(gain)	64	166	3,352	3,220	(14)
Impairment losses					
- trade receivables	1,119	23,902	3,359	3,359	6,937
- other receivables	185	—	—	—	—
Operating lease charges in respect of properties	6,417	6,836	8,196	3,602	4,133
Research and development expenditure	1,667	1,679	2,524	1,264	1,630
Auditors' remuneration	1,093	962	1,178	607	579

6 **Income tax**

(a) ***Income tax in the combined income statements represents:***

	Years ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Current tax - Hong Kong Profits Tax					
Provision for the year/period	3,485	1,279	1,334	903	634
Under/(over) provision in respect of prior years	296	(78)	780	546	—
	3,781	1,201	2,114	1,449	634
Current tax - PRC income tax					
Provision for the year/period	—	1,899	4,500	2,158	3,040
Deferred tax					
Origination and reversal of temporary differences *(note 12(a))*	(2,327)	1,543	(2,264)	(1,275)	(578)
Effect on deferred tax balance at 1 January 2008 resulting from a change in tax rate *(note 12(a))*	—	—	27	27	—
	1,454	4,643	4,377	2,359	3,096

(i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) The provisions for Hong Kong Profits Tax for the years ended 31 December 2006 and 2007 were calculated at 17.5% of the estimated assessable profits for the respective years.

In February 2008, the Hong Kong SAR Government announced a decrease in the Hong Kong Profits Tax rate from 17.5% to 16.5% with effect from the fiscal year 2008/2009. Accordingly, the provisions for Hong Kong Profits Tax are calculated at 16.5% of the estimated assessable profits for the year ended 31 December 2008 and the six months ended 30 June 2009.

(iii) Prior to 1 January 2008, PRC entities were, in general, subject to the statutory income tax rate of 33%, consisting of 30% state tax and 3% local tax, on their assessable profits. Being a then recognized Advanced and New Technology Enterprise ("ANTE") located in the Beijing New Technology Industry Development Experimental Zone, Futong Dongfang was granted a preferential tax rate of 15% and was entitled to a tax holiday of a 3-year full exemption followed by a 3-year 50% exemption commencing from the first profit-making year after off setting accumulated tax losses ("3+3 tax holiday"). Futong Dongfang commenced its 3+3 tax holiday in 2004. Accordingly, the applicable tax rates for the years ended 31 December 2006 and 2007 were Nil and 7.5% respectively.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Enterprise Income Tax Law of the PRC ("new tax law"), which unified the income tax rate to 25% for all enterprises. The new tax law was effective on 1 January 2008. The State Council of the PRC issued the *Implementation Rules of the Enterprise Income Tax Law* ("Implementation Rules") on 6 December 2007 and GuoFa [2007] No. 39 *Notice on the Implementation of the Transitional Preferential Enterprise Income Tax Policies* ("Circular 39") on 26 December 2007. The new tax law, its Implementation Rules and Circular 39 provide a 5-year transitional period from 1 January 2008 for those enterprises which were established before 16 March 2007 and which were entitled to a preferential lower tax rate under the then effective tax laws and regulations, as well as grandfathering on the 3+3 tax holidays. Further, Futong Dongfang is recognised as an ANTE under the new tax law from 2008 to 2010. Consequently, Futong Dongfang is subject to a tax rate of 7.5% for both years ended/ending 31 December 2008 and 2009. Thereafter, tax rate of 15% applies.

(iv) Under the new tax law and its Implementation Rules, dividends receivable by non-PRC resident enterprises from PRC resident enterprises are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the *Arrangement between the Mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasions*, or Mainland China/HKSAR DTA, Hong Kong tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Pursuant to CaiShui [2008] No. 1 *Notice on Certain Preferential Enterprise Income Tax Policies*, undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Accordingly, dividends receivable by Futong HK from Futong Dongfang in respect of its profits earned since 1 January 2008 will be subject to 5% withholding tax. Deferred tax liabilities should be recognized for the undistributed retained earnings of Futong Dongfang for profits earned since 1 January 2008 to the extent that the earnings would be distributed in the foreseeable future.

(b) ***Reconciliation between income tax expense and profit before taxation at applicable tax rates:***

	Years ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Profit before taxation	9,015	36,581	53,371	28,373	38,228
Applicable income tax rate	17.5%	17.5%	16.5%	16.5%	16.5%
Notional tax on profit before taxation	1,577	6,402	8,806	4,682	6,308
Effect of rate differential of entities operating in different jurisdictions	(123)	(2,696)	(5,379)	(2,582)	(3,688)
Effect on deferred tax balance at 1 January 2008 resulting from a change in Hong Kong Profits Tax rate	—	—	27	27	—
Tax effect of non-deductible expenses	349	1,266	348	258	476
Tax effect of non-taxable income	(645)	(251)	(205)	(572)	—
Under/(over) provision in prior years	296	(78)	780	546	—
Actual income tax expense	1,454	4,643	4,377	2,359	3,096

7 **Directors' remuneration**

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December 2006				
	Directors' fees	**Salaries, allowances and benefits-in-kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Chen Jian	—	969	—	26	995
Zhang Yun	—	860	—	26	886
Guan Tao	—	621	—	14	635
Independent non-executive directors					
Lee Kwan Hung	—	—	—	—	—
Yuan Bo	—	—	—	—	—
Ho Pak Tai Patrick	—	—	—	—	—
	—	2,450	—	66	2,516

Year ended 31 December 2007

	Directors' fees	Salaries, allowances and benefits-in-kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Chen Jian	—	1,009	—	29	1,038
Zhang Yun	—	1,009	—	29	1,038
Guan Tao	—	477	824	17	1,318
Independent non-executive directors					
Lee Kwan Hung	—	—	—	—	—
Yuan Bo	—	—	—	—	—
Ho Pak Tai Patrick	—	—	—	—	—
	—	2,495	824	75	3,394

Year ended 31 December 2008

	Directors' fees	Salaries, allowances and benefits-in-kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Chen Jian	—	1,106	—	73	1,179
Zhang Yun	—	970	—	73	1,043
Guan Tao	—	440	440	25	905
Independent non-executive directors					
Lee Kwan Hung	—	—	—	—	—
Yuan Bo	—	—	—	—	—
Ho Pak Tai Patrick	—	—	—	—	—
	—	2,516	440	171	3,127

Six months ended 30 June 2008 (unaudited)

	Directors' fees	Salaries, allowances and benefits-in-kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Chen Jian	—	525	—	35	560
Zhang Yun	—	457	—	35	492
Guan Tao	—	223	—	10	233
Independent non-executive directors					
Lee Kwan Hung	—	—	—	—	—
Yuan Bo	—	—	—	—	—
Ho Pak Tai Patrick	—	—	—	—	—
	—	1,205	—	80	1,285

Six months ended 30 June 2009

	Directors' fees	Salaries, allowances and benefits-in-kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Chen Jian	—	635	—	38	673
Zhang Yun	—	561	—	38	599
Guan Tao	—	224	—	16	240
Independent non-executive directors					
Lee Kwan Hung	—	—	—	—	—
Yuan Bo	—	—	—	—	—
Ho Pak Tai Patrick	—	—	—	—	—
	—	1,420	—	92	1,512

During the Relevant Period, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

8 **Individuals with highest emoluments**

Of the five individuals with the highest emoluments, three, three, two, three and three are directors for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, respectively, whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining two, two, three, two and two individuals are as follows:

	Years ended 31 December			**Six months ended 30 June**	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Salaries and other benefits	1,202	762	1,037	446	448
Retirement scheme contributions	28	32	74	20	31
Discretionary bonuses	—	1,465	2,574	—	—
	1,230	2,259	3,685	466	479

The emoluments of the two, two, three, two and two individuals with the highest emoluments (pro-rata on a per annum basis for the six months ended 30 June 2008 and 30 June 2009) are within the following bands:

	Years ended 31 December			**Six months ended 30 June**	
	2006	**2007**	**2008**	**2008**	**2009**
	Number of individuals	*Number of individuals*	*Number of individuals*	*Number of individuals*	*Number of individuals*
				(unaudited)	
Nil to HK$1,000,000	2	1	1	2	2
HK$1,000,001 to HK$1,500,000	—	1	2	—	—

9 **Dividends**

No dividends have been declared or paid by the Company since its incorporation.

10 **Earnings per share**

The calculation of basic earnings per share for the Relevant Period is based on the profit attributable to equity holders for each year of the Relevant Period and on the assumption that [●] shares of the Company are in issue and issuable, comprising 1,000,000 shares in issue at the date of the Document and [●] shares to be issued pursuant to the Capitalization Issue as set out in Appendix VI to the Document as if the shares were outstanding throughout the entire Relevant Period.

There were no potential dilutive ordinary shares during the Relevant Period.

11 **Property, plant and equipment**

	Buildings	Leasehold improvements	Furniture, fittings and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:					
At 1 January 2006	29,690	2,308	2,039	—	34,037
Additions	—	—	2,402	—	2,402
Effect of movements in exchange rates	—	90	121	—	211
At 31 December 2006	29,690	2,398	4,562	—	36,650
At 1 January 2007	29,690	2,398	4,562	—	36,650
Additions	350	89	8,032	—	8,471
Effect of movements in exchange rates	—	174	611	—	785
At 31 December 2007	30,040	2,661	13,205	—	45,906
At 1 January 2008	30,040	2,661	13,205	—	45,906
Additions	—	11	2,349	524	2,884
Effect of movements in exchange rates	—	161	877	16	1,054
At 31 December 2008	30,040	2,833	16,431	540	49,844
At 1 January 2009	30,040	2,833	16,431	540	49,844
Additions	—	—	302	793	1,095
Effect of movements in exchange rates	—	—	7	1	8
At 30 June 2009	30,040	2,833	16,740	1,334	50,947
Accumulated depreciation:					
At 1 January 2006	544	255	351	—	1,150
Depreciation charge for the year	594	544	550	—	1,688
Effect of movements in exchange rates	—	18	18	—	36
At 31 December 2006	1,138	817	919	—	2,874
At 1 January 2007	1,138	817	919	—	2,874
Depreciation charge for the year	614	597	1,446	—	2,657
Effect of movements in exchange rates	—	77	107	—	184
At 31 December 2007	1,752	1,491	2,472	—	5,715

	Buildings	Leasehold improvements	Furniture, fittings and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	1,752	1,491	2,472	—	5,715
Depreciation charge for the year	601	481	2,776	59	3,917
Effect of movements in exchange rates	—	104	225	2	331
At 31 December 2008	2,353	2,076	5,473	61	9,963
At 1 January 2009	2,353	2,076	5,473	61	9,963
Depreciation charge for the period	300	248	1,577	110	2,235
Effect of movements in exchange rates	—	—	4	—	4
At 30 June 2009	2,653	2,324	7,054	171	12,202
Net book values:					
At 31 December 2006	28,552	1,581	3,643	—	33,776
At 31 December 2007	28,288	1,170	10,733	—	40,191
At 31 December 2008	27,687	757	10,958	479	39,881
At 30 June 2009	27,387	509	9,686	1,163	38,745

(a) Buildings which are held for own use are situated in the PRC.

(b) At 31 December 2006, 2007 and 2008 and 30 June 2009, buildings with net book value of HK$28,552,000, HK$28,288,000, HK$27,687,000 and HK$27,387,000 respectively have been pledged as security for the Group's bank loans (see note 18(c)).

12 **Deferred tax assets**

(a) ***Deferred tax assets and liabilities recognized***

Net deferred tax assets/(liabilities) recognized in the combined balance sheets as at 31 December 2006, 2007 and 2008 and 30 June 2009 are attributable to the following:

	Provision for inventories	Impairment loss on trade receivables	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	—	—	—	—
Recognized in combined income statement *(note 6(a))*	1,621	82	624	2,327
Exchange adjustments	28	2	35	65
At 31 December 2006	1,649	84	659	2,392
At 1 January 2007	1,649	84	659	2,392
Recognized in combined income statement *(note 6(a))*	134	1,511	(3,188)	(1,543)
Exchange adjustments	105	61	(55)	111
At 31 December 2007	1,888	1,656	(2,584)	960
At 1 January 2008	1,888	1,656	(2,584)	960
Recognized in combined income statement *(note 6(a))*	(526)	134	2,656	2,264
Effect of change in Hong Kong Profits Tax rate *(note 6(a))*	(19)	—	(8)	(27)
Exchange adjustments	85	106	(89)	102
At 31 December 2008	1,428	1,896	(25)	3,299
At 1 January 2009	1,428	1,896	(25)	3,299
Recognized in combined income statement *(note 6(a))*	945	709	(1,076)	578
Exchange adjustments	—	2	8	10
At 30 June 2009	2,373	2,607	(1,093)	3,887

Net deferred tax assets recognized in the combined balance sheets as at 31 December 2006, 2007 and 2008 and 30 June 2009 are attributable to the following:

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax assets	2,392	3,544	3,324	4,980
Deferred tax liabilities	—	(2,584)	(25)	(1,093)
Net deferred tax assets recognized in the combined balance sheets	2,392	960	3,299	3,887

(b) ***Deferred tax liabilities not recognized***

At 31 December 2008 and 30 June 2009, temporary difference relating to the undistributed profits accumulated since 1 January 2008 of Futong Dongfang amounted to HK$38,025,000 and HK$67,401,000 respectively. The deferred tax liabilities of HK$1,901,000 and HK$3,370,000 respectively have not been recognized in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of Futong Dongfang and it has been determined that it is not probable that profits will be distributed out of Futong Dongfang in the foreseeable future.

13 **Inventories**

(a) Inventories in the combined balance sheets comprise:

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trading stocks	301,773	402,385	367,021	291,679

Inventories with carrying amount of HK$99,532,000, HK$106,792,000, Nil and Nil have been pledged as security for the bank loans (see note 18(c)) as at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively.

(b) The analysis of the amount of inventories recognized as an expense and included in the combined income statements is as follows:

	Years ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Carrying amount of inventories sold	1,741,250	1,845,350	2,363,588	1,180,657	1,070,512
Write-down of inventories	3,853	3,448	1,787	3,014	6,015
Reversal of write-down of inventories	—	(1,002)	—	—	—
	1,745,103	1,847,796	2,365,375	1,183,671	1,076,527

The reversal of write-down of inventories for the year ended 31 December 2007 arose due to certain inventories which were written down in prior years have been sold subsequently.

14 **Trade and other receivables**

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and bills receivables	315,966	535,067	651,066	693,141
Less: allowance for doubtful debts	(1,119)	(25,021)	(28,380)	(35,317)
	314,847	510,046	622,686	657,824
Prepayments (i)	55,630	8,152	7,979	7,406
Deposits to suppliers (ii)	51,090	35,490	—	—
Deposits (iii)	2,301	5,414	8,517	10,779
Advance to a director (iv)	784	—	—	—
Other receivables	5,835	14,863	7,736	3,882
	430,487	573,965	646,918	679,891

(i) Prepayments consist of advance payments made to suppliers for purchases of raw materials and other prepaid expenses.

(ii) Deposits were paid to certain suppliers as security deposits during the Relevant Period. These deposits will be refunded upon the full settlement of payments to these suppliers.

(iii) Deposits consist of bidding deposits, utilities and rental deposits. Bidding deposits are deposits placed upon bidding of sales contracts and are refundable to the Group regardless of the outcome of the bids.

Included in the deposits as at 31 December 2006, 2007 and 2008 and 30 June 2009 was an amount of rental and utilities deposits of HK$736,000, HK$845,000, HK$1,044,000 and HK$1,235,000 respectively which was not expected to be recovered within one year.

(iv) The advance to a director, Chen Jian, was unsecured, interest free and repayable on demand. The maximum balances outstanding during the years ended 31 December 2006, 2007 and 2008 and six months ended 30 June 2009 were HK$784,000, HK$784,000, Nil and Nil respectively. There was no amount due but unpaid, nor any provision made against these advances at 31 December 2006, 2007 and 2008 and 30 June 2009.

(v) At 31 December 2006, 2007 and 2008 and 30 June 2009, certain trade and bills receivables with carrying amount of HK$273,041,000, HK$421,233,000, Nil and HK$100,766,000 respectively have been pledged as security for the bank loans (see note 18(c)).

All of the trade and other receivables, apart from (iii) above are expected to be recovered or recognized as expense within one year.

(a) ***Ageing analysis***

Included in trade and other receivables are trade and bills receivables (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current	214,924	353,650	446,500	508,595
Less than 1 month past due	36,846	71,344	51,252	57,240
1 to 3 months past due	35,401	47,606	83,927	69,268
More than 3 months past due	27,676	37,446	41,007	22,721
Amounts past due	99,923	156,396	176,186	149,229
	314,847	510,046	622,686	657,824

Trade and bills receivables are due within 30 - 90 days from the date of billing. Further details of the Group's credit policy are set out in note 23(b).

(b) ***Impairment of trade and bills receivables***

Impairment losses in respect of trade and bills 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 and bills receivables directly (see note 1(h)).

The movement in the allowance for doubtful debts during the Relevant Period, including both specific and collective loss components, is as follows:

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	—	1,119	25,021	28,380
Impairment loss recognized	1,119	23,902	3,359	6,937
At 31 December / 30 June	1,119	25,021	28,380	35,317

The Group's trade receivables of HK$1,119,000, HK$25,021,000, HK$28,380,000 and HK$35,317,000 were individually determined to be impaired as at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively. The individually impaired receivables related to receivables which debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that these receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts of HK$1,119,000, HK$25,021,000, HK$28,380,000 and HK$35,317,000 were recognized as at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively. The Group does not hold any collateral over these balances.

(c) ***Trade and bills receivables that are not impaired***

Receivables that were neither past due nor impaired (disclosed as current in the table given in note 14(a)) relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired (as shown in the table in note 14(a)) 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.

15 **Pledged deposits**

Pledged deposits with banks have been placed as security for the banking facilities granted to the Group (see note 18(c)) and performance security guarantees.

16 **Cash and cash equivalents**

(a) Cash and cash equivalents in the combined balance sheets and combined cash flow statements comprise:

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash at bank and in hand	140,706	131,778	132,684	75,233

At 31 December 2006, 2007 and 2008 and 30 June 2009, cash at bank and in hand in the PRC included in the cash and cash equivalents of the Group amounted to HK$133,330,000, HK$128,225,000, HK$125,808,000 and HK$56,186,000 respectively. The remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Reconciliation of profit before taxation to cash generated from/(used in) operations:

	Years ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (*unaudited*)	*HK$'000*
Profit before taxation	9,015	36,581	53,371	28,373	38,228
Adjustments for:					
- Gain on disposal of trading securities	(2,588)	—	—	—	—
- Interest expense and other borrowing costs	29,876	30,810	34,209	17,566	11,529
- Depreciation	1,688	2,657	3,917	1,857	2,235
- Interest income	(1,215)	(1,790)	(2,683)	(1,574)	(521)
- Write-down of inventories	3,853	3,448	1,787	3,014	6,015
- Reversal of write-down of inventories	—	(1,002)	—	—	—
- Impairment loss on trade and other receivables	1,304	23,902	3,359	3,359	6,937
Changes in working capital:					
- Decrease/(increase) in inventories	131,959	(103,058)	33,577	(12,150)	69,327
- Decrease/(increase) in trade and other receivables	35,137	(173,744)	(76,311)	(99,211)	(39,908)
- (Decrease)/increase in trade and other payables	(162,138)	161,909	(17,061)	40,299	(158,732)
Cash generated from/(used in) operations	46,891	(20,287)	34,165	(18,467)	(64,890)

17 **Trade and other payables**

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	370,115	536,234	598,457	416,308
Bills payable	92,328	113,565	118,261	134,174
Amounts due to related parties *(note 22(c))*	18,808	11,383	2,181	—
Amounts due to directors	—	13,843	—	—
Receipts in advance	173,079	154,892	63,521	48,414
Other payables and accruals	29,536	15,858	46,294	71,086
	683,866	845,775	828,714	669,982

All of the above balances are expected to be settled within one year.

(a) An ageing analysis of the trade payables of the Group is analyzed as follows:

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 60 days	323,086	479,936	549,976	398,883
61 - 120 days	41,422	20,392	36,429	16,639
Above 120 days	5,607	35,906	12,052	786
	370,115	536,234	598,457	416,308

(b) Bills payable are normally issued with a maturity of not more than 90 days.

(c) The amounts due to directors were unsecured, interest free and repayable on demand. The amounts were fully settled in 2008.

(d) An analysis of the other payables and accruals of the Group is analyzed as follows:

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Salaries, wages, bonus and other benefits payable	4,374	9,232	17,680	9,953
Accrued interest	3,785	3,373	1,732	2,143
VAT payable	18,638	—	8,318	42,466
Deferred income	—	—	6,065	4,264
Others *(note)*	2,739	3,253	12,499	12,260
	29,536	15,858	46,294	71,086

Note: Included in the others as at 31 December 2008 and 30 June 2009 was an amount of approximately HK$9,244,000 being compensation payable in respect of a claim by a customer. The balance included sales proceeds previously received and other legal costs claimed by the customer of approximately HK$8,250,000 and HK$994,000 (see note 5(c)). Full provision has been made in respect of this claim. The legal proceedings are still ongoing as of the date of this report.

18 **Bank loans**

(a) At the balance sheet dates, the bank loans were repayable as follows:

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year or on demand	109,399	202,870	208,726	222,013
After 1 year but within 2 years	1,960	3,577	—	4,055
After 2 years but within 5 years	6,874	7,367	—	3,206
After 5 years	3,369	684	—	—
	12,203	11,628	—	7,261
	121,602	214,498	208,726	229,274

(b) At the balance sheet dates, the bank loans were secured as follows:

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unsecured bank loans	68,677	139,332	150,865	157,423
Secured bank loans	52,925	75,166	57,861	71,851
	121,602	214,498	208,726	229,274

Further details of the security are set out in note 18(c).

(c) The amounts of banking facilities and the utilization at each balance sheet dates are set out as follows:

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Banking facilities				
- Unsecured	68,677	139,332	174,623	158,341
- Secured	231,834	272,348	319,810	444,597
	300,511	411,680	494,433	602,938
Amounts utilized	246,106	360,702	359,025	395,886

The banking facilities include balances of HK$69,673,000, HK$96,113,000, HK$113,392,000 and HK$141,804,000 as at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively which was guaranteed by certain independent third parties and a related company. The guarantees provided by the related company have been released as of the date of this report.

The secured banking facilities were secured by the following:

— the carrying value of the following assets:

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Buildings	28,552	28,288	27,687	27,387
Inventories	99,532	106,792	—	—
Pledged deposits	37,776	87,675	88,339	85,109
Trade and bills receivables	273,041	421,233	—	100,766
	438,901	643,988	116,026	213,262

— a fixed charge of deposits of not less than HK$27,300,000 placed by Chen Jian as at 31 December 2006. No deposit was placed as security at 31 December 2007 and 2008 and 30 June 2009;

— a personal guarantee from two directors, Chen Jian and Zhang Yun at 31 December 2006, 2007 and 2008 and 30 June 2009. The guarantees provided by the two directors will be released upon the [●] of the Company's shares on the Stock Exchange.

As at 31 December 2006, 2007 and 2008 and 30 June 2009, all of the Group's banking facilities are subject to the fulfilment of covenants, as are commonly found in lending arrangements with financial institutions except for an additional condition set forth by a bank whereby the banking facilities from the bank are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants.

Further details of the Group's management of liquidity risk are set out in note 23(c). As at 31 December 2006, 2007 and 2008 and 30 June 2009, none of the covenants relating to drawn down facilities had been breached.

19 **Capital**

As disclosed in Section A, the Financial Information has been prepared under the merger accounting method in that financial statements of the companies comprising the Group during the Relevant Period were combined as if the Group existed on 1 January 2006.

For the purpose of this report, the capital of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 represented the capital of Futong BVI which was the then holding company of the companies now comprising the Group.

20 **Reserves**

(a) ***Share premium***

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company.

(b) ***Translation reserve***

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of operations outside Hong Kong.

(c) ***PRC statutory reserves***

Transfers from retained profits to PRC statutory reserves are made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiary established in the PRC and were approved by the respective boards of directors.

General reserve fund

The subsidiary in the PRC is required to appropriate 10% of its after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Enterprise development fund

The subsidiary in the PRC is required to set up an enterprise development fund. Transfers to this fund are made at the discretion of the board of directors of the subsidiary. This fund can only be utilized on capital items for the collective benefit of the subsidiary's employees. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

(d) ***Distributable reserves***

The Company was incorporated on 29 July 2009 and has not carried out any business since its date of incorporation. Accordingly, there was no reserve available for distribution to shareholders as at 30 June 2009.

On the basis set out in Section A above, the aggregate amounts of distributable reserves of the companies comprising the Group at 31 December 2006, 2007 and 2008 and 30 June 2009 were HK$143,664,000, HK$172,320,000, HK$215,626,000 and HK$247,816,000 respectively.

21 Commitments and contingent liabilities

(a) The Group has no material capital commitments at 31 December 2006, 2007 and 2008 and 30 June 2009.

(b) At 31 December 2006, 2007 and 2008 and 30 June 2009, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 31 December			**At 30 June**
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within 1 year	666	1,405	1,892	3,017
After 1 year but within 5 years	113	64	271	498
	779	1,469	2,163	3,515

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to two years, at the end of which period all terms are renegotiated. None of the leases includes contingent rentals as at 31 December 2006, 2007 and 2008 and 30 June 2009.

(c) Pursuant to the distribution agreements entered into between the Group and the suppliers, the Group is committed to achieve a minimum annual purchase attainment in order to maintain the rights as the distributors. The amount of the purchase attainments committed during the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 were HK$539,487,000, HK$838,214,000, HK$1,388,998,000 and HK$1,327,537,000 respectively.

The Group is generally required to fulfil the annual purchase attainments within one to three years from the dates of signing of the respective distribution agreements. The purchase attainment committed during the six months ended 30 June 2009 and remained outstanding as at 30 June 2009 amounted to HK$1,038,258,000, including an amount of HK$110,387,000, HK$602,774,000 and HK$325,097,000 which the Group is required to attain on or before 31 December 2009, from March 2010 to December 2010, and from April 2011 to December 2011 respectively.

As at 31 December 2008 and 30 June 2009, the Group was unable to fulfill a minimum purchase attainment under an exclusive distribution agreement amounted to HK$16,724,000 and Nil respectively and a minimum purchase attainment under a distribution agreement amounted to HK$16,234,000 and HK$12,487,000 respectively. Pursuant to the distribution agreements, the suppliers have the rights to revoke the exclusivity of the distribution right of the Group and/or distribution right if the Group fails to achieve the minimum purchase attainments.

(d) As at 31 December 2006, 2007, 2008 and 30 June 2009, the Group has the following outstanding performance security guarantees to its customers for goods sold by the Group, which are secured by deposits placed with banks and independent credit guarantee companies.

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Performance security guarantees	2,515	5,109	21,943	17,970

22 **Related party transactions**

In addition to the related party information disclosed elsewhere in this Financial Information, the Group entered into the following significant related party transactions during the Relevant Period.

(a) ***Name and relationship with related parties***

During the Relevant Period, transactions with the following parties are considered as related party transactions:

Name of party	**Relationships**
北京深思軟件股份有限公司 Beijing Deep Thought Software Co., Ltd. ("Beijing Deep Thought")*	Controlled by close family member of Mr Chen Jian, beneficial owner of the Company
北京富通天地電腦有限公司 Beijing Futong ComputerLand Co. Ltd. ("Futong ComputerLand")*	Effectively owned by Mr Chen Jian, beneficial owner of the Company

* *The English translation of the company names is for reference only. The official names of these companies are in Chinese.*

(b) ***Significant related party transactions***

Particulars of significant related party transactions during the Relevant Period are as follows:

	Years ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*
				(unaudited)	
Recurring transactions:					
Sales to Beijing Deep Thought	37,312	24,204	38,373	25,326	2,670
Purchases from Beijing Deep Thought	—	—	7,502	5,131	—
Non-recurring transactions:					
Sales to Futong ComputerLand	39,604	6,913	—	—	—
Purchases from Futong ComputerLand	23,666	1,960	—	—	—
Service fee received from Futong ComputerLand (i)	3,669	—	—	—	—
Acquisition of fixed assets from Futong ComputerLand	—	3,858	—	—	—

(i) The service fee represented the management fee for provision of administrative services to Futong ComputerLand. As Futong ComputerLand ceased its operations in 2007, no such service fee was received during the years ended 31 December 2007 and 2008 and the six months ended 30 June 2008 and 2009.

(c) ***Amounts due from/(to) related parties***

As at the balance sheet dates, the Group had the following balances with related parties:

	At 31 December			At 30 June
	2006	**2007**	**2008**	**2009**
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*
Trade receivables from:				
- Beijing Deep Thought (i)	—	6,260	2,669	2,114
Trade payables to:				
- Beijing Deep Thought (ii)	(1,807)	—	(1,434)	—
- Futong ComputerLand (ii)	(17,001)	(11,383)	(747)	—
	(18,808)	(11,383)	(2,181)	—

(i) Trade receivables from a related party are unsecured, interest free and expected to be recovered within one year.

(ii) Trade payables to related parties are unsecured and interest free. The amounts have been fully settled as of 30 June 2009.

(d) ***Key management personnel remuneration***

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	Years ended 31 December			Six months ended 30 June	
	2006	**2007**	**2008**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Short term employee benefits	4,610	8,116	9,564	2,434	2,868
Post-employment benefits	133	190	351	155	218
Equity compensation benefits	—	—	—	—	—
	4,743	8,306	9,915	2,589	3,086

Total remuneration was included in "staff costs" (see note 5(b)).

23 **Financial risk management and fair values**

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) ***Dependent on suppliers***

The Group has certain concentration of supply risk as approximately 85%, 90%, 92% and 94% of the revenue is generated from the distribution of products supplied by major suppliers, International Business Machines Corporation ("IBM") and its subsidiaries for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 respectively.

(b) ***Credit risk***

The Group's credit risk is primarily attributable to trade and other receivables.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30-90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the combined balance sheets after deducting any impairment allowance.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 14.

(c) ***Liquidity risk***

The Group's policy is to regularly monitor its 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 dates of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet dates) and the earliest date the Group can be required to pay.

	At 31 December 2006					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	121,602	128,745	114,452	2,112	8,483	3,698
Trade and other payables	683,866	683,866	683,866	—	—	—
	805,468	812,611	798,318	2,112	8,483	3,698

	At 31 December 2007					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	214,498	229,491	214,138	5,458	9,197	698
Trade and other payables	845,775	845,775	845,775	—	—	—
	1,060,273	1,075,266	1,059,913	5,458	9,197	698

	At 31 December 2008					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	208,726	214,369	214,369	—	—	—
Trade and other payables	828,714	828,714	828,714	—	—	—
	1,037,440	1,043,083	1,043,083	—	—	—

	At 30 June 2009					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	229,274	234,413	226,823	4,055	3,535	—
Trade and other payables	669,982	669,982	669,982	—	—	—
	899,256	904,395	896,805	4,055	3,535	—

(d) ***Interest rate risk***

The Group's interest rate risk arises primarily from long-term borrowings issued at variable rates that expose the Group to cash flow interest rate risk and fixed rates that expose the Group to fair value interest rate risk. The Group adopts a policy of ensuring that not more than 60% of its total borrowings are on a fixed rate basis. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) *Interest rate profile*

The following table details the interest rate profile of the Group's total borrowings at the balance sheet dates:

	At 31 December 2006		At 31 December 2007		At 31 December 2008		At 30 June 2009	
	Effective interest rate %	*HK$'000*	*Effective interest rate %*	*HK$'000*	*Effective interest rate %*	*HK$'000*	*Effective interest rate %*	*HK$'000*
Fixed rate borrowings:								
RMB bank loans	6.51	68,677	6.94	107,295	6.85	105,843	6.03	155,496
US$ bank loans	7.02	19,001	6.40	20,824	2.97	60,151	3.17	22,339
		87,678		128,119		165,994		177,835
Variable rate borrowings:								
US$ bank loans	4.83	14,017	6.35	12,198	—	—	—	—
HK$ bank loans	—	—	4.00	10,107	3.25	1,424	5.85	11,734
RMB bank loans	7.34	19,907	8.37	64,074	5.96	41,308	5.84	39,705
Bills payable	7.41	92,328	6.99	113,565	3.13	118,261	2.69	134,174
		126,252		199,944		160,993		185,613
Total borrowings		213,930		328,063		326,987		363,448
Fixed rate borrowings as a percentage of total borrowings		41%		39%		51%		49%

(ii) *Sensitivity analysis*

At 31 December 2006, 2007 and 2008 and 30 June 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately HK$116,000, HK$486,000, HK$394,000 and HK$465,000 respectively.

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

(e) ***Currency risk***

The Group is exposed to currency risk primarily through sales and purchases and banking facilities that are denominated in US$, a currency other than the functional currency of its subsidiary in Hong Kong.

As the HK$ is pegged to US$, the Group considers the risk of movement in exchange rates between the HK$ and the US$ to be insignificant.

(f) ***Fair values***

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006, 2007 and 2008 and 30 June 2009.

(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, by pricing products and services commensurate with the level of risk and by securing access to financing at a reasonable cost.

The Group defines "capital" as including all components of equity.

Adjustments are made to the capital structure in light of changes in economic conditions affecting the Group, to the extent that these do not conflict with the directors' fiduciary duties towards the Group.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-capital ratio. For this purpose the Group defines net debts as total bank loans less cash and cash equivalents.

The net debt-to-capital ratio was as follows:

	Note	At 31 December 2006	At 31 December 2007	At 31 December 2008	At 30 June 2009
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans	18	121,602	214,498	208,726	229,274
Less: Cash and cash equivalents	16	(140,706)	(131,778)	(132,684)	(75,233)
Net (cash)/ debt		(19,104)	82,720	76,042	154,041
Capital		145,709	181,559	239,105	274,304
Net debt-to-capital ratio		N/A	46%	32%	56%

The Group is subject to capital requirements imposed by certain banks as disclosed in note 18.

24 **Accounting estimates and judgements**

Key sources of estimation uncertainty

The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(i) *Net realizable value of inventories*

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles or changes in market conditions. Management reassess these estimations at the balance sheet dates to ensure inventory is shown at the lower of cost and net realizable value.

(ii) *Impairment of trade receivables*

The management determines the impairment of trade receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. If the financial conditions of the customers were to deteriorate, actual write-off would be higher than estimated. Management reassess the impairment of trade receivables at the balance sheet dates.

(iii) *Depreciation*

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(iv) *Income tax*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of these transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognized for deductible temporary differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities have not been recognized in respect of the withholding income tax that would be payable on the distribution of retained profits accumulated since 1 January 2008 of the Group's subsidiary in the PRC as the Company controls the dividend policy of this subsidiary and it has been determined that it is not probable that profits will be distributed out of this subsidiary in the foreseeable future. Any changes in dividend policy may result in the recognition of the related deferred tax liabilities.

25 Financial information of the Company

The Company was incorporated in the Cayman Islands on 29 July 2009. The issued and paid up capital as at the date of incorporation was HK$0.1. The Company has not carried on any business since its date of incorporation.

26 Immediate and ultimate holding company

The directors consider the immediate parent and ultimate holding company of the Company as at 30 June 2009 to be China Group Associates Limited which is incorporated in the BVI. China Group Associates Limited does not produce financial statements available for public use.

27 Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2009

Up to the date of issue of these Financial Information, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the six months ended 30 June 2009 and which have not been adopted in the Financial Information.

	Effective for accounting periods beginning on or after
IFRS 3 (revised), Business combinations	1 July 2009
Amendments to IAS 27, Consolidated and separate financial statements	1 July 2009
Amendments to IAS 39, Financial instruments: recognition and measurement	1 July 2009

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D Subsequent events

The following significant events took place subsequent to 30 June 2009:

(a) ***Group reorganization***

On 11 November 2009, the Group completed the Reorganization to rationalize the Group's structure in preparing for the [●] of the Company's shares on the Stock Exchange. Further details of the Reorganization are set out in the Section headed "Group reorganization" in Appendix VI to the Document. As a result of the Reorganization, the Company became the holding company of the Group.

(b) ***Share Option Scheme***

Pursuant to the written resolution of the shareholders of the Company passed on 11 November 2009, the Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are set out in section headed "Share Option Scheme" in Appendix VI to the Document. No option was granted as at the date of this report.

E Subsequent financial statements

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 30 June 2009.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong