Annual Report 2009

DBA Telecommunication (Asia) Holdings Limited

DBA電訊(亞洲)控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3335)

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Yu Longrui
(Chairman and Chief Executive Officer)
Mr. Zheng Feng
Mr. Chan Wai Chuen
Mr. Yu Longhui *(appointed on 1 September 2009)*
Ms. Yang Yahua *(resigned on 31 August 2009)*
Mr. Yeung Shing

Independent Non-executive Directors

Mr. Zheng Qingchang
Mr. Yu Lun
Mr. Yun Lok Ming

AUTHORIZED REPRESENTATIVES

Mr. Yeung Shing
Mr. Chan Wai Chuen

AUDIT COMMITTEE

Mr. Zheng Qingchang *(Chairman)*
Mr. Yu Lun
Mr. Yun Lok Ming

REMUNERATION COMMITTEE

Mr. Zheng Qingchang *(Chairman)*
Mr. Yu Lun
Mr. Yun Lok Ming

COMPANY SECRETARY

Mr. Chan Wai Chuen

AUDITOR

CCIF CPA Limited
Certified Public Accountants
34/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

REGISTERED OFFICE

P.O. Box 309 GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Great Eagle Centre
23 Harbour Road
Wanchai
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STOCK CODE

3335

WEBSITE

www.dba-asia.com

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISORS

(As to Hong Kong law)
Fred Kan & Co.

(As to Cayman Islands Law)
Maples and Calder

(As to the PRC law)
Chen & Co.

PRINCIPAL BANKERS

Agricultural Bank of China
Standard Chartered Bank (Hong Kong) Limited

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

FIVE YEARS FINANCIAL SUMMARY

Following is a summary of the consolidated results and the consolidated assets and liabilities of the Group for the last five financial years prepared on a basis as stated in the notes below:

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**2,110,661**	1,624,925	1,197,756	670,471	557,883
Profits before tax	**154,402**	339,329	298,238	218,127	174,750
Income tax	**(45,336)**	(81,693)	(50,950)	(33,745)	(27,781)
Profit for the year	**109,066**	257,636	247,288	184,382	146,969

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total non-current assets	**423,359**	288,790	119,535	73,659	20,643
Total current assets	**1,346,705**	1,263,065	1,159,658	684,578	357,753
Total assets	**1,770,064**	1,551,855	1,279,193	758,237	378,396
Total non-current liabilities	**(408,966)**	(338,634)	(319,632)	–	–
Total current liabilities	**(154,069)**	(117,426)	(70,064)	(56,929)	(66,629)
Total liabilities	**(563,035)**	(456,060)	(389,696)	(56,929)	(66,629)
Net assets	**1,207,029**	1,095,795	889,497	701,308	311,767

Notes:

1. The summary of the consolidated assets and liabilities of the Group as at end for the five financial years ended 31 December 2009 was prepared as if the current group structure had been in existence throughout these financial years.

2. The results for the year ended 31 December 2005 were extracted from the prospectus of the Company dated 26 April 2006.

3. Assets and liabilities of the Group as at 31 December 2005 was extracted from the prospectus of the Company dated 26 April 2006.

FINANCIAL HIGHLIGHTS

Year ended 31 December

	2009	2008	**Change**
	RMB'000	*RMB'000*	%
Turnover			
Manufacturing business	**611,174**	1,028,858	(40.6)
Self-service business	**1,466,185**	504,395	190.7
Agency business for telecommunication products	**33,302**	91,672	(63.7)
	2,110,661	1,624,925	29.9
Gross Profit	**315,307**	469,818	(32.9)
Profits attributable to shareholders	**109,066**	257,636	(57.7)
Shareholders' Equity	**1,207,029**	1,095,795	10.2
Total Assets	**1,770,064**	1,551,855	14.1

	2009	2008	**Change**
	RMB cents	*RMB cents*	%
Earnings per share – Basic *(Note 1)*	**10.51**	24.83	(57.7)
– Diluted *(Note 2)*	**10.49**	23.00	(54.4)
Net asset value per share *(Note 3)*	**116.3**	105.62	10.1

Notes:

1. The calculation of basic earnings per share is based on the profits attributable to ordinary equity shareholders of the Company of approximately RMB109,066,000 (2008: RMB257,636,000) and the weighted average number of 1,037,500,000 shares (2008: 1,037,500,000 shares) in issue during the year. Details of the calculations for the years ended 31 December 2009 and 2008 are set in note 10 to the financial statement.

2. The calculation of diluted earnings per share is based on the profits attributable to ordinary equity shareholders of the Company of approximately RMB128,799,000 (2008: RMB276,258,000) and the weighted average number of ordinary shares of 1,228,047,000 shares (2008: 1,201,246,000 shares). Details of the calculations for the year ended 31 December 2009 and 2008 are set in note 10 to the financial statement.

3. The calculation of net asset value per share for the year ended 31 December 2009 and 2008 is based on the shareholders' equity and the total number of ordinary shares in issue as at 31 December 2009 and 2008 respectively.

Year ended 31 December

	The Group	
	2009	2008
Return on equity	**9.0%**	23.5%
Return on total assets	**6.2%**	16.6%
Current ratio	**8.7**	10.8
Gearing ratio *(Note 1)*	**31.8%**	29.4%
Debt to equity ratio *(Note 2)*	**38.2%**	30.9%
Gross profit margin	**14.9%**	28.9%
Net profit margin	**5.2%**	15.9%
Average inventory turnover *(Note 3)*	**13.0 days**	9.3 days
Average trade receivable turnover *(Note 4)*	**46.8 days**	52.7 days
Average trade and bills payable turnover *(Note 5)*	**8.1 days**	5.5 days

Notes:

1. The calculation of gearing ratio is based on the total borrowings divided by total assets at the relevant year end dates;

2. Debt comprises interest-bearing loans;

3. The calculation of average inventory turnover is based on the average of opening and closing inventory balance divided by turnover and multiplied by 365 days;

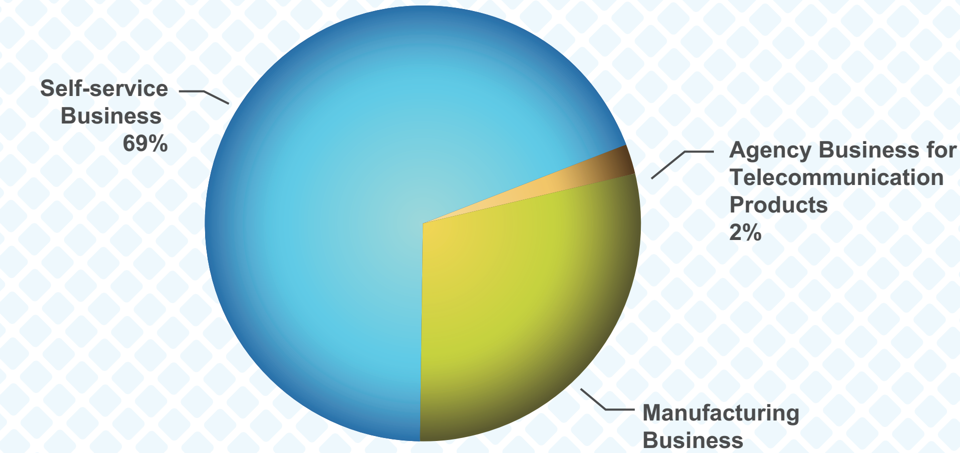
4. The calculation of trade receivable turnover is based on the average of opening and closing balance for trade receivable, net of VAT, divided by turnover and multiplied by 365 days;

5. The calculation of trade and bills payable turnover is based on the average of opening and closing for trade payable divided by total purchases and multiplied by 365 days.

FINANCIAL HIGHLIGHTS

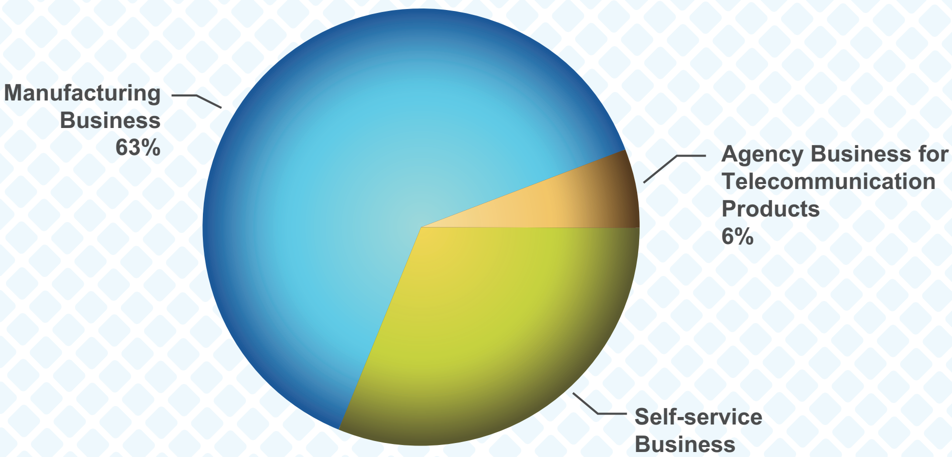
BREAKDOWN OF TURNOVER BY BUSINESS STRUCTURE

For the year ended 31 December 2009



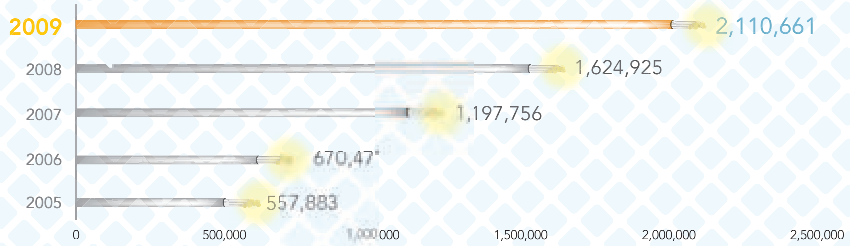
RMB2,111.6 million

For the year ended 31 December 2008

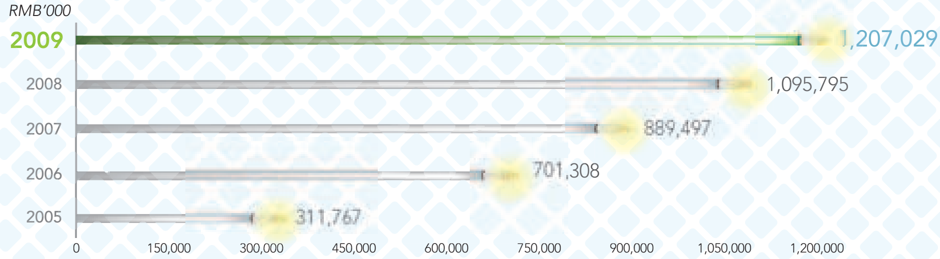


RMB1,624.9 million

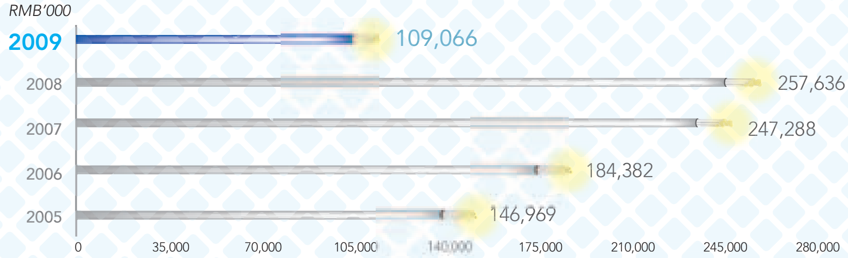
Turnover
RMB'000



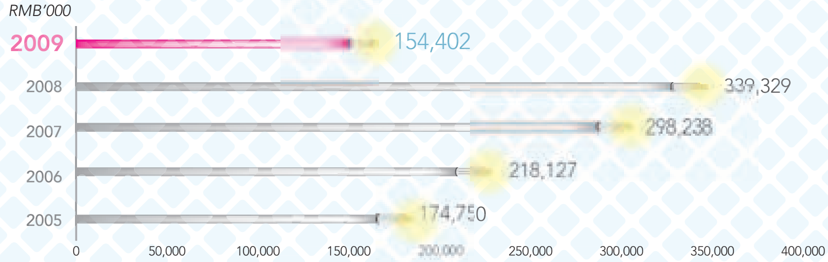
Net assets
RMB'000



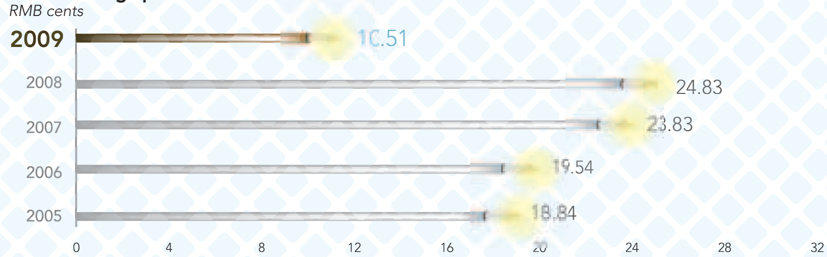
Profits attributable to shareholders
RMB'000



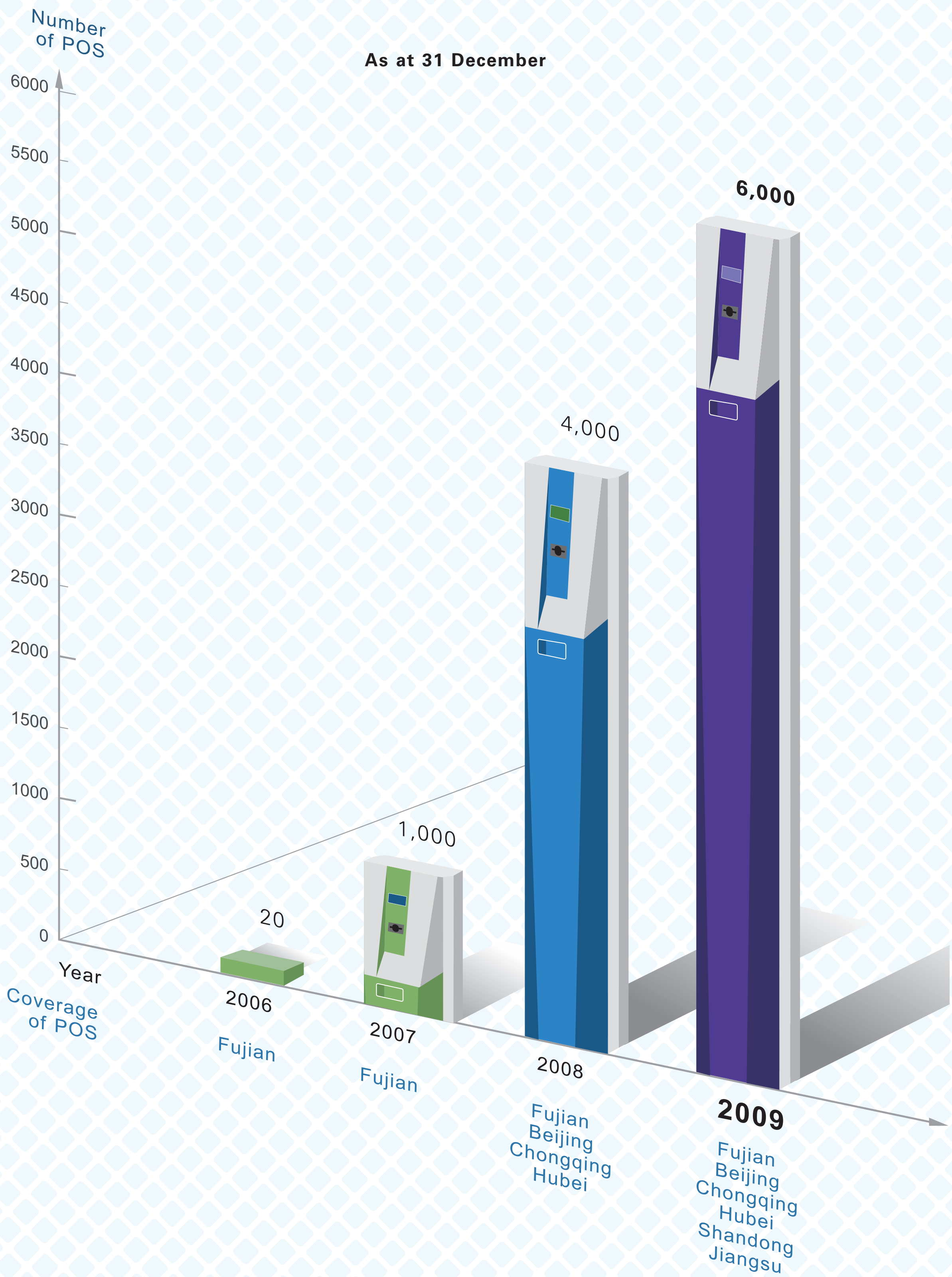
Profits before taxation
RMB'000



Basic earnings per share
RMB cents



PROGRESS OF DEVELOPMENT FOR SELF-SERVICE BUSINESS



GEOGRAPHICAL COVERAGE

Year ended 31 December 2009

representative office of the Group

coverage of self-service business and manufacturing business

coverage of manufacturing business

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board" or the "Directors"), I am delighted to announce the financial results of DBA Telecommunication (Asia) Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2009.

BUSINESS REVIEW

The Group gains a foothold in the development of the telecommunication (electronic and communication) equipment manufacturing and intelligent self-service businesses.

For the year ended 31 December 2009, the Group recorded a turnover of approximately RMB2,111 million, representing an increase of 29.9%. Gross profit decreased to approximately RMB315 million, representing a decrease of 32.9% against the same period last year. Profit attributable to shareholders decreased to approximately RMB109 million, a decrease of 57.7% against last year. Basic earnings per share were RMB10.51 cents. Turnover from manufacturing business for the year amounted to approximately RMB611 million, a decrease of 40.6% as compared with last year. Self-service business grew significantly, with turnover of approximately RMB1,466 million, an increase of 190.7% compared period last year.

For the telecommunication equipment manufacturing business during 2009, the Group modified its marketing strategies and product mix in response to the technology, investment and market situations and trends in the sector where the Company's telecommunication equipment manufacturing business had a presence. Firstly, the Group consolidated and enhanced the marketing strategy of the Group's premier products. It helps mitigate the negative impact of the economic environment and the industry's adjustment cycle on its business operations; Secondly, it continued to step up the research and development of new technologies and new products that integrated communications and communication technology with industrial applications, such as multimedia self-service payment equipment and systems and pre-paid IC cards and systems for gas meters, to extend the Company's product line and expand the Group's market base; and thirdly, in 2009 the Group disposed its telephone (including public telephones and wireless business telephones) and digital set-top box sections to independent third parties for consolidating its resources in order to achieve ongoing and steady development.

For the self-service business, in response to China's huge market for the technical servicing industry and the Company's strategies for the development of the intelligent self-service business, firstly the Group continued to expand its self-service network into other areas by forming two new branches in Shandong and Jiangsu provinces during 2009. As at 31 December 2009, the Group has altogether six branches established in six provinces and 6,000 points-of-sale; secondly, the Group unleashed the potential value of intelligent self-service terminals to expanded services, including the introduction of the LED advertising business into self-service terminals and the sales of network access prepaid cards; thirdly, Group introduced additional service modes and extended the servicing industry. In December 2009, Wozhong e-Payment Technology Service (Fujian) Co., Ltd., a wholly owned subsidiary of Wozhong Intelligent System Service (China) Co., Ltd., entered into a strategic cooperation agreement with a provincial branch of Unionpay E-Commerce Co., Ltd. (銀聯商務有限公司). The Group plans to work together with Unionpay E-Commerce Co., Ltd., (銀聯商務有限公司) on the launch of electronic payment services in the commercial and other sectors. As the Group continues to expand network coverage and service scope of business, intelligent self-service business is set to develop into a revenue growth driven in future.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2009, the Group had total assets of approximately RMB1,770 million comprising non-current assets of approximately RMB423 million and current assets of approximately RMB1,347 million.

The Group's cash and cash equivalents, mostly denominated in RMB and Hong Kong dollar, were approximately RMB761 million as at 31 December 2009.

OUTLOOK

In 2010, the Group will continue to carry out its strategic development and expansion of the telecommunication equipment manufacturing and intelligent self-service businesses. The Group believes the Chinese economy and the market where the Group has a presence will improve in 2010. It is anticipated that the scale and efficiency of the Group's overall business operations will further increase as well.

For the telecommunication equipment manufacturing business, upon completion of the modification of the product mix in 2009, the Group will further allocate more resources to the operations in premier products and continue to launch competitive new products into the market. The Group is optimistic and expects a growth in the telecommunication equipment manufacturing business. In addition, any excess production capacity as a result of the commencement of operation of the newly completed plant and facilities in 2010 will be utilized by development of other business such as OEM and ODM to enhance the efficiency of the Group's resources.

For the intelligent self-service business, in 2010 the Group will continue to implement the strategy for the development of the self-service business by carrying out ongoing development and upgrade of the service areas and service items, and by introducing self-service terminals with more features to meet the market opportunity; the Group will also finalize the strategic cooperation agreement with the provincial branch of Unionpay E-Commerce Co., Ltd. (銀聯商務有限公司) to promote electronic payment services in the commercial and other sectors so as to maintain the ongoing growth in its self-service business.

In addition, the Group will continue to improve and enhance governance standards. Focus will be put on introducing and training of more qualified personnel to meet the operation and management needs for its business and size expansion. The Group will also continue to make ongoing improvement to brand building, marketing, research and development and financial expenses control etc. so as to persistently enhance its overall competitiveness.

DIVIDENDS

In light of the possible repayments of liabilities and the capital expenditure plan for the coming years, the Board would like to reserve more capital and has resolved not to recommend the payment of a final dividend for the year ended 31 December 2009 (2008: Nil).

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express gratitude to all staff for their devotion and hard work. I would also like to extend sincere thanks to our customers and shareholders for their continuous support and trust. We will continue to strive for excellence and do our very best to maximize returns to stakeholders in the coming years.

Yu Longrui
Chairman and Chief Executive Officer

Hong Kong, 19 March 2010

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2009, the Group recorded a turnover of approximately RMB2,111 million, representing an increase of 29.9% against the same period last year. Gross profit amounted to approximately RMB315 million, representing a decrease of 32.9% against the same period last year. Profit attributable to shareholders amounted to approximately RMB109 million, representing a decrease of 57.7% against the same period last year. Earnings per share were RMB10.51 cents.

MANUFACTURING BUSINESS

During the first half of 2009, telecommunication operators in China focused investment on 3G network construction and development of 3G mobile businesses, which brought significant impact to the telecommunication equipment manufacturing business of the Group. For the year ended 31 December 2009, turnover from the Group's telecommunication equipment manufacturing segment decreased by 40.6% to approximately RMB611 million, accounting for approximately 28.9% of the Group's total turnover.

Based on the findings of research and analysis of telecommunication equipment technology, market trend and investment environment in China, the Group has performed a strategical restructuring of its product mix and modified its marketing strategies. Firstly, the Group consolidated and enhanced the marketing strategy of the Group's premier products. It helps mitigate the negative impact of the economic environment and the industry's adjustment cycle on its business operations; secondly, it continued to step up the research and development of new technologies and new products that integrated communications and communication technology with industrial applications, such as multimedia self-service payment equipment and systems and pre-paid IC cards and systems for gas meters, to extend the Company's product line and expand the Group's market base. Meanwhile, the Group will enhance its capability of developing optical fibre access products and multi-media intelligent technology products. For the year ended 31 December 2009, the Group acquired 18 patents of outlook design, four patents of software copyright and filed application for three patents of utility model. Moreover, it completed development of various new products such as optic fibre splitters, intelligent self-service payment terminals for transport and hospital use, multi-media public telephone booths, pre-paid IC card water meter and network management system software, pre-paid IC card gas meter, network management system software. Agreeing with the Group's business focus and possess competitiveness both technologically and in the market, these new products promise strong and vital support to the Group for expanding market share in the technology product manufacturing industry. Thirdly, in 2009, the Group disposed its telephone (including public telephones and wireless business telephones) and digital set-top box sections to independent third parties. The said disposals were completed during the period under review and will not result in any adverse impact or losses on the business and operation of the Group.

SELF-SERVICE BUSINESS

During the first half of 2009, the Group's intelligent self-service business achieved continuous and rapid growth. For the year ended 31 December 2009, turnover from intelligent self-service segment increased by 190.7% to approximately RMB1,466 million, accounting for approximately 69.5% of the Group's total turnover. As at 31 December 2009, the Group had additional 2,000 points-of-sale (total to approximately 6,000 points-of-sale) installed with an smart card vending terminal each in Fujian, Beijing, Chongqing, Hubei, Shandong and Jiangsu provinces and sales of communication payment cards were satisfactory, pointing to a very promising market for the product. As the Group continues to expand network coverage and service scope of the business, intelligent self-service business is set to develop into a revenue growth driver.

GROUP'S LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2009, the total shareholders' fund of the Group was approximately RMB1,207 million (2008: 1,096 million). The Group had current assets of approximately RMB1,347 million (2008: RMB1,263 million) and current liability of approximately RMB154 million (2008: RMB117 million) and the current ratio was approximately 8.7 times (2008: 10.8 times).

The Group's outstanding borrowing as at 31 December 2009 were the convertible bonds of approximately RMB359 million (2008: RMB339 million) maturing on 8 November 2012 and bank borrowings of approximately RMB50 million (2008: Nil). The Group's gearing ratio (calculated as total borrowing over shareholders' equity) as at 31 December 2009 was 31.8% (2008: 29.4%).

As at 31 December 2009, the Group had cash and cash equivalents of approximately RMB761 million (2008: RMB797 million). The majority of the Group's funds was deposited in banks in the PRC and licensed banks in Hong Kong and the Group possesses sufficient cash and bank balances to meet its commitment and working capital requirement in the coming financial year.

CAPITAL COMMITMENTS

As at 31 December 2009, the Group had capital commitments in relation to prepaid lease payment in respect of lease and the acquisition of properties, plant and equipment amounting to approximately RMB28 million.

CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2009.

CHARGE ON THE GROUP'S ASSETS

As at 31 December 2009, the Group had construction in progress – buildings and prepaid lease payments with an aggregate carrying value of approximately RMB125 million (2008: nil), which were pledged to secure bank facilities granted to the Group.

FINAL DIVIDEND

In light of possible repayments of liabilities and the capital expenditure plan for the coming years, the Board would like to reserve more capital and has resolved not to recommend the payment of a final dividend for the year ended 31 December 2009 (2008: nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed between 28 April 2010 and 30 April 2010, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for voting at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged for attending the Annual General Meeting with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 27 April 2010.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2009, the Group had approximately 839 employees supporting its principal activities. The Group recognizes the importance of having a high caliber and competent staff; hence it continues to provide remuneration packages to employees with reference to prevailing market practices and individuals performance. Other benefits, such as medical coverage and retirement plans, are also provided. In addition, share option may be granted to eligible employees in accordance with the terms of the Group's approved share option scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2009.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Yu Longrui (俞龍瑞), aged 47, is the Chairman, an executive Director and the Chief Executive Officer of the Company and co-founder of the Group. Mr. Yu is responsible for overall strategic planning and formulation of corporate policies for the Group. Mr. Yu graduated from the Fujian College of Agriculture with a bachelor's degree in economics in 1986 and completed research courses for senior factory managers organised by the Economic Management Institute of Tsinghua University in 1998 and another research course on financial studies organised by the Central University of Finance and Economics in 2002. He has more than 15 years of corporate management experience in the PRC telecommunication industry. Mr. Yu was appointed as the Vice-Chairman of the Ninth Council of the Fujian Province Youth Entrepreneur Association and was accredited as the Seventh Outstanding Youth Entrepreneurs of Fujian Province in March 2002. In September 2003, he was appointed as the executive director of the Seventh Board of Directors of the China Enterprise Confederation/China Enterprisers' Association with tenure from September 2003 to August 2008. In March 2004, Mr. Yu was accredited as the Ninth Ten Outstanding Youth Entrepreneurs of Fujian Province. Mr. Yu was appointed as a standing member of the Fujian Communication Industry Association in December 2004. In April 2006, Mr. Yu was appointed as the Vice-Chairman of Fujian Entrepreneur Association. Mr. Yu is the brother of Mr. Yu Longhui, an executive Director of the Company.

Zheng Feng (鄭鳳), aged 46, is an executive Director of the Company and is responsible for the research and development of the Group's technology and products. Mr. Zheng graduated from Xiamen University in 1988 and obtained a bachelor's degree in engineering. He also obtained a master's degree in engineering from the Huazhong University of Science and Technology in 2000. Mr. Zheng was qualified in 2001 as a senior engineer in applied electronics technology by The Fujian Province's Board of Technicians in Senior Engineering Profession. Prior to joining the Group, Mr. Zheng worked as an engineer and a group leader of the laboratory of an enterprise from 1988 to 1996 and the quality control technology manager of a network technology company from 1997 to 2002. Mr. Zheng served as the Chief Technical Officer of a technology company from 2002 to 2003. He has over 21 years of experience in the electronics and telecommunication product industries. Mr. Zheng joined the Group in July 2003.

Chan Wai Chuen (陳偉銓), aged 40, is an executive Director, the Chief Financial Officer and company secretary of the Company. Mr. Chan is responsible for overall financial planning and financial management of the Group. Mr. Chan graduated from the City University of Hong Kong in 1993 with a bachelor's honour degree in accountancy and The Hong Kong Polytechnic University in 2002 with a master's degree in corporate finance. He is a fellow of The Association of Chartered Certified Accountants and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Chan has approximately 16 years of experience in financial control, capital market, corporate finance, and mergers and acquisitions. Since his graduation in 1993, he has worked for Ernst & Young and PricewaterhouseCoopers as an auditing and advisory professional for about six years. He then started to work for investment banks in the United Kingdom and in Hong Kong. Prior to joining the Group, he had served as the Chief Financial Officer in two Hong Kong-listed companies for about three years. Mr. Chan joined the Group in August 2004.

Yu Longhui (俞龍輝), aged 51, is an executive Director of the Company and co-founders of the Group, Mr. Yu has been the chief executive director of Skyban Telecommunication (Fujian) Limited ("Skyban Telecom"), a subsidiary of the Company, since June 2006. Mr. Yu has been responsible for the project planning and implementation of industry plans in Skyban Telecom. During the period between September 2000 and May 2006, Mr. Yu served as the director and the vice president of Fujian Deban Group Co., Ltd.. From May 1983 to August 2000, Mr. Yu worked in various positions, including senior teacher, the director of political department and the vice general secretary, of Fuqing Hygiene School, Fujian Province. Mr. Yu graduated from Fujian Medical University, formerly known as Fujian Medical College, in January 1983. He obtained a bachelor degree in business administration from Party School of The Fujian Committee of the Chinese Communist Party in December 2002. Mr. Yu further obtained a master degree in business administration from Fuzhou University in January 2005. Mr. Yu was appointed as executive Director on 1 September 2009.

Mr. Yu is the brother of Mr. Yu Longrui, the Chairman, an executive Director and the Chief Executive Officer of the Company.

Yeung Shing (楊誠), aged 47, is an executive Director of the Company and co-founder of the Group. Mr. Yeung is responsible for business development of the Group. He graduated from the Fujian Architecture and Engineering Institute in 1984 majoring in Industrial and Residential Construction. Mr. Yeung was qualified as an engineer by the Appraisal Committee for the mid-level engineering technology personnel in 1995. Mr. Yeung has over 16 years of corporate management experience in the PRC telecommunication industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Zheng Qingchang (鄭慶昌), aged 57, graduated from (the Fujian College of Agriculture in 1977 majoring in agricultural machinery and completed a researcher course on Marxist philosophy in the Postgraduate College of the Xiamen University in 1998. He was qualified as a professor by the Appraisal Committee of Senior Teachers of High School of Fujian Province in 1999. Mr. Zheng is the guiding teacher for doctorate program students in professional agricultural and economic management and the deputy head of the Faculty of Arts and Social Science of the Fujian Agricultural and Forestry University. He was appointed as Deputy Head of the Economic and Social Development Research Consultative Committee of the Political Consultative Conference of Fuzhou City in 2004 and the Standing Vice-Chairman of The Research Association with Fujian Province Characteristics in 2001. Mr. Zheng is also an independent non-executive director of a listed company in Shanghai. He was appointed as an independent non-executive Director of the Group on 14 April 2006.

Yu Lun (余輪), aged 58, graduated from Fuzhou University in 1986 with a master's degree in engineering. He was qualified as a professor by the Fujian Province's Board of Senior High School Teachers in August 1997 and is a professor and the head of the Faculty of Physics and Information Engineering of Fuzhou University. Mr. Yu was appointed as a standing member of the second Council and the Chairman of the Youth Technological Exchange Association of China Graphical Round Shape Club from 1994 to 1998. He was the general manager of the Fuzhou University Science and Technology Development Company from 1996 to 2003. Mr. Yu was among the Outstanding Experts of Fujian Province selected jointly by the Fujian Provincial Committee of the Chinese Communist Party and the People's Government of Fujian Province in 1997. Mr. Yu was appointed as an expert for the "Digital Fujian" program of the Experts Team Constructing the Public Technological Information Network in 2003 and a member of the Tenth Five Year Plan and 2010 Plan regarding new and high technology industry in Fujian Province in 2000. In 2001, he was appointed as an expert member of the Debate Forum for Experts in Interconnection among Telecommunication Networks of Fujian Province for four years. The Group appointed Mr. Yu as an independent non-executive Director on 14 April 2006.

Yun Lok Ming (忻樂明), aged 41, graduated from the City University of Hong Kong in 1993 with a bachelor's degree in accountancy. He then obtained a master's degree in business administration from the University of Adelaide in 2004. He is a fellow of The Association of Chartered Certified Accountants and an associate of Hong Kong Society of Accountants. Mr. Yun has more than 16 years of experience in auditing and accounting. Mr. Yun was appointed as an independent non-executive Director of the Group on 14 April 2006.

The Directors present the annual report and the audited consolidated financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 18 to the consolidated financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement on page 38.

In light of the possible repayment of liabilities and the capital expenditure plan for the coming years, the Board would like to reserve more capital to capture the expansion opportunity and has resolved not to recommend the payment of a final dividend for the year ended 31 December 2009 (2008: nil).

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2009 amounted to approximately RMB290,796,000 (2008: RMB321,432,000).

FINANCIAL SUMMARY

A summary of results, assets and liabilities of the Group for each of the five years ended 31 December 2009 is set on page 3.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

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

DIRECTORS

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

Executive Directors

Mr. Yu Longrui *(Chairman and Chief Executive Officer)*
Mr. Zheng Feng
Mr. Chan Wai Chuen
Mr. Yu Longhui *(appointed on 1 September 2009)*
Ms. Yang Yahua *(resigned on 31 August 2009)*
Mr. Yeung Shing

Independent Non-executive Directors

Mr. Zheng Qingchang
Mr. Yu Lun
Mr. Yun Lok Ming

In accordance with the Article 112 of the articles of association of the Company (the "Articles of Association"), Messrs. Mr. Zheng Feng, Mr. Chan Wai Chuen and Mr. Yu Lun shall retire at the forthcoming annual general meeting of the Company ("AGM") and, being eligible, will offer themselves for re-election.

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of independent non-executive Directors to be independent.

Each of the independent non-executive Directors was appointed for a period commencing from his appointment date and subject to retirement by rotation at the annual general meeting.

None of the Directors proposed for re-election at the forthcoming AGM has service contract with the Company or any of its subsidiaries not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES AND SHARE OPTIONS

As at 31 December 2009, the interests and short positions of the directors of the Company in the shares of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long Positions or Short Positions in Ordinary Shares of the Company:

Name of Directors	Capacity	Interests in shares as at 31 December 2009 – Personal interests	Interests in shares as at 31 December 2009 – Corporate interests	Interests in shares as at 31 December 2009 – Total	Interests in underlying shares pursuant to share option as at 31 December 2009	Aggregate interests as at 31 December 2009	Approximate percentage of issued share capital of the Company as at 31 December 2009
Yu Longrui	Beneficial owner	21,304,000	500,680,000 *(Note 1)*	521,984,000	Nil	521,984,000	50.31%
Yu Longhui *(Note 2)*	Beneficial owner	–	500,680,000 *(Note 1)*	500,680,000	Nil	500,680,000	48.26%
Yang Yahua *(Note 3)*	Beneficial owner	–	500,680,000 *(Note 1)*	500,680,000	Nil	500,680,000	48.26%

Notes:

1. These 500,680,000 ordinary shares are held by Daba International Investments Limited, a company incorporated in the British Virgin Islands with limited liability and is owned as to 77.6%, 6.86%, 5.49%, 4.57%, 2.74% and 2.74% by Mr. Yu Longrui, Mr. Yu Longhui, Ms. Yang Yahua, Mr. Yu Qiang, Mr. Yang Minyong and Mr. Mo Kaifei respectively.

2. Appointed on 1 September 2009.

3. Resigned on 31 August 2009.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Interest in Options to subscribe for shares

Pursuant to the Company's share option schemes, the Company has granted to certain directors options to subscribe the shares, details of which as at 31 December 2009 were as follows:

Name of Directors	Date of grant	Exercise period	Exercise price HK$	Number of shares subject to outstanding options at 1 January 2009	Number of shares subject to outstanding options at 31 December 2009	Approximate percentage of issued share capital of the Company at 31 December 2009
Zheng Feng	14.11.2006	01.07.2007-31.12.2009	1.26	836,000	836,000	0.08%
	14.11.2006	01.07.2008-31.12.2010	1.26	832,000	832,000	0.08%
	14.11.2006	01.07.2009-31.12.2011	1.26	832,000	832,000	0.08%
				2,500,000	2,500,000	0.24%
Chan Wai Chuen	14.11.2006	01.07.2007-31.12.2009	1.26	1,280,000	1,280,000	0.12%
	14.11.2006	01.07.2008-31.12.2010	1.26	1,260,000	1,260,000	0.12%
	14.11.2006	01.07.2009-31.12.2011	1.26	1,260,000	1,260,000	0.12%
	03.09.2007	01.01.2009-31.12.2011	1.65	2,000,000	2,000,000	0.19%
	03.09.2007	01.01.2010-31.12.2012	1.65	2,000,000	2,000,000	0.19%
	03.09.2007	01.01.2011-31.12.2013	1.65	2,000,000	2,000,000	0.19%
				9,800,000	9,800,000	0.94%
Yeung Shing	03.09.2007	01.01.2009-31.12.2011	1.65	664,000	664,000	0.06%
	03.09.2007	01.01.2010-31.12.2012	1.65	668,000	668,000	0.06%
	03.09.2007	01.01.2011-31.12.2013	1.65	668,000	668,000	0.06%
				2,000,000	2,000,000	0.19%

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.

2. These options represent personal interest held by the relevant directors as beneficial owners.

3. During the year, no option was granted to the directors, no option was exercised by the directors and no option held by the directors was lapsed or cancelled.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to any director of the Company, as at 31 December 2009, other than the interests of the directors of the Company as disclosed above, the following persons had interests in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Name of Shareholders	Number of ordinary shares held as at 31 December 2009	Approximate percentage of the Company's issued share capital as at 31 December 2009
Daba International Investments Limited	500,680,000 *(Note)*	48.26%
Chartered Asset Management Pte Ltd	113,700,000	10.96%
Sanlam Universal Funds plc	84,138,880	8.11%
CAM-GTF Limited	73,412,000	7.08%

Note: Daba International Investments Limited is beneficially owned by Mr. Yu Longrui, Mr. Yu Longhui, Ms. Yang Yahua, Mr. Yu Qiang, Mr. Yang Minyong and Mr. Mo Kafei as to 77.6%, 6.86%, 5.49%, 4.57%, 2.74% and 2.74% respectively. Mr. Yu Longrui is the spouse of Ms. Yang Yahua, brother of Mr. Yu Longhui and Mr. Yu Qiang, brother-in-law of Mr. Yang Minyong and uncle of Mr. Mo Kaifei.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2009, were entitled to exercise or control the exercise of 5% or more of the voting power at general meeting of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

SHARE OPTIONS

On 14 April 2006, the Company adopted a share option scheme (the "Scheme") providing incentives and rewards to eligible participants who have contributed to the success of the Group's operation. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultants, advisers, managers or officers of the Group, and the Company's shareholders. The Scheme will remain in force for 10 years from the date of adoption.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

As at the date of this report, total 34,444,000 share options (representing approximately 3.32% of the existing issued share capital of the Company at the date of this annual report) have been granted or committed to be granted pursuant to the Scheme.

Additional information in relation to the Company's share option schemes is set out in note 30 to the financial statements.

The following table discloses movements in the Company's share options during the year:

	Outstanding as at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2009
Category 1: Directors					
Zheng Feng	2,500,000	–	–	–	2,500,000
Chan Wai Chuen	9,800,000	–	–	–	9,800,000
Yeung Shing	2,000,000	–	–	–	2,000,000
Total for Directors	14,300,000	–	–	–	14,300,000
Category 2: Employees	10,400,000	–	–	–	10,400,000
Category 3: Suppliers	9,400,000	–	–	–	9,400,000
Category 4: Consultant	10,000,000	–	–	–	10,000,000
All categories	44,100,000	–	–	–	44,100,000

Details of specific categories of share options are as follows:

Option types	**Date of grant**	**Exercise period**	**Exercise price** *HK$*
2009	14.11.2006	01.07.2007-31.12.2009	1.26
2010	14.11.2006	01.07.2008-31.12.2010	1.26
2011	14.11.2006	01.07.2009-31.12.2011	1.26
2011a	03.09.2007	01.01.2009-31.12.2011	1.65
	02.10.2007	01.01.2009-31.12.2011	1.65
2012	03.09.2007	01.01.2010-31.12.2012	1.65
	02.10.2007	01.01.2010-31.12.2012	1.65
2013	03.09.2007	01.01.2011-31.12.2013	1.65
	02.10.2007	01.01.2011-31.12.2013	1.65

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

2. The closing price of the Company's shares immediately before 3 September 2007 and 2 October 2007, the dates of grant of the 2011a, 2012 and 2013 options were HK$1.50 and HK$1.58 respectively.

3. During the year, no options were granted under the option scheme. The estimated fair value of the options granted during the year is approximately HK$0.51 per option.

4. During the year, no options were lapsed or cancelled under the share option scheme.

5. The fair value of the options granted under the option scheme in the current period measured at the date of grants (3 September 2007 and 3 October 2007) totalled approximately HK$5,492,000. The following significant assumptions were used to derive the fair value using the Binominal option pricing model:

Expected volatility:	66.45% p.a. and 60.96% p.a. for option granted on 3 September 2007 and 2 October 2007 respectively.
Expected dividend yield:	3.42% p.a.
Expected life:	3.33, 4.33 and 5.33 years for option 2011a, 2012 and 2013 respectively granted on 3 September 2007. 3.25, 4.25 and 5.25 years for option 2011a, 2012 and 2013 respectively granted 2 October 2007.
Risk free interest rate:	4.16%, 4.23% and 4.38% (being the yield of 4-, 5-, and 7-year HK Sovereign as at the Valuation Dates from Bloomberg) for option 2011a, 2012 and 2013 respectively granted on 3 September 2007. 3.98%, 4.09% and 4.16% (being the yield of 4-, 5- and 7-year HK Sovereign as at the Valuation Dates from Bloomberg) for option 2011a, 2012 and 2013 respectively granted on 2 October 2007.
Rate of leaving service:	10%

The Binomial option pricing model was applied to deriving the fair value of the option.

All the option forfeited before expiry of the options will be treated as lapsed options under the relevant share option scheme.

Based on the closing price of shares on the date of grant and above assumptions, the estimated fair value under the options granted on 3 September 2007 was approximately HK$0.51, HK$0.52 and HK$0.51 per option share for option 2011a, 2012 and 2013 respectively. The estimated fair value under the options granted on 2 October 2007 was approximately HK$0.48, HK$0.50 and HK$0.48 per option share for option 2011a, 2012 and 2013 respectively.

ARRANGEMENT TO PURCHASE SHARES

Other than the share option schemes disclosed above, at no time during the year ended 31 December 2009 was the Company, its holding company, or any or its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate, and none of the directors or the chief executive or any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or exercised any such right.

DIRECTORS' SERVICE CONTRACT

There is no unexpired directors' service contract that is not terminable by the Company within one year of any Director proposed for re-election at the forthcoming AGM.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed, no contract of significance to which the Company or any related company (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of year or at any time during the year.

EMPLOYEES AND REMUNERATION POLICIES

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of the merits, qualifications and competence of employees.

The emoluments of the Directors are decided by the Remuneration Committee with regard to the Company's operating results, individual performance and comparable market statistics. None of the directors or any of their associates, and executive is involved in deciding his own remuneration.

As at 31 December 2009, the Group had approximately 839 employees, an increase of approximately 13.4% from a year ago. Approximately 99% of the Group's employees are located in the PRC. The Group remunerates its employees based on their individual performance, job nature and responsibilities. Moreover, the Group provides its employees with training and various benefits including medical welfare, provident funds, bonuses and other incentives. The Group also encourages employees to pursue a balanced lifestyle and provided them with a good working environment to realize their maximum potential and contribution to the Group.

The Company has adopted share option schemes as an incentive to Directors and eligible employees, details of the schemes is set out in note 30 to the consolidated statements and under the heading "Share Option Scheme of the Company" in this report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2009.

CORPORATE GOVERNANCE

The Group continues to achieve high standards of corporate governance which it believes is crucial to the development of its business and to safeguarding the interests of the Company's shareholders.

The Company has also taken effective measures to ensure that it is in compliance with the code provisions and as far as reasonably possible the recommended best practices of the Code on Corporate Governance Practices (the "Code") which came into effect on 1 January 2005. In the opinion of the Board, the Company had complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the accounting period ended 31 December 2009, with derivations from the Code provision A.2.1 of the Code in respect of the separate roles of the Chairman and the Chief Executive Officer.

Code A.2.1 of the Code stipulates that the roles of Chairman and the Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Yu Longrui is currently the Chairman and the Chief Executive Officer of the Company.

After reviewing the management structure, the Board is of the opinion that Board decisions are collective decisions of all Directors made by way of voting and not decisions of the Chairman of the Board alone. Further, there is a clear division of responsibilities between the management of the Board and the day-to-day management of the business of the Company, which relies on the support of the senior management. The Board believes that vesting the roles of both the Chairman and the Chief Executive Officer in the same position provides the Group with stronger and more consistent leadership and allows for more effective planning.

As such, the power of management of the Company is not concentrated in any one individual. The Board considers that the present structure will not impair the balance of power and authority between the Board and the management of the Group. The Board has full confidence in Mr. Yu Longrui and believes that the current arrangement is beneficial to the business prospect of the Group.

In compliance with the code provisions of the Corporate Governance Code, the Company has an Audit Committee and a Remuneration Committee set up under the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that for the year ended 31 December 2009, all Directors had complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established in accordance with the requirements of the Corporate Governance Code and Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming. The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management. Mr. Zheng Qingchang is the chairman of the committee.

REMUNERATION COMMITTEE

The Company has a remuneration committee (the "Remuneration Committee") with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management. The Remuneration Committee has three members, all independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the committee.

NOMINATION COMMITTEE

The Company has a nomination committee (the "Nomination Committee") with written terms of reference in compliance with Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to the board of Directors on appointment of Directors and management of the succession of the board of Directors. The Nomination Committee has three members, all independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the committee.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group in aggregate accounted for about 21% of the turnover of the Group.

The five largest suppliers of the Group in aggregate accounted for about 24% of its total purchases for the year. Purchase from the largest supplier accounted for about 9% of the total purchases for the year.

None of the Directors, their associates or any shareholders, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had an interest in the share capital of any of the five largest suppliers and customers of the Company.

PRE-EMPTIVE RIGHTS

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

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2009 have been audited by CCIF CPA Limited ("CCIF"). CCIF will retire as auditor at the conclusion of the forthcoming annual general meeting and will not offer themselves for re-appointment following the merger of business with PCP CPA Limited resulting in Crowe Horwath (HK) CPA Limited operating as the merged firm. Crowe Horwath (HK) CPA Limited is a new member firm in Hong Kong for Crowe Horwath International.

As a result of these changes, a resolution will be submitted to the forthcoming annual general meeting of the Company for the appointment of Crowe Horwath (HK) CPA Limited as auditor of the Company.

On behalf of the Board

Yu Longrui
Chairman and Chief Executive Officer

Hong Kong, 19 March 2010

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of the Company is committed to establishing and maintaining high standards of corporate governance. Prior to the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 May 2006, the Company has applied the principles of all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in appendix 14 of Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices since 2006.

CORPORATE GOVERNANCE PRACTICE

The Board is in the opinion that the Company has complied with the Code since 11 May 2006.

Code Provision A.2.1. stipulates that the role of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Yu Longrui is currently the Chairman and the Chief Executive Officer of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer ("Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry, all Directors have confirmed that they have fully complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

The Board currently consists of five executive Directors and three independent non-executive Directors. One of the independent non-executive Directors has the appropriate professional and accounting qualifications required by Rule 3.10(2) of the Listing Rules. Composition of the Board shall refer to page 2 of this annual report.

The Board is responsible for the leadership and control of the Group (comprising the Company and its subsidiaries) and oversees the Group's businesses, strategic decisions and performance. Its principal functions are to consider and approve the strategies, financial objectives, annual budget and investment proposals of the Group.

Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer. The Chief Executive Officer, working with other executive Directors and the management team of each business division, is responsible for managing the business of the Group, including implementation of the strategies and decisions approved by the Board and assuming full responsibility to the Board for operations of the Group.

The Board shall meet at least four times a year after listing on 11 May 2006 at approximately quarterly intervals and also as and when required. The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director may request inclusion of items in the agenda. Adequate and appropriate information are circulated normally three days in advance of Board meetings to the Directors. The Company Secretary and the Qualified Accountant shall attend all Board meetings to provide information on corporate governance, compliance, accounting and financial matters when necessary.

During the period from 1 January 2009 to 31 December 2009 (the "Reporting Period"), save for executive Board meetings held between executive Directors during the normal course of business of the Company, the Board had held three regular meetings on 12 January 2009, 18 March 2009 and 18 August 2009 respectively.

The members of the Board as at 31 December 2009 and the attendance of each member for the aforesaid meetings are as follows:

Executive Directors	**Number of Attendance**
Mr. Yu Longrui *(Chairman and Chief Executive Officer)*	3/3
Mr. Zheng Feng	3/3
Mr. Chan Wai Chuen	3/3
Mr. Yu Longhui *(appointed on 1 September 2009)*	N/A
Ms. Yang Yahua *(resigned on 31 August 2009)*	3/3
Mr. Yeung Shing	3/3
Independent Non-executive Directors	
Mr. Zheng Qingchang	3/3
Mr. Yu Lun	3/3
Mr. Yun Lok Ming	3/3

The biographies of the Directors are set out on pages 16 to 18 of this annual report.

Board and committee minutes are recorded in appropriate detail and draft minutes are circulated to all Directors and committee members for comments before being approved by the Board and committees at the next immediate meeting. All minutes are kept by the Company Secretary and are open for inspection by the Directors.

The Company has received annual confirmations of independence from Mr. Zheng Qingchang, Mr. Yu Lun and Mr. Yun Lok Ming and considers them to be independent of the Group with reference to the factors as set out in Rule 3.13 of the Listing Rules.

The members of the Board have no financial, business, family or material/relevant relationship with each other except Mr. Yu Longrui, the Chairman, an executive Director and the Chief Executive Officer of the Company is the husband of Ms. Yang Yahua, the brother of Mr. Yu Longhui, the executive Directors of the Company.

All Directors (including independent non-executive Directors) are subject to retirement at annual general meeting of the Company by rotation at least once every three years in accordance with the Company's Articles of Association. All retiring Directors shall be eligible for re-election. All the independent non-executive Directors have been appointed for a term of one year commencing from 14 April 2006.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Yu Longrui is currently the Chairman and the Chief Executive Officer of the Company.

After reviewing the management structure, the Board is of the opinion that Board decisions are collective decisions of all Directors made by way of voting and not decisions of the Chairman of the Board alone. Further, there is a clear division of responsibilities between the management of the Board and the day-to-day management of the business of the Company, which relies on the support of the senior management. The Board believes that vesting the roles of both Chairman and the Chief Executive Officer in the same position provides the Group with stronger and more consistent leadership and allows for more effective planning.

As such, the power of management of the Company is not concentrated in any one individual. The Board considers that the present structure will not impair the balance of power and authority between the Board and the management of the Group. The Board has full confidence in Mr. Yu Longrui and believes that the current arrangement is beneficial to the business prospect of the Group.

REMUNERATION COMMITTEE

The Company established its remuneration committee (the "Remuneration Committee") on 14 April 2006 with written terms of reference in compliance with the Code. The primary duties of the Remuneration Committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management of the Company. The Remuneration Committee has three members comprising the three independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yun Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the Remuneration Committee.

The Remuneration Committee shall meet at least once a year after listing on 11 May 2006. The Remuneration Committee held two meetings during the Reporting Period on 18 March 2009 and 18 August 2009 respectively and held a meeting on 19 March 2010, all of which were attended by all members.

NOMINATION COMMITTEE

The Company established nomination committee (the "Nomination Committee") on 14 April 2006 with written terms of reference in compliance with the Code. The primary duties of the Nomination Committee are to make recommendations to the Board of Directors on appointment of Directors and management of the succession of the board of Directors. The Nomination Committee has three members comprising the three independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yun Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once a year after listing on 11 May 2006. The Nomination Committee has held two meetings during the Reporting Period on 18 March 2009 and 18 August 2009 respectively and held a meeting on 19 March 2010, all of which were attended by all members.

AUDITOR'S REMUNERATION

The external auditors of the Group provided professional services in respect of the audit of financial statements for the year ended 31 December 2009. The external auditors of the Group also reviewed the 2009 unaudited interim financial report of the Company prepared under HKFRSs.

During the year ended 31 December 2009, the remuneration paid to the external auditors of the Group, is set out as follows:

	Fee paid/payable
	RMB'000
Services rendered	
Audit and other non-audit services	1,051

AUDIT COMMITTEE

The Company has established its audit committee (the "Audit Committee") on 14 May 2006 with written terms of reference in compliance with the Code. The Primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee has three members comprising the three independent non-executive Directors, namely Mr. Zheng Qingchang, Mr. Yun Lun and Mr. Yun Lok Ming. Mr. Zheng Qingchang is the chairman of the Audit Committee.

The Audit Committee shall meet at least twice a year after listing on 11 May 2006. The Audit Committee has held three meetings on 12 January 2009, 18 March 2009 and 18 August 2009 respectively.

All members of the Audit Committee possess in-depth experience in their own profession. One of the committee members, Mr. Yun Lok Ming, possesses appropriate professional and accounting qualifications which meet the requirements of Rule 3.10(2) of the Listing Rules.

Full minutes of Audit Committee are kept by the secretary of the Audit Committee. Draft and final version of minutes of the Audit Committee meetings are set to all members of the Audit Committee for their comment and records respectively, in both cases, within a reasonable time after the meeting.

Since 1 January 2009, the Audit Committee met with the external auditor, CCIF CPA Limited, twice on 18 March 2009 and 18 August 2009 respectively to discuss any areas of concerns during the audit. The meeting between the external auditor and the Audit Committee on 18 March 2009 was held without the presence of the management of the Company.

The Audit Committee has reviewed the audit plan of the external auditor during the course of their audit at the meeting held on 20 January 2010.

At the meeting on 19 March 2010, the Audit Committee reviewed the annual report with the external auditor without the presence of the management before submission to the Board. The Committee focus not only on the impact of the adoption of new accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements by the Group in review of the Company's annual report.

ACCOUNTABILITY

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cashflows of the Group.

In preparing the accounts for the year ended 31 December 2009, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

CCIF CPA Limited, the auditor of the Company, acknowledges their reporting responsibilities in the auditor's report on the financial statements of the Group for the year ended 31 December 2009.

INTERNAL CONTROLS

The Company places great importance on internal control and risk management. The Board has overall responsibility for the Group's internal control systems and through the Audit Committee, conducts review on the effectiveness of these systems covering the financial, operational, procedural compliance and risk management functions. The process used in reviewing the effectiveness of these internal control systems includes discussion with management on risk areas identified by management. The purpose of the Group's internal control system is to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems so that the Group's objectives can be achieved.

CORPORATE COMMUNICATION

The Company is committed to a policy of open and regular communication and fair disclosure of information to the shareholders. The Company acknowledges that accurate and fair disclosure is necessary for the shareholders to form their own judgment on the operation and performance of the Group.

INVESTOR RELATIONS

The Company believes that effective communication with the investment community is essential for enhancing investors' knowledge and understanding of the Company's business performance and strategies. To achieve this, the Company pursues a proactive policy of promoting investor relations and communications. The main purpose of the Company's investor relations policy, therefore, is to enable investors to have access, on a fair and timely basis, to information that is reasonably required for making the best investment decisions.

During the year ended 31 December 2009, the Group had actively participated in investor forums and road shows held in Hong Kong and abroad. It also arranged briefings and meetings with analysts and fund managers to enhance their understanding of the Group. The Group also received regular investor audit reports from our investor relations consultant after such events; so that the management could internally discuss and review its investor relations program and communicate strategies.

Investors and the public have access to up-to-date corporate information of the Group through the corporate website of www.dba-asia.com. The website enables them to obtain information on the Group's financial performance and latest business developments.

On behalf of the Board

Yu Longrui
Chairman and Chief Executive Officer

Hong Kong, 19 March 2010

INDEPENDENT AUDITOR'S REPORT

CCIF

CCIF CPA LIMITED

34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DBA TELECOMMUNICATION (ASIA) HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of DBA Telecommunication (Asia) Holdings Limited (the "Company") set out on pages 38 to 100, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 19 March 2010

Betty P.C. Tse
Practising Certificate Number P03024

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Note	**2009** *RMB'000*	2008 *RMB'000*
Turnover	*5*	**2,110,661**	1,624,925
Cost of sales		**(1,795,354)**	(1,155,107)
Gross profit		**315,307**	469,818
Other revenue and net income	*5*	**6,618**	17,512
Selling and distribution expenses		**(75,743)**	(65,025)
General and administrative expenses		**(65,835)**	(60,674)
Profit from operations		**180,347**	361,631
Finance costs	*6*	**(25,945)**	(22,302)
Profit before taxation	*7*	**154,402**	339,329
Income tax	*8*	**(45,336)**	(81,693)
Profit for the year		**109,066**	257,636
Attributable to:			
Equity holders of the Company		**109,066**	257,636
Earnings per share	*10*		
– basic		**10.51 cents**	24.83 cents
– diluted		**10.49 cents**	23.00 cents

The notes on pages 44 to 100 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009	2008
	RMB'000	*RMB'000*
Profit for the year	**109,066**	257,636
Other comprehensive income for the year		
Exchange differences on translation of:		
– financial statements of overseas subsidiaries	**627**	(17,415)
Other comprehensive income	**109,693**	240,221
Income tax relating to components of other comprehensive income	**–**	–
Total comprehensive income for the year	**109,693**	240,221
Attributable to:		
Equity shareholders of the company	**109,693**	240,221

The notes on pages 44 to 100 form part of these financial statements.

BALANCE SHEETS

As at 31 December 2009

		The Group		The Company	
		2009	2008	**2009**	2008
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Non-current assets					
Prepaid lease payments	*16*	**9,984**	1,609	**–**	–
Property, plant and equipment	*17*	**413,375**	287,181	**–**	–
Investment in subsidiaries	*18*	–	–	**220,335**	219,100
		423,359	288,790	**220,335**	219,100
Current assets					
Inventories	*19*	**98,094**	52,076	**–**	–
Trade receivables	*20*	**279,085**	262,263	**–**	–
Prepayments, deposits and other receivables	*21*	**208,694**	151,961	**220**	1,097
Amounts due from subsidiaries	*18*	**–**	–	**441,341**	448,260
Cash and cash equivalents	*22*	**760,832**	796,765	**21**	15
		1,346,705	1,263,065	**441,582**	449,372
Current liabilities					
Trade and bills payables	*23*	**58,705**	21,310	**–**	–
Accruals and other payables	*24*	**61,575**	71,270	**678**	710
Amount due to a director	*25*	**62**	83	**–**	–
Bank loans	*26*	**20,000**	–	**–**	–
Amount due to a subsidiary		**–**	–	**1,373**	1,369
Tax payables	*27*	**13,727**	24,763	**–**	–
		(154,069)	(117,426)	**(2,051)**	(2,079)
Net current assets		**1,192,636**	1,145,639	**439,531**	447,293
Total assets less current liabilities		**1,615,995**	1,434,429	**659,866**	666,393
Non-current liabilities					
Bank loans	*26*	**50,000**	–	**–**	–
Convertible bonds	*28*	**358,966**	338,634	**358,966**	338,634
		(408,966)	(338,634)	**(358,966)**	(338,634)
NET ASSETS		**1,207,029**	1,095,795	**300,900**	327,759

As at 31 December 2009

		The Group		The Company	
		2009	2008	**2009**	2008
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Represented by:					
SHARE CAPITAL	*29*	**107,900**	107,900	**107,900**	107,900
RESERVES	*29*	**1,099,129**	987,895	**193,000**	219,859
SHAREHOLDERS' EQUITY		**1,207,029**	1,095,795	**300,900**	327,759

Approved and authorised for issue by the Board of Directors on 19 March 2010

On behalf of the Board

Yu Longrui	**Yeung Shing**
Director	*Director*

The notes on pages 44 to 100 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Share capital *RMB'000*	Share premium *RMB'000*	Merger reserve *RMB'000*	General reserve *RMB'000*	Exchange reserve *RMB'000*	Special reserve *RMB'000*	Share option reserve *RMB'000*	Convertible bonds equity reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2008	107,900	215,491	(57,000)	141,160	(24,385)	79,201	4,170	648	422,312	889,497
Total comprehensive income for the year	–	–	–	–	(17,415)	–	–	–	257,636	240,221
Transfer to reserve	–	–	–	54,520	–	–	–	–	(54,520)	–
Recognition of equity– settled share-based payment	–	–	–	–	–	–	3,619	–	–	3,619
Dividend paid	–	–	–	–	–	–	–	–	(37,542)	(37,542)
At 31 December 2008 and 1 January 2009	107,900	215,491	(57,000)	195,680	(41,800)	79,201	7,789	648	587,886	1,095,795
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**627**	**–**	**–**	**–**	**109,066**	**109,693**
Transfer to reserve	**–**	**–**	**–**	**31,259**	**–**	**–**	**–**	**–**	**(31,259)**	**–**
Recognition of equity– settled share-based payment	**–**	**–**	**–**	**–**	**–**	**–**	**1,541**	**–**	**–**	**1,541**
At 31 December 2009	**107,900**	**215,491**	**(57,000)**	**226,939**	**(41,173)**	**79,201**	**9,330**	**648**	**665,693**	**1,207,029**

The notes on pages 44 to 100 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Operating activities			
Profit before taxation		**154,402**	339,329
Adjustments for:			
Interest income		**(3,118)**	(6,213)
Finance costs		**25,945**	22,302
Depreciation		**17,522**	4,773
Amortisation of prepaid lease payments		**166**	43
Equity-settled share-based payment expenses		**1,541**	3,619
Operating profit before changes in working capital		**196,458**	363,853
Increase in prepayments, deposits and other receivables		**(56,547)**	(108,032)
Increase in inventories		**(46,018)**	(21,448)
(Increase)/decrease in trade receivables		**(16,822)**	24,578
Increase in trade and bills payables		**37,395**	4,608
(Decrease)/increase in accruals and other payables		**(9,695)**	33,077
(Decrease)/increase in amount due to a director		**(21)**	25
Cash generated from operations		**104,750**	296,661
PRC enterprise income tax paid		**(56,372)**	(72,041)
Net cash generated from operating activities		**48,378**	224,620
Investing activities			
Payment for prepaid lease payment		**(8,727)**	–
Payment for the purchase of property, plant and equipment		**(143,716)**	(174,121)
Increase in pledged deposits		**(20,000)**	–
Interest received		**3,118**	6,213
Net cash used in investing activities		**(169,325)**	(167,908)
Financing activities			
Proceeds from new bank loans		**70,000**	–
Interest paid		**(5,613)**	(3,300)
Dividend paid to equity shareholders of the Company		**–**	(37,542)
Net cash generated from/(used in) financing activities		**64,387**	(40,842)
Net (decrease)/increase in cash and cash equivalents for the year		**(56,560)**	15,870
Cash and cash equivalents at beginning of the year		**796,765**	798,303
Effect of foreign exchange rate changes, net		**627**	(17,408)
Cash and cash equivalents at end of the year	22	**740,832**	796,765

The notes on pages 44 to 100 form part of these financial statements.

1. GENERAL INFORMATION

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The functional currency of the Company and its subsidiaries in the People's Republic of China (the "PRC") are Hong Kong dollars and Renminbi ("RMB") respectively. For the purposes of presenting the consolidated financial statements, the Group adopted RMB as its presentation currency for easy reference to international investors.

The subsidiaries of the Company are principally engaged in:

(a) Manufacturing business: the design, manufacture and sales of telecommunication equipment and related products;

(b) Self-services business: sales of telecommunication value-added cards, insurance prepaid cards and online game value-added cards through smart card vending machines and revenue from the display of advertisements on smart cards vending machines; and

(c) Agency business: trading of telecommunication products.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except as otherwise set out in the accounting policies below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors 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 recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

(c) Subsidiaries

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

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses, if any (see note 2(s)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and accumulated impairment losses, if any.

Construction in progress represents buildings and equipments pending installation under construction, and is stated at cost less impairment loss (see note 2(s)). Cost comprises direct costs of construction as well as interest charges during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(o)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, on a straight-line basis over their estimated useful lives. The principal annual rates are as follows:

Buildings situated on leasehold land	Over the shorter of the term of the lease or 20 years
Leasehold improvements	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Plant and machinery	20%
Smart card vending machines	10%

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

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, if any, and the carrying amount of the item and are recognised in income statement on the date of retirement or disposal.

(e) Leased assets

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Leased assets *(Continued)*

i) Classification of assets leased to the Group

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

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property, and on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

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

ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset or, if lower, the present value of the minimum lease payments of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(s). Finance charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

iii) Operating lease charges

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Inventories

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

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

(g) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of bad and doubtful debts (see note 2(s)), 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 bad and doubtful debts.

(h) Interest-bearing borrowings

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

(i) Trade and other payables

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

(j) Convertible bonds

Convertible bonds issued by the Company that contain liability, conversion option and early redemption option (which is not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. At the date of issue, both the liability and early redemption option components are measured at fair value. The difference between the gross proceeds of the issue of the convertible bonds and the fair values assigned to the liability and early redemption option components respectively, representing the conversion option for the holder to convert the bonds into equity, is included in equity (convertible bonds equity reserve).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Convertible bonds *(Continued)*

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

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

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability, equity and early redemption option components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the early redemption option are charged to income statement immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

(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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(l) Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identified and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Product development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, starting from the time when the product is put into commercial production.

(m) Provisions and contingent liabilities

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Provisions and contingent liabilities *(Continued)*

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, which 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.

(n) Revenue recognition

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

i) Sale of goods

Revenue is recognised 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 goods returned and any trade discounts.

ii) Agency income

Agency income is recognised when the services are rendered.

iii) Interest income

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

(o) Borrowing costs

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

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

(p) Employee benefits

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits *(Continued)*

ii) Share-based payments

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

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

iii) Termination benefits

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

(q) Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees:

The accounting policy is set out in note 2(p)(ii).

Share options granted to suppliers/consultants:

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are expensed on a straight-line basis over the vesting period unless the goods or services qualify for recognition as assets. Corresponding adjustment is made to equity (share option reserve).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

iii) (Continued)

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

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

iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or 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 Company or 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.

(s) Impairment of assets

i) Impairment of receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Impairment of assets *(Continued)*

i) *Impairment of receivables (Continued)*

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

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised 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 which credit risk characteristics are 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 recognised, the impairment loss is reversed through 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 recognised in prior years.

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

ii) *Impairment of other assets*

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

– property, plant and equipment;

– prepaid lease payments; and

– investments in subsidiaries.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Impairment of assets *(Continued)*

ii) Impairment of other assets (Continued)

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 the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

– Recognition of impairment losses

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

– 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 recognised in prior years. Reversals of impairment losses are credited to income statement in the year in which the reversals are recognised.

(t) 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 recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Translation of foreign currencies *(Continued)*

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

The results and financial position of the Company are translated to the presentation currency. Assets and liabilities are translated at the closing rate at the date of the balance sheet. Income and expenses are translated at exchange rate at the date of the transactions. All resulting exchange differences are recognised as exchange reserve in a separate component of equity.

(u) Related parties

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

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

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

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

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

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

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker 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.

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

HKFRS 8	Operating segments
HKAS 1 (revised 2007)	Presentation of financial statements
Amendments to HKFRS 7	Financial instruments: Disclosures – improving disclosures about financial instruments
Improvements to HKFRSs (2008)	
Amendments to HKAS 27	Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate
HKAS 23 (revised 2007)	Borrowing costs
Amendments to HKFRS 2	Share-based payment vesting conditions and cancellations
HK(IFRIC) 15	Agreements for the construction of real estate
HK(IFRIC) 16	Hedges of a net investment in a foreign operation

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

The amendments to HKAS 23, HKFRS 2 and HKFRS 7, and Interpretations HK(IFRIC) 15 and HK(IFRIC) 16 and Improvements to HKFRs (2008) have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segments in format in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's chief operating decision maker, and has resulted in additional reportable segments being identified and presented (see note 11). Corresponding amounts have been provided on a basis consistent with the revised segment information.

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the entity's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the entity would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that can significantly affect the amounts recognised in the financial statements are disclosed below.

Key sources of estimation uncertainty

(a) *Useful lives of property, plant and equipment*

The management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry activities. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) *Estimated provision for impairment of trade receivables, prepayments, deposits and other receivables*

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade receivables, prepayments, deposits and other receivables. Provisions are applied to trade receivables, prepayments, deposits and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates based on the credit history of the customers and the current market conditions. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

(c) *Estimated net realisable value of inventories*

The Group writes down slow-moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Write down to the inventories where changes in circumstances, indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of the inventories and written down of inventory expense in the period in which such estimate has been changed.

(d) *Income tax*

Determining income tax provisions involve judgement on the tax treatment of certain transactions and interpretation of tax rules. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Management's assessment is constantly reviewed.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(e) *Measurement of convertible notes*

On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note and this amount is carried as current liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in the convertible notes reserve, net of transaction costs. The splitting of the liability and equity components requires an estimation of the market interest rate.

(f) *Functional currency of the Company*

The management based on the Company's local environment to determine the functional currency is Hong Kong dollars. The Company incurs administrative and local expenses, comprising mainly directors' emoluments, limited staff costs and office rental payments, which are settled in Hong Kong dollars.

5. TURNOVER, OTHER REVENUE AND NET INCOME

Turnover represents the invoiced value of goods sold after deducting goods returned, trade discounts and sale tax.

	2009 ***RMB'000***	2008 *RMB'000*
Turnover		
Manufacturing business: the design, manufacture and sales of telecommunication equipment and related products	**611,174**	1,028,858
Self-services business: sales of telecommunication value-added cards, insurance prepaid cards and online game value-added cards through smart card vending machines and revenue from the display of advertisements on smart cards vending machines	**1,466,185**	504,395
Agency business: trading of telecommunication products	**33,302**	91,672
	2,110,661	1,624,925
Other revenue and net income		
Exchange gain	**–**	11,220
Interest income on financial assets not at fair value through profit or loss – bank interest income	**3,118**	6,213
Sales of production technology of telecommunication products	**3,500**	–
Sundry income	**–**	79
	6,618	17,512
	2,117,279	1,642,437

6. FINANCE COSTS

	2009	2008
	RMB'000	*RMB'000*
Effective interest expense on convertible bonds wholly repayable within five years	**23,632**	22,302
Interest on bank advances wholly repayable within five years	**2,313**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**25,945**	22,302

7. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging/(crediting) the following:

	2009	2008
	RMB'000	*RMB'000*
Staff costs (including directors' emoluments)		
Wages and salaries	**58,829**	81,755
Retirement scheme	**1,290**	1,276
Equity-settled share-based payment expenses	**1,339**	2,926
	61,458	85,957
Less: Amount included in research and development costs	**(7,044)**	(7,090)
	54,414	78,867
Research and development costs *(note b)*	**26,832**	17,805
Operating lease payment in respect of premises	**2,672**	4,430
Amortisation of prepaid lease payments *(note a)*	**166**	43
Auditor's remuneration	**1,051**	1,043
Cost of inventories *(note a)*	**1,795,354**	1,155,107
Depreciation *(note a)*	**17,522**	4,773
Less: Amount included in research and development costs	**(120)**	(103)
	17,402	4,670

Notes:

a) Cost of inventories includes RMB8,038,000 (2008: RMB8,448,000) relating to staff costs, depreciation and amortization, which amount is also included in the respective total amounts disclosed separately above.

b) Included in research and development costs were depreciation of RMB120,000 (2008: RMB103,000) and staff costs of RMB7,044,000 (2008: RMB7,090,000).

8. INCOME TAX

	2009	2008
	RMB'000	*RMB'000*
Current tax – PRC enterprise income tax		
Provision for the year	**45,336**	81,693

i) Fujian Create State Industry Co., Ltd., a wholly-foreign-owned enterprise, was subject to PRC enterprise income tax at a rate of 20% (2008: 18%) applicable to the company on the assessable profits for the year.

Wozhong Intelligent System Service (China) Co., Ltd., a wholly-foreign-owned enterprise, was subject to PRC enterprise income tax at a rate of 25% (2008: 25%) applicable to the company on the assessable profits for the year.

Skyban Telecommunication (Fujian) Limited, a wholly-foreign-owned enterprise, is exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. No provision for PRC enterprise income tax has been made as the company had no assessable profits for the year (2008: nil).

Wozhong Advertising (Fuzhou) Co., Ltd., a wholly-foreign-owned enterprise, was subject to PRC enterprise income tax at a rate of 25% applicable to the company on the assessable profits for the year (2008: nil).

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of Fujian Create State Industry Co., Ltd. in the PRC was increased from 18% to 25% progressively and Wozhong Intelligent System Service (China) Co., Ltd. was reduced from 33% to 25% progressively from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC range from 20% to 25% (2008: 18% to 25%).

ii) No provision for Hong Kong profits tax has been made as the Group did not earn any income subject to Hong Kong profits tax during the year. (2008: nil)

8. INCOME TAX *(Continued)*

iii) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2009	2008
	RMB'000	*RMB'000*
Profit before taxation	**154,402**	339,329
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**34,101**	63,860
Tax effect of non-deductible expense and tax losses not recognised	**5,653**	5,589
Tax effect of non-taxable income	**–**	(1,963)
Others	**5,582**	14,207
Actual tax expense	**45,336**	81,693

iv) The Group had no significant unprovided deferred tax assets or liabilities at 31 December 2009 (2008: nil).

9. DIVIDENDS

During the year, dividends paid and proposed to equity holders of the Company comprised:

(i) Dividend payable attributable to the year

	2009	2008
	HK$'000	*HK$'000*
Final dividend proposed after the balance sheet date of nil cents per share (2008: nil)	**–**	–
	RMB'000	*RMB'000*
Equivalent to	**–**	–

The directors do not recommend the payment of a final dividend for the year.

9. DIVIDENDS *(Continued)*

(ii) Dividend payable attributable to the previous financial year, approved and paid during the year

	2009	2008
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year approved and paid during the year of nil cents per share (2008: HK3.88 cents per share)	**–**	40,255
	RMB'000	*RMB'000*
Equivalent to	**–**	37,542

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the Company of approximately RMB109,066,000 (2008: RMB257,636,000) and the weighted average of 1,037,500,000 ordinary shares (2008: 1,037,500,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity holders of the Company of approximately RMB128,799,000 (2008: RMB276,258,000) and the weighted average number of ordinary shares of 1,228,047,000 (2008: 1,201,246,000) shares, calculated as follows:

i) Profit attributable to ordinary equity holders of the Company (diluted)

	2009	2008
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders	**109,066**	257,636
After tax effect of effective interest on the liability component of convertible bonds	**19,733**	18,622
Profit attributable to ordinary equity holders (diluted)	**128,799**	276,258

10. EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share *(Continued)*

ii) Weighted average number of ordinary shares (diluted)

	2009	2008
	'000	*'000*
Weighted average number of ordinary shares at 31 December	**1,037,500**	1,037,500
Effect of deemed issue of shares under the Company's share option scheme for nil consideration *(note 30)*	**–**	–
Effect of conversion of convertible bonds *(note 28)*	**190,547**	163,746
Weighted average number of ordinary shares (diluted) at 31 December	**1,228,047**	1,201,246

The conversion of all potential ordinary shares arising from share options would have an anti-dilutive effect on the earnings per share for the year ended 31 December 2009 and 2008.

11. SEGMENT REPORTING

The Group manages its businesses through various business executive committees. On first-time adoption of HKFRS 8, Operating Segment and in a manner consistent with the way in which information is reported internally to the Group's chief operating decision makers for the purposes of resource allocation and performance assessment, the Group has identified the following three reportable segments:

– Manufacturing business: the design, manufacture and sales of telecommunication equipment and related products.

– Self service business: sales of telecommunication value-added cards, insurance prepaid cards and online game value-added cards through smart cards vending machines and revenue from the display of advertisements on smart cards vending machines

– Agency business: trading of telecommunication products.

Currently the above Group's activities are carried out in Mainland China.

11. SEGMENT REPORTING *(Continued)*

Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision makers monitor the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of corporate assets. Segment liabilities include trade creditors, accruals and bills payable attributable to the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, assistance provided by one segment to another, including sharing of assets is not measured.

The measure used for reporting segment profit is "adjusted EBITDA" i.e., "adjusted earnings before interest, taxes, depreciation and amortization". To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditor's remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue including inter segment sales, interest income and expense from cash balances and borrowings managed directly by the segments, depreciation and amortisation and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

11. SEGMENT REPORTING *(Continued)*

Segment results, assets and liabilities *(Continued)*

Information regarding the Group's reportable segments and the reconciliation of the corresponding consolidated totals in the financial statements are shown below.

a) *For the year ended 31 December 2009*

	Manufacturing business *RMB'000*	Self-service business *RMB'000*	Agency business for tele-communication equipment *RMB'000*	Inter–segment elimination *RMB'000*	Consolidated *RMB'000*
Revenue from external customers	611,174	1,466,185	33,302	–	2,110,661
Inter-segment revenue	118,803	–	–	(118,803)	–
Reportable segment revenue	729,977	1,466,185	33,302	(118,803)	2,110,661
Reportable segment profit (adjusted EBITDA)	142,390	79,711	7,654	(21,933)	207,822
Unallocated operating income and expenses					(9,787)
Finance costs					(25,945)
Depreciation and amortization					(17,688)
Profit before taxation					154,402
Income tax					(45,336)
Profit for the year					109,066
Interest income from bank deposits from reportable segments	3,003	115	–	–	3,118
Unallocated interest income from bank deposits					–
					3,118
Interest expenses from reportable segments	610	25,335	–	–	25,945
Unallocated interest expenses					–
					25,945
Depreciation and amortisation for the year from reportable segments	2,654	15,034	–	–	17,688
Unallocated depreciation and amortization					–
					17,688
Income tax expenses	31,023	14,313	–	–	45,336

11. SEGMENT REPORTING *(Continued)*

Segment results, assets and liabilities *(Continued)*

a) *For the year ended 31 December 2009 (Continued)*

	Manufacturing business *RMB'000*	Self-service business *RMB'000*	Agency business for tele-communication equipment *RMB'000*	Inter-segment elimination *RMB'000*	Consolidated *RMB'000*
Reportable segment assets	1,372,797	504,210	–	(107,719)	1,769,288
Unallocated assets					776
Total assets					1,770,064
Reportable segment liabilities	(65,219)	(483,342)	–	–	(548,561)
Unallocated liabilities					(14,474)
Total liabilities					(563,035)
Additions to non-current segment assets during the year	35,195	117,248	–	–	152,443

11. SEGMENT REPORTING *(Continued)*

Segment results, assets and liabilities *(Continued)*

b) *For the year ended 31 December 2008*

	Manufacturing business *RMB'000*	Self-service business *RMB'000*	Agency business for tele-communication equipment *RMB'000*	Inter-segment elimination *RMB'000*	Consolidated *RMB'000*
Revenue from external customers	1,028,858	504,395	91,672	–	1,624,925
Inter-segment revenue	174,101	–	–	(174,101)	–
Reportable segment revenue	1,202,959	504,395	91,672	(174,101)	1,624,925
Reportable segment profit (adjusted EBITDA)	396,437	25,750	10,308	(66,976)	365,519
Unallocated operating income and expenses					928
Finance costs					(22,302)
Depreciation and amortization					(4,816)
Profit before taxation					339,329
Income tax					(81,693)
Profit for the year					257,636
Interest income from bank deposits from reportable segments	5,574	164	–	–	5,738
Unallocated interest income from bank deposits					475
					6,213
Interest expenses from reportable segments	–	22,302	–	–	22,302
Unallocated interest expenses					–
					22,302
Depreciation and amortisation for the year from reportable segments	2,617	2,068	–	–	4,685
Unallocated depreciation and amortization					131
					4,816
Income tax expenses	76,106	5,587	–	–	81,693

11. SEGMENT REPORTING *(Continued)*

Segment results, assets and liabilities *(Continued)*

b) *For the year ended 31 December 2008 (Continued)*

	Manufacturing business *RMB'000*	Self-service business *RMB'000*	Agency business for tele-communication equipment *RMB'000*	Inter-segment elimination *RMB'000*	Consolidated *RMB'000*
Reportable segment assets	1,346,451	287,622	–	(85,786)	1,548,287
Unallocated assets					3,568
Total assets					1,551,855
Reportable segment liabilities	(90,618)	(339,885)	–	–	(430,503)
Unallocated liabilities					(25,557)
Total liabilities					(456,060)
Additions to non–current segment assets during the year	36,726	137,395	–	–	174,121

Geographical segments

No analysis of the Group's turnover and contribution from operations by geographical segment has been presented as almost all the Group's operating activities are carried out in the PRC.

Major customers

No analysis of the Group's turnover and contribution from operations by major customers has been presented as there is no transactions with a single external customer equal to or greater than 10 per cent of the Group's total revenues.

12. STAFF RETIREMENT BENEFITS

The Group has arranged its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan managed by independent trustees. Under the MPF Scheme, each of the Group entity (the employer) and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from each of the employer and employees are subject to a cap of HK$1,000 per month and thereafter contributions are voluntary. Contributions to the plan vest immediately.

12. STAFF RETIREMENT BENEFITS *(Continued)*

The employees of the Group's subsidiaries in the PRC are members of a state-sponsored retirement plan, which is a defined contribution retirement plan operated by the local government in the PRC and these subsidiaries make mandatory contributions to the state-sponsored retirement plan to fund the employees retirement benefits. The retirement contributions paid by the PRC subsidiaries are based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and are charged to the income statement as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan operated by the local government in the PRC. Contributions to the plan vest immediately.

The contributions paid for the year were approximately RMB1,290,000 (2008: RMB1,276,000). As at 31 December 2009, there were no material forfeitures available to offset the Group's future contributions (2008: nil).

13. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS

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

			For the year ended 31 December 2009			
Name of director	**Directors' fee**	**Bonuses**	**Salaries, allowances and benefits in kind**	**Contributions to retirement scheme**	**Share-based payments *(note)***	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Executive directors						
Mr. Yu Longrui	–	141	1,692	21	–	1,854
Mr. Zheng Feng	–	23	185	1	26	235
Mr. Chan Wai Chuen	–	82	1,066	21	704	1,873
Ms. Yang Yahua (resigned on 31 Aug 2009)	–	15	93	1	–	109
Mr. Yu Longhui (appointed on 1 Sep 2009)	–	–	53	–	–	53
Mr. Yeung Shing	–	18	211	21	222	472
Independent non-executive directors						
Mr. Yu Lun	75	–	–	–	–	75
Mr. Zheng Qingchang	75	–	–	–	–	75
Mr. Yun Lok Ming	88	–	–	–	–	88
	238	279	3,300	65	952	4,834

13. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS *(Continued)*

	For the year ended 31 December 2008					
Name of director	Directors' fee	Bonuses	Salaries, allowances and benefits in kind	Contributions to retirement scheme	Share-based payments *(note)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Mr. Yu Longrui	–	143	1,725	21	–	1,889
Mr. Zheng Feng	–	22	185	1	90	298
Mr. Chan Wai Chuen	–	83	1,090	21	1,489	2,683
Ms. Yang Yahua (resigned on 31 Aug 2009)	–	15	124	1	–	140
Mr. Yeung Shing	–	20	223	21	450	714
Independent non-executive directors						
Mr. Yu Lun	75	–	–	–	–	75
Mr. Zheng Qingchang	75	–	–	–	–	75
Mr. Yun Lok Ming	89	–	–	–	–	89
	239	283	3,347	65	2,029	5,963

No directors waived any remuneration during the year (2008: nil).

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(p)(ii).

14. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2008: four) are directors whose emoluments are disclosed in note 13. The aggregate of the emoluments in respect of the other one (2008: one) individual is as follow:

	2009	2008
	RMB'000	*RMB'000*
Basic salaries and allowances	**241**	256
Bonuses	**–**	–
Contributions to retirement scheme	**21**	21
Share-based payments	**111**	227
	373	504

The emoluments of the one (2008: one) individual with highest emoluments are below RMB881,000 (equivalent of HK$1,000,000) (2008: RMB893,000 (equivalent of HK$1,000,000)).

During the year ended 31 December 2009, no emolument was paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2008: nil).

15. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company includes a loss of approximately RMB30,636,000 (2008: a loss of RMB30,906,000) which has been dealt with in the financial statements of the Company.

16. PREPAID LEASE PAYMENTS

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Carrying amount at 1 January	**1,652**	1,695
Addition	**8,727**	–
Amortisation	**(166)**	(43)
Carrying amount at 31 December	**10,213**	1,652
Current portion included in trade and other receivables *(note 21)*	**(229)**	(43)
Non-current portion	**9,984**	1,609

16. PREPAID LEASE PAYMENTS *(Continued)*

a) All the prepaid lease payments are for land situated in the PRC under medium-term leases.

b) At 31 December 2009, the above prepaid lease payment and the Group's construction in progress – buildings (note 17) with an aggregate carrying value of approximately RMB124,645,000 (2008: nil) have been pledged to banks to secure facilities, as set out in notes 23 and 26, granted to the Group.

c) The amortisation charge of RMB43,000 (2008: RMB43,000) for the year is included in cost of sales and RMB123,000 (2008: nil) for the year is included in administrative expenses in the consolidated income statement.

17. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings *RMB'000*	Leasehold improvements *RMB'000*	Plant and machinery *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Motor vehicles *RMB'000*	Smart card vending machines *RMB'000*	Construction in progress – buildings *RMB'000*	Construction in progress – smart card vending machines *RMB'000*	Total *RMB'000*
Cost									
At 1/1/2008	18,583	464	20,455	5,488	3,894	26,191	67,865	–	142,940
Exchange adjustments	–	(28)	–	(14)	–	–	–	–	(42)
Additions	–	–	27	477	409	–	36,486	136,722	174,121
Transfer	–	–	39	–	–	136,722	(39)	(136,722)	–
At 31/12/2008 and 1/1/2009	18,583	436	20,521	5,951	4,303	162,913	104,312	–	317,019
Exchange adjustments	–	1	–	1	–	–	–	–	2
Additions	–	–	62	324	–	–	11,728	131,602	143,716
Transfer	–	–	–	–	–	117,066	–	(117,066)	–
At 31/12/2009	18,583	437	20,583	6,276	4,303	279,979	116,040	14,536	460,737
Accumulated depreciation									
At 1/1/2008	7,072	372	8,944	4,253	2,731	1,728	–	–	25,100
Exchange adjustments	–	(24)	–	(11)	–	–	–	–	(35)
Charge for the year	836	88	1,426	254	245	1,924	–	–	4,773
At 31/12/2008 and 1/1/2009	7,908	436	10,370	4,496	2,976	3,652	–	–	29,838
Exchange adjustments	–	1	–	1	–	–	–	–	2
Charge for the year	836	–	1,326	277	256	14,827	–	–	17,522
At 31/12/2009	8,744	437	11,696	4,774	3,232	18,479	–	–	47,362
Net book value									
At 31/12/2009	9,839	–	8,887	1,502	1,071	261,500	116,040	14,536	413,375
At 31/12/2008	10,675	–	10,151	1,455	1,327	159,261	104,312	–	287,181

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

a) All buildings are situated in the PRC under medium-term leases.

b) At 31 December 2009, the Group's construction in progress - buildings and prepaid lease payments (note 16) with an aggregate carrying value of approximately RMB124,645,000 (2008: nil) have been pledged to a bank to secure banking facilities, as set out in note 23 and 26, granted to the Group.

18. INTERESTS IN SUBSIDIARIES

	The Company	
	2009	2008
	RMB'000	*RMB'000*
Investments in unlisted shares at cost	**220,335**	219,100
Amounts due from subsidiaries	**441,341**	448,260
	661,676	667,360

Amounts due from subsidiaries are unsecured, non-interest-bearing and repayable on demand.

Details of subsidiaries are as follows:

Name	Place of incorporation and operations	Class of shares held	Issued/ registered and paid-up capital	Proportion of nominal value of issued/registered capital held by the company Directly	Indirectly	Principal activity
Skyban International Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary	US$20,000	100%	–	Investment holding
Fujian Create State Industry Co., Ltd. *(note (a))*	PRC/PRC	Ordinary	RMB96,000,000	–	100%	Design, manufacture and sales of telecommunication equipment and related products and trading of telecommunication equipment
International Intelligent System Limited	British Virgin Islands/ Hong Kong	Ordinary	US$10,000	100%	–	Investment holding

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation and operations	Class of shares held	Issued/ registered and paid-up capital	Proportion of nominal value of issued/registered capital held by the company Directly	Indirectly	Principal activity
Wozhong Intelligent System Service (China) Co., Ltd. *(note (b))*	PRC/PRC	Ordinary	RMB150,000,000	–	100%	Sales of telecommunication value-added cards, insurance prepaid cards and online game value-added cards through smart card vending machines
Skyban Telecommunication (Fujian) Limited *(note (c))*	PRC/PRC	Ordinary	RMB73,000,000	–	100%	Manufacture and sales of telecommunication equipment and related products and trading of telecommunication equipment
Wozhong Advertising (Fuzhou) Co., Ltd. *(note (d))*	PRC/PRC	Ordinary	RMB5,000,000	–	100%	Display of advertisements on smart cards vending machines
Wozhong e-Payment Technology Service (Fujian) Co., Ltd. *(note e))*	PRC/PRC	Ordinary	RMB5,000,000	–	100%	Not yet commenced business

(a) Fujian Create State Industry Co., Ltd. was incorporated in the PRC on 5 April 1997 as a sino-foreign equity joint venture with a registered capital of RMB30,000,000 and an operating period of 50 years from 5 April 1997 to 4 April 2047. It was restructured into a wholly-foreign-owned enterprise on 13 November 2003.

(b) Wozhong Intelligent System Service (China) Co., Ltd. was incorporated in the PRC on 30 November 2006 as a wholly-foreign-owned enterprise and has an operating period of 50 years from 30 November 2006 to 29 November 2056.

(c) Skyban Telecommunication (Fujian) Limited was incorporated in the PRC on 26 September 2008 as a wholly-foreign-owned enterprise and has an operating period of 50 years from 26 September 2006 to 25 September 2056.

(d) Wozhong Advertising (Fuzhou) Co., Ltd. was incorporated in the PRC on 21 August 2008 as a PRC domestic-invested company and has an operating period of 50 years from 21 August 2008 to 20 August 2058.

(e) Wozhong e-Payment Technology Service (Fujian) Co., Ltd. was incorporated in the PRC on 11 December 2009 as a PRC domestic – invested company and has an operating period of 50 years from 11 December 2009 to 10 December 2059.

19. INVENTORIES

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Raw materials	**50,099**	12,626
Work in progress	**1,771**	1,038
Finished goods	**28,526**	31,645
General merchandise	**17,698**	6,767
Total	**98,094**	52,076

20. TRADE RECEIVABLES

The Group normally grants credit terms of 90 days in 2008 and 180 days in 2009 to its customers after evaluating the business relationship with and creditworthiness of the customers.

The ageing analysis of trade receivables is as follows:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
0 to 30 days	**53,973**	84,034
31 to 60 days	**54,190**	88,866
61 to 90 days	**53,189**	89,363
91 to 180 days	**117,733**	–
	279,085	262,263

Trade receivables were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. Credit evaluations of its customers' financial position and condition is performed on each and every major customers' past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

The Group's credit risk management policy is set out in note 33(b).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advance to staff	**1,578**	1,198	**–**	–
Deposit for acquisition of fixed assets	**62,511**	71,203	**–**	–
Deposits	**307**	114	**–**	–
Prepayment to suppliers	**143,360**	77,814	**–**	–
Prepaid expenses	**709**	1,589	**220**	1,097
Prepaid lease payments *(note 16)*	**229**	43	**–**	–
	208,694	151,961	**220**	1,097

22. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and cash equivalents in the balance sheet	**760,832**	796,765	**21**	15
Less: Pledged deposits *(note (a))*	**(20,000)**	–		
Cash and cash equivalents in the consolidated cash flow statement	**740,832**	796,765		

(a) The bank deposit of RMB20,000,000 has been pledged together with prepaid lease payment and the construction in progress – buildings as security against bills payable amounting to RMB50,000,000 extended to the Group (note 23).

(b) Cash and cash equivalents of approximately RMB758,138,000 (2008: RMB794,077,000) are denominated in Renminbi. Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

(c) Cash at bank earns interest at floating rates based on daily bank deposits rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate their fair values.

23. TRADE AND BILLS PAYABLES

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Trade payables *(note 23(a)*	**8,705**	21,310
Bills payable *(note 23(b))*	**50,000**	–
Total	**58,705**	21,310

(a) The ageing analysis of trade payables is as follows:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
0 to 30 days	**8,559**	20,949
31 to 60 days	**113**	318
61 to 90 days	**–**	–
91 to 180 days	**–**	5
181 to 365 days	**–**	5
Over 365 days	**33**	33
	8,705	21,310

(b) The ageing analysis of bills payables is as follows:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
0 to 30 days	**–**	–
31 to 60 days	**–**	–
61 to 90 days	**40,000**	–
91 to 180 days	**10,000**	–
	50,000	–

At 31 December 2009, the bills payable of approximately RMB50,000,000 (2008: nil) were secured by pledging a bank deposit of RMB20,000,000 (note 22), construction in progress – buildings and prepaid lease payments totalling RMB124,645,000 (note 16 and 17(b)) and personal guarantee not exceeding RMB80,000,000 (2008: nil) by Mr Yu Longrui, a director of the Company.

24. ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Staff salaries payable	**1,873**	2,121	**–**	–
Provision for staff welfare	**42,296**	35,663	**–**	–
Accrued expenses	**10,256**	8,439	**678**	710
Other non-income tax payables	**7,150**	25,047	**–**	–
	61,575	71,270	**678**	710

25. AMOUNT DUE TO A DIRECTOR

The amount is unsecured, non-interest-bearing and repayable on demand.

26. BANK LOANS

At 31 December 2009, the borrowings were arrived at amortised cost and repayable as follows:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Within 1 year *(note (a))*	**20,000**	–
After 2 years but within 5 years *(note (b))*	**50,000**	–
	70,000	–

(a) The bank loans are unsecured, bear interest at 5.531% to 6.416% per month and repayable on 20 January 2010.

(b) The bank loans bear interest at 5.94% per annum and repayable in August 2012.

The bank loans are secured by construction in progress-buildings and prepaid lease payments of the Group with an aggregate carrying value of approximately RMB124,645,000 (2008: nil) and personal guarantee not exceeding RMB80,000,000 (2008: nil) by Mr. Yu Longrui, a director of the Company.

27. INCOME TAX IN THE BALANCE SHEET

	The Group	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**24,763**	15,111
Provision for PRC enterprise income tax for the year	**45,336**	81,693
PRC enterprise income tax paid	**(56,372)**	(72,041)
At 31 December	**13,727**	24,763

28. CONVERTIBLE BONDS

Pursuant to a bond subscription agreement dated 6 November 2007, the Company issued convertible bonds (the "Bonds") to independent investors on 8 November 2007 for an aggregate principal amount of RMB330,000,000, to be settled in US dollars. The conversion price was adjusted from HK$2.08 to HK$1.67 per ordinary share with effect from 27 April 2009. The bond holders have the right to convert them into ordinary shares of the Company at any time on or after 41 days from 8 November 2007 until 7 days prior to 8 November 2012.

The Bonds bear interest at 1% per annum payable by the Company semi-annually in arrears and are unsecured, and will mature on 8 November 2012.

On the maturity date, the outstanding convertible bonds will be redeemed by the Company at 128.66% of the outstanding principal amount. Early redemption can be done under specific circumstances.

Interest expense on the Bonds is calculated using the effective interest method by applying the effective interest rate of 6.00% per annum to the liability component.

The movements of the liability component of the convertible bonds for the year are set out below:

	The Group and the Company	
	2009	2008
	RMB'000	*RMB'000*
Liability component at 1 January	**338,634**	319,632
Interest expenses	**23,632**	22,302
Interest paid	**(3,300)**	(3,300)
Liability component at 31 December	**358,966**	338,634

29. CAPITAL AND RESERVES

(a) The Group

	Share capital *RMB'000*	Share premium *RMB'000*	Merger reserve *RMB'000*	General reserve *RMB'000*	Exchange reserve *RMB'000*	Special reserve *RMB'000*	Share option reserve *RMB'000*	Convertible bonds equity reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
As at 1 January 2008	107,900	215,491	(57,000)	141,160	(24,385)	79,201	4,170	648	422,312	889,497
Total comprehensive income for the year	–	–	–	–	(17,415)	–	–	–	257,636	240,221
Transfer to reserve	–	–	–	54,520	–	–	–	–	(54,520)	–
Recognition of equity–settled share-based payment	–	–	–	–	–	–	3,619	–	–	3,619
Dividend paid	–	–	–	–	–	–	–	–	(37,542)	(37,542)
As at 31 December 2008 and 1 January 2009	107,900	215,491	(57,000)	195,680	(41,800)	79,201	7,789	648	587,886	1,095,795
Total comprehensive income for the year	–	–	–	–	627	–	–	–	109,066	109,693
Transfer to reserve	–	–	–	31,259	–	–	–	–	(31,259)	–
Recognition of equity-settled share-based payment	–	–	–	–	–	–	1,541	–	–	1,541
As at 31 December 2009	107,900	215,491	(57,000)	226,939	(41,173)	79,201	9,330	648	665,693	1,207,029

29. CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Share capital *RMB'000*	Share premium *RMB'000*	Exchange reserve *RMB'000*	Contributed surplus *RMB'000*	Share option reserve *RMB'000*	Convertible bonds equity reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2008	107,900	215,491	(67,532)	249,912	4,170	648	(75,523)	435,066
Total comprehensive income	–	–	(42,478)	–	–	–	(30,906)	(73,384)
Recognition of equity–settled share-based payment	–	–	–	–	3,619	–	–	3,619
Dividend paid	–	–	–	–	–	–	(37,542)	(37,542)
At 31 December 2008 and 1 January 2009	107,900	215,491	(110,010)	249,912	7,789	648	(143,971)	327,759
Total comprehensive income	–	–	2,236	–	–	–	(30,636)	(28,400)
Recognition of equity-settled share-based payment	–	–	–	–	1,541	–	–	1,541
At 31 December 2009	107,900	215,491	(107,774)	249,912	9,330	648	(174,607)	300,900

29. CAPITAL AND RESERVES *(Continued)*

(c) Share capital

i) Authorised and issued share capital

	Number of shares		Amount	
	2009	2008	**2009**	2008
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised	**4,000,000**	4,000,000	**400,000**	400,000
Issued and fully paid	**1,037,500**	1,037,500	**103,750**	103,750
			RMB'000	*RMB'000*
Equivalent to			**107,900**	107,900

(d) Nature and purpose of reserves

i) Share premium

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

ii) Merger reserve

Merger reserve represents the excess of purchase consideration paid in respect of the acquisition of Fujian Create State over the amount of the paid-up capital of Fujian Create State acquired.

iii) General reserve

General reserve comprises statutory surplus fund and enterprise expansion fund which are non-distributable. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries while the amount and allocation basis are to be decided by their boards of directors annually. The statutory surplus reserve fund can be used to make up prior year losses of the PRC subsidiaries, if any, and can be applied in conversion into capital by means of capitalization issues. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of capitalisation issue.

29. CAPITAL AND RESERVES *(Continued)*

(c) Share capital *(Continued)*

iv) *Exchange reserve*

The Group

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(t).

The Company

The exchange reserve of the Company represents the exchange differences on translation of the Company's financial statements in functional currency of the Company into the presentation currency. The reserve is dealt with in accordance with the accounting policies set out in note 2(t).

v) *Contributed surplus*

The contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the group reorganisation prior to the listing of the Company's share on 11 May 2006.

vi) *Special reserve*

The special reserve of the Group represents the differences between the nominal value and premium of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued for their acquisition at the time of reorganisation.

vii) *Share option reserve*

The share option reserve of the Company and the Group arising on the grant of share options of the Company and is dealt with in accordance with the accounting policies set out in note 2(q).

viii) *Convertible bonds equity reserve*

The convertible bonds equity reserve represents the value of the unexercised equity component of convertible bonds issued by the Company. The reserve is dealt with in accordance with accounting policies set out in note 2(j).

29. CAPITAL AND RESERVES *(Continued)*

(e) Distributable reserves of the Company

Under the Companies Law (revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium, capital redemption reserve and contributed surplus if (i) it is, or would after the payment be unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its share capital account.

As at 31 December 2009, the Company's reserves available for distribution to shareholders amounted to approximately RMB290,796,000 (2008: RMB321,432,000), computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium of RMB215,491,000 (2008: RMB215,491,000), and contributed surplus of RMB249,912,000 (2008: RMB249,912,000), less accumulated losses of RMB174,607,000 (2008: RMB143,971,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide a satisfactory return to its shareholders.

The management actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure through the amount of dividend payment to shareholders or raise new debt financing. No changes were made in the objectives or policies during the year.

The management monitors the Group's capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings and trade and other payables) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2009, the Group's net debt-to-adjusted capital ratio has been increased as a result of increase of bank loans.

29. CAPITAL AND RESERVES *(Continued)*

(f) Capital management *(Continued)*

The net debt-to-adjusted capital ratio at 31 December 2009 and 2008 was as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current liabilities:				
Trade and bills payables	**58,705**	21,310	**–**	–
Accruals and other payables	**61,575**	71,270	**678**	710
Amount due to a director	**62**	83	**–**	–
Amount due to a subsidiary	**–**	–	**1,373**	1,369
Bank loans	**20,000**	–	**–**	–
	140,342	92,663	**2,051**	2,079
Non-current liabilities				
Convertible bonds	**358,966**	338,634	**358,966**	338,634
Bank loans	**50,000**	–	**–**	–
Total debt	**549,308**	431,297	**361,017**	340,713
Total equity	**1,207,029**	1,095,795	**300,900**	327,759
Net debt-to-adjusted capital ratio	**45.51%**	39.36%	**119.98%**	103.95%

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

30. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 14 April 2006 whereby the directors of the Company were authorised, at their discretion, to invite the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultants, advisers, managers or officers of the Group, and the Company's shareholders, to take up options at HK$1.00 consideration to subscribe for shares of the Company. The maximum number of shares in respect of which options may be granted under the share option scheme must not in aggregate exceed 10% of the total number of shares in issue. The options granted on 14 November 2006 are exercisable, subject to a vesting scale which commenced on 1 July 2007 in tranches of 33.3 per cent per annum and reaching 100 per cent on 1 July 2009, within a period of two and a half years. The options granted on 3 September 2007 are exercisable, subject to a vesting scale which commenced on 1 January 2009 in tranches of 33.3 per cent per annum and reaching 100 per cent on 1 January 2011, within a period of two years. The options granted on 2 October 2007 are exercisable, subject to a vesting scale which commenced on 1 January 2009 in tranches of 33.3 per cent per annum and reaching 100 per cent on 1 January 2011, within a period of two years.

Shares are issued and allotted upon options are exercised. The Group has no legal or constructive obligations to repurchase or settle the options in cash.

a) The terms and conditions of the grants that existed during the years are as follows. All options are settled by physical delivery of shares:

	Number of shares issuable under option	**Exercisable period**
Options granted to directors:		
– On 14 November 2006	2,116,000	1 July 2007 to 31 December 2009
– On 14 November 2006	2,092,000	1 July 2008 to 31 December 2010
– On 14 November 2006	2,092,000	1 July 2009 to 31 December 2011
– On 3 September 2007	2,664,000	1 January 2009 to 31 December 2011
– On 3 September 2007	2,668,000	1 January 2010 to 31 December 2012
– On 3 September 2007	2,668,000	1 January 2011 to 31 December 2013
	14,300,000	

30. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

a) *(Continued)*

	Number of shares issuable under option	Exercisable period
Options granted to employees:		
– On 14 November 2006	2,560,000	1 July 2007 to 31 December 2009
– On 14 November 2006	2,520,000	1 July 2008 to 31 December 2010
– On 14 November 2006	2,520,000	1 July 2009 to 31 December 2011
– On 3 September 2007	330,000	1 January 2009 to 31 December 2011
– On 3 September 2007	330,000	1 January 2010 to 31 December 2012
– On 3 September 2007	340,000	1 January 2011 to 31 December 2013
– On 2 October 2007	580,000	1 January 2009 to 31 December 2011
– On 2 October 2007	580,000	1 January 2010 to 31 December 2012
– On 2 October 2007	640,000	1 January 2011 to 31 December 2013
	10,400,000	
Options granted to suppliers:		
– On 14 November 2006	3,160,000	1 July 2007 to 31 December 2009
– On 14 November 2006	3,120,000	1 July 2008 to 31 December 2010
– On 14 November 2006	3,120,000	1 July 2009 to 31 December 2011
	9,400,000	
Options granted to consultant:		
– On 14 November 2006	3,300,000	1 July 2007 to 31 December 2009
– On 14 November 2006	3,300,000	1 July 2008 to 31 December 2010
– On 14 November 2006	3,400,000	1 July 2009 to 31 December 2011
	10,000,000	
	44,100,000	

30. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

b) The number and weighted average exercise prices of share options are as follows:

	2009		2008	
	Weighted average exercise price	**Number of option shares *'000***	Weighted average exercise price	Number of option shares *'000*
Outstanding at the beginning and the end of the year	**HK$1.36**	**44,100**	HK$1.36	44,100
Exercisable at the end of the year	**HK$1.33**	**40,452**	HK$1.31	25,742

c) No options are forfeited or expired for the year ended 31 December 2009 and 2008.

d) Share options outstanding as at 31 December had the following remaining contractual lives and exercise prices:

	2009		2008	
	Remaining contractual life	**No. of shares issuable under options granted *'000***	Remaining contractual life	No. of shares issuable under options granted *'000*
Exercise price				
HK$1.26	**0 year**	**11,136**	1 year	11,136
HK$1.26	**1 year**	**11,032**	2 years	11,032
HK$1.26	**2 years**	**11,132**	3 years	11,132
HK$1.65	**2 years**	**3,574**	3 years	3,574
HK$1.65	**3 years**	**3,578**	4 years	3,578
HK$1.65	**4 years**	**3,648**	5 years	3,648
		44,100		44,100

30. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

e) Fair value of share options and assumptions:

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Details of the options granted during 2007 were as follows:

i) Fair value of share options exercisable from 1 January 2009 to 31 December 2011 and assumptions

	2007
Fair value at measurement date	HK$0.51
Share price	HK$1.56
Exercise price	HK$1.65
Expected volatility (expressed as weighted average volatility used in the modeling under binomial lattice model)	66.45%
Option life (expressed as weighted average life used in the modeling under binomial lattice model)	4.33 years
Expected dividends	3.42%
Risk-free interest rate (based on Exchange Fund Notes)	4.16%

ii) Fair value of share options exercisable from 1 January 2010 to 31 December 2012 and assumptions

	2007
Fair value at measurement date	HK$0.52
Share price	HK$1.56
Exercise price	HK$1.65
Expected volatility (expressed as weighted average volatility used in the modeling under binomial lattice model)	66.45%
Option life (expressed as weighted average life used in the modeling under binomial lattice model)	5.33 years
Expected dividends	3.42%
Risk-free interest rate (based on Exchange Fund Notes)	4.23%

30. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

e) Fair value of share options and assumptions: *(Continued)*

iii) Fair value of share options exercisable from 1 January 2011 to 31 December 2013 and assumptions

	2007
Fair value at measurement date	HK$0.51
Share price	HK$1.56
Exercise price	HK$1.65
Expected volatility (expressed as weighted average volatility used in the modeling under binomial lattice model)	66.45%
Option life (expressed as weighted average life used in the modeling under binomial lattice model)	6.33 years
Expected dividends	3.42%
Risk-free interest rate (based on Exchange Fund Notes)	4.38%

iv) Fair value of share options exercisable from 1 January 2009 to 31 December 2011 and assumptions

	2007
Fair value at measurement date	HK$0.48
Share price	HK$1.57
Exercise price	HK$1.65
Expected volatility (expressed as weighted average volatility used in the modeling under binomial lattice model)	60.96%
Option life (expressed as weighted average life used in the modeling under binomial lattice model)	4.25 years
Expected dividends	3.42%
Risk-free interest rate (based on Exchange Fund Notes)	3.98%

30. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

e) Fair value of share options and assumptions: *(Continued)*

v) Fair value of share options exercisable from 1 January 2010 to 31 December 2012 and assumptions

	2007
Fair value at measurement date	HK$0.50
Share price	HK$1.57
Exercise price	HK$1.65
Expected volatility (expressed as weighted average volatility used in the modeling under binomial lattice model)	60.96%
Option life (expressed as weighted average life used in the modeling under binomial lattice model)	5.25 years
Expected dividends	3.42%
Risk-free interest rate (based on Exchange Fund Notes)	4.09%

vi) Fair value of share options exercisable from 1 January 2011 to 31 December 2013 and assumptions

	2007
Fair value at measurement date	HK$0.48
Share price	HK$1.57
Exercise price	HK$1.65
Expected volatility (expressed as weighted average volatility used in the modeling under binomial lattice model)	60.96%
Option life (expressed as weighted average life used in the modeling under binomial lattice model)	6.25 years
Expected dividends	3.42%
Risk-free interest rate (based on Exchange Fund Notes)	4.24%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share options granted.

31. RELATED PARTY TRANSACTION

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

Key management personnel remuneration

Key management personnel are directors of the Company. Remuneration of key management personnel is disclosed in note 13.

32. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2009 not provided for in the financial statements were as follows:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Authorised and contracted for		
– the acquisition of property, plant and equipment	**27,552**	38,979

(b) Lease commitments

The Group as lessee

As at 31 December 2009 and 2008, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises which fall due as follows:

	The Group	
	2009	2008
	RMB'000	*RMB'000*
Within one year	**1,801**	1,875
After one year but within five years	**1,313**	833
	3,114	2,708

Significant leasing arrangements in respect of land held under operating leases are described in note 16.

Apart from these leases, the Group is the lessee in respect of a number of properties held under operating leases. None of the leases includes contingent rentals.

33. FINANCIAL INSTRUMENTS

The Group's major financial instruments include cash and bank deposits, convertible bonds, trade and other receivables, bank loans, trade and other payables and balances with related parties. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include fair values risk, credit risk, interest rate risk, liquidity risk and currency risk. The policies on how to mitigate these risks set at below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009 and 2008 because of the short maturity of these instruments except that the carrying amounts and the fair value of convertible bonds as at 31 December 2009 and 2008 is approximately RMB358,966,000 and RMB338,634,000 respectively. The fair value of convertible bonds is determined by reference to the discounted future cash flow adjusted for interest charged and deduction for transaction costs.

(b) Credit risk

As at 31 December 2009, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowance.

In respect of trade and other receivables, in order to minimize risk, the management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Debts are usually due within 180 days (2008: 90 days) from the date of billing.

In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk. The Group's customers in the PRC are established telecommunication services providers which the Group satisfies their having a reliable credit standing. At the balance sheet date, the Group has a certain concentration of credit risk as 12.2% (2008: 17.8%) and 14.4% (2008: 15.4%) of the trade receivable was due from the Group's largest customer and the five largest customers respectively. Taking into account the creditworthiness of the Group's customers, the credit risk measures and the historical levels of the bad debts, the directors consider that such concentration of credit risk would not result in significant credit default exposure to the Group.

33. FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

i) Exposure to interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank balances (see note 22) and bank loans of HK$50,000,000 (see note 26). The management considers the Group's exposure of the variable-rate bank balances and bank loans of HK$50,000,000 (see note 26) to interest rate risk is not significant as they have a short maturity period.

The Group's interest rate risk arises from fixed rate convertible bonds issued and bank loans of HK$20,000,000 raised. The Group's convertible bonds issued and bank loans of HK$20,000,000 raised at fixed rates expose the Group to fair value interest rate risk. The interest rates and terms of repayment of the convertible bonds of the Group are disclosed in note 26 and note 28 respectively.

ii) Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates at the balance sheet date. The analysis is prepared assuming the amount of variable-rate bank balances and bank loans at the balance sheet date was the amount outstanding for the whole year.

At 31 December 2009, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would increase the Group's profit after tax and retained profits by approximately RMB7,108,000 (2008: RMB7,968,000).

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 both derivative and non-derivative financial instruments in existence at that date. The 100 basis points increase 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 2008.

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from bank to meet its liquidity requirements in the short and longer term. The contractual maturities of financial liabilities are disclosed in note 26 and note 28.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group and the Company can be required to pay.

33. FINANCIAL INSTRUMENTS *(Continued)*

(d) Liquidity risk *(Continued)*

	2009					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	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
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
The Group										
Convertible bonds	**358,966**	**434,477**	**3,300**	**3,300**	**427,877**	338,634	437,778	3,300	3,300	431,178
Trade and bills payables	**58,705**	**58,705**	**58,705**	**–**	**–**	21,310	21,310	21,310	–	–
Accruals and other payable	**19,279**	**19,279**	**19,279**	**–**	**–**	35,607	35,607	35,607	–	–
Amount due to a director	**62**	**62**	**62**	**–**	**–**	83	83	83	–	–
Bank loans	**70,000**	**78,521**	**23,741**	**2,970**	**51,810**	–	–	–	–	–
	507,012	**591,044**	**105,087**	**6,270**	**479,687**	395,634	494,778	60,300	3,300	431,178
The Company										
Convertible bonds	**358,966**	**434,477**	**3,300**	**3,300**	**427,877**	338,634	437,778	3,300	3,300	431,178
Accruals and other payable	**678**	**678**	**678**	**–**	**–**	710	710	710	–	–
Amount due to a subsidiary	**1,373**	**1,373**	**1,373**	**–**	**–**	1,369	1,369	1,369	–	–
	361,017	**436,528**	**5,351**	**3,300**	**427,877**	340,713	439,857	5,379	3,300	431,178

To meet the above liquidity demands, the Group has available cash and cash equivalents amounting to approximately RMB760,832,000 as at 31 December 2009 (2008: RMB796,765,000).

(e) Currency risk

The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors its foreign exchange exposures and will consider hedging significant foreign currency exposures should the need arises.

33. FINANCIAL INSTRUMENTS *(Continued)*

(e) Currency risk *(Continued)*

i) *Exposure to currency risk*

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

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Cash and bank balances	**472**	2,688
Accruals and other payable	**(777)**	(810)
Amount due to a director	**(70)**	(95)
Overall net exposure	**(375)**	1,783

	The Company	
	2009	2008
	HK$'000	*HK$'000*
Cash and bank balances	**24**	18
Accruals and other payable	**(773)**	(809)
Overall net exposure	**(749)**	(791)

ii) *Sensitivity analysis*

During the year ended 31 December 2009, if RMB has strengthened/weakened by 5% against the HK$, with all other variable held constant, equity would have been approximately RMB17,000 (2008: RMB78,000), lower and higher. The Group's profit after tax and retained profits would not be affected (2008: nil) by the changes in foreign exchange rate.

The sensitivity analysis above has been determined assuming that the change in exchange rate had occurred at the balance sheet date and had been applied to the exposure to currency risk for recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate in existence at that date. The 5% strengthening/weakening change 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 2008.

34. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009

The Group and the Company have not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 1 (Revised)	First-time adoption of HKFRSs[1]
HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions[3]
HKFRS 3 (Revised)	Business combination[1]
HKFRS 9	Financial instruments[7]
HKAS 24 (Revised)	Related party disclosures (Revised)[5]
HKAS 27 (Revised)	Consolidated and separate financial statements[1]
HKAS 39 (Amendments)	Eligible hedged items[1]
HK (IFRIC) – Int 14 (Amendments)	Prepayments of and Minimum Funding Requirement[5]
HK (IFRIC) – Int 17	Distributions of non-cash assets to owners[1]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]
HKAS 32 (Amendment)	Classification of rights issue[4]

Notes:

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

The Group is in the process of making an assessment of what the impact of these new and revised standards, amendments and 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.

35. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), Presentation of financial statements, and HKFRS 8, Operating segments, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 3.

36. NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) Grant of share options

On 18 January 2010, the Company granted 1,480,000 share options (the "Options") to individuals, of which 1,280,000 share options were granted to the executive director of the Company, Mr. Chan Wai Chuen under the Company's share option scheme adopted on 14 April 2006. The Options shall entitle the grantees to subscribe for a total of 1,480,000 new shares of HK$0.10 each in the capital of the Company.

(b) Re-financing of bank loans

On 18 January 2010, the Group re-financed the bank loans of RMB20,000,000. The bank loans bears interest rate at 5.531% to 6.416% per month and are repayable in January 2013. The bank loans are secured by prepaid lease payment and buildings of the Group with an aggregate carrying value of approximately RMB11,448,000.