Annual Report 2009

Zhongtian International Limited

中 天 國 際 控 股 有 限 公 司*

Incorporated in the Cayman Islands with limited liability

Stock Code: 02379

* for identification purposes only

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

CHEN Jun
ZHAO Yun

INDEPENDENT NON-EXECUTIVE DIRECTORS

HUNG Randy King Kuen
CHEN Wen Ping
YUAN Kai Hong

COMPANY SECRETARY

Cheung Siu Yiu

AUDIT COMMITTEE

HUNG Randy King Kuen
CHEN Wen Ping
YUAN Kai Hong

HONG KONG LEGAL ADVISER

Loong & Yeung Solicitors

AUTHORISED REPRESENTATIVES

CHEN Jun
ZHAO Yun

STOCK CODE

02379

COMPANY'S WEBSITE

www.irasia.com/listco/hk/zhongtian

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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22nd Floor, Jardine House
1 Connaught Place, Central, Hong Kong

AUDITOR

CCIF CPA Limited

PRINCIPAL BANKERS

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Sub-branch, Qingdao
The Hongkong and Shanghai Banking Corporation

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
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28 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
P.O. Box 705, Butterfield House
68 Fort Street
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Grand Cayman KY1-1107
Cayman Islands

REGISTERED OFFICE

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Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

CHAIRMAN'S STATEMENT

We are to judge the timing and size up the situation, to have a flexible transition and to take on a brand new look!

On behalf of the board (the "Board") of directors (the "Directors") of Zhongtian International Limited (the "Company") and its subsidiaries (collectively the "Group"), I present the annual results and the audited financial statements of the Group for the year ended 31 December 2009 (the "Year").

In the year of 2009, under the co-existence of the development and adjustment of China economy, the effect of the State's macro-control policy started to reveal. The commercial property rental remained at high level in the Qingdao City where the Group's headquarter was located and its major business was operated. On the other hand, the land tenure and development cost continued soaring, which pressured considerably the development of new property projects.

Since 2007, the Board has fully realised the risk involved in the heavy reliance of the Group's business on providing software services to the financial industry. Thereafter, the Group has been seeking a shift of business domain and model and in 2009, gradually faded out from the business domain of providing software services to financial institutions. During the Year, the income derived from such business had insignificant effect on the financial condition and future development of the Group.

During the Year, the Group continued to engage in the development and sale of building intelligent control system and electronic products, realising annual turnover of RMB5,402,000, which made this business an important part of the income source to the Group. It is expected that the Group would keep on developing this domain in future in order to generate larger revenue.

Influenced by international situation and China's macro-control policies, the level of land tenure and development cost, the price of building materials and wages continued to rise, which posed a heavy burden on the financial condition of the Group. The Board, after repeated analysis and discussion, decided to dispose the "Zhongtian Software Park" project (the "Project") to mitigate the pressure on the liquidity of the Group since the Board had targeted for long-term interests and reducing loss. The disposal was completed in February 2010.

As the local commercial property rental remained at high level and the banking industry was booming, after analysis and consideration, the Group planned to acquire certain equity interests in local banks and to hold quality properties with long-term investment value in the Year, so as to replenish the Group's assets. Moreover, the Group will conduct a detailed assessment on the feasibility of aggrandizing investment in banking and property sectors.

For further details on the Group's acquisitions of equity interests in local banks and property, and the disposal of the Project during the Year, please refer to the section headed "Substantial Acquisitions and Disposals" in this report.

CHAIRMAN'S STATEMENT

After experiencing the severe test of the global financial tsunami, the Board remained confident in and optimistic about the future prospect of the Group. In 2009, the Board carried out various strategies such as business transformation, management realignment, and maximisation of income and minimisation of costs and the like, resulting in fruitful development in business domain as well as staff composition and their moral attitudes. Looking forward, the Board believes that the Group will definitely be able to adhere to its traditions, to judge the timing and size up the situation, to have a flexible transition and to take on a brand new look!

Zhongtian International Limited
Chen Jun
Chairman

9 April 2010

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

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

INFORMATION TECHNOLOGY

The Group had gradually faded out from the markets of providing software services to the financial industry and other industries. Meanwhile, taking the advantage of the Group's self-owned technology, human and marketing resources, the development and sale of intelligent electronic products became a new business with fewer obstructions in the course of the transition to the Group's diversified operation. The sale of relevant products, which was best represented by the sales of intelligent control components for buildings amounted to a cumulative turnover of RMB5,402,000 during the Year. Such sales embodied the advantage of low investment and high return which are of a vast market and a promising development prospect and were valued highly by the Group.

PROPERTY INVESTMENT

Influenced by international situation and China's macro-control policies, the level of land tenure and development cost, the price of building materials and wages continued to rise, which posed a heavy burden to the financial condition of the Group. The Board, after analysis and discussion, decided to dispose the Project located at Laoshan District, Qingdao City to mitigate the pressure on the liquidity of the Group.

As the commercial property rentals in Qingdao City remained at high level, it was expected that the property lease market would be able to keep its boom within a particular period. After analysis and consideration, the Board decided to further acquire property interests to solidify the assets of the Group with potentials for appreciation in the long run and were available for lease.

For further details on the Group's acquisition of interests in property and the disposal of the Project during the Year, please refer to the section headed "Substantial Acquisitions and Disposals" in this report.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

TURNOVER AND GROSS PROFIT

The Group's total turnover for the Year was approximately RMB5,402,000 (2008: RMB8,826,000), representing a decrease of 38.8% for the same period in 2008. This was mainly due to the drop in sales in intelligent electronic products. The gross profit increased by 7.0% to RMB491,000 from RMB459,000 in 2008 as a result of the increase in profit margin on the sales of intelligent electronic products.

SELLING AND DISTRIBUTION COSTS

During the Year, there was no distribution costs as compared with RMB970,000 last year. The Company had no sales representatives and related marketing activities during the Year.

GENERAL AND ADMINISTRATIVE EXPENSES

The Group's administrative expenses for the Year were approximately RMB8,364,000 (corresponding period in 2008: approximately RMB9,158,000), representing a decrease of 8.7% over the corresponding period in 2008. This was mainly due to decrease in rental expenses in both Hong Kong & Qingdao offices during the Year as compared with 2008.

NET LOSS

During the Year, the Group recorded a net loss of approximately RMB17,542,000, which was decreased by RMB38,011,000 as compared to the net loss of approximately RMB55,553,000 for 2008. The loss was mainly due to (i) the provision for impairment loss in respect of the Project and its land use rights totalling RMB9,048,000 and (ii) a decline in demands of Rural Credit Co-operations ("RCCs") market which led to a substantial decrease in income from system integration and sale of intelligent electronic products for the Year. Basic loss per share in 2009 was RMB16.8 Cents as compared with basic loss per share in 2008 of RMB55.6 Cents.

BUSINESS REVIEW

ANALYSIS BY BUSINESS SEGMENT

During the Period, the Group's principal source of income was derived from the information technology segment, which accounted for 100% of the total turnover of the Group. No turnover and profit were contributed by property investment segment in the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Year, all of the Group's income was derived from the Shangdong Province, the PRC, accounting for 100% of the Group's total turnover.

FUTURE OUTLOOK

The Group believes that it is able to explore potential market in the non-finance sector by leveraging on its experiences gained from the provision of RCCs services, its leading position in the information technology industry and its own strengths. Meanwhile, the Group has been proactively studying, identifying and exploring other business sectors with huge growth potentials in addition to its information technology business to diversify its income stream.

As the local commercial property rental remained at high level and the banking industry was booming, after analysis and consideration, the Group planned to acquire certain equity interests in local banks and to hold quality properties with long-term investment value in the Year, so as to replenish the Group's assets. Moreover, the Group will conduct a detailed assessment on the feasibility of aggrandizing investment in banking and property sectors.

For further details on the Group's acquisitions of equity interests in local banks and property, please refer to the section headed "Substantial Acquisitions and Disposals" in this report.

DEBTS

As at 31 December 2009, the Group had no debt securities that were issued, outstanding, approved or otherwise created but unissued, or term loans or other borrowings or debts of borrowing nature, including bank overdrafts, acceptance liabilities or acceptance credits, obligations under financing lease, mortgages or charges, guarantees or major contingent liabilities (31 December 2008: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's capital requirement represents mainly working capital in relation to the sale of software and hardware products, and related costs of business expansion, including research and development expenses. The Group used to finance its operation and investment from operating income and internal resources.

As at 31 December 2009, the Group had cash and bank balances of approximately RMB19,317,000 (31 December 2008: approximately RMB20,081,000), of which 43% and 57% was held in RMB and HK$ respectively. The gearing ratio (defined as total interest-bearing debts divided by shareholder's equity) was 0% (31 December 2008: 0%).

During the Year, the Group did not employ any material financial instrument for hedging purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE

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

CAPITAL REDUCTION

On 22 December 2008, the Board announced that it proposed to put forward a proposal for capital reorganization ("Capital Reorganization") to the shareholders of the Company (the "Shareholders") as follows:

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

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

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

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

The Capital Reorganization was approved by the Shareholders by a special resolution duly passed at an extraordinary general meeting held on 13 February 2009 and subsequently approved by the Grand Court of the Cayman Islands on 10 July 2009 (Cayman time).

Upon the Capital Reorganization took effect, the authorized share capital of the Company was changed from HK$100,000,000.00 divided into 1,000,000,000 Shares of HK$0.10 each to HK$100,000,000.00 divided into 10,000,000,000 Shares of HK$0.01 each.

Further details of the Capital Reorganization were announced by the Company in its announcements dated 22 December 2008, 13 February 2009 and 13 July 2009 respectively and in its circular dated 9 January 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSTANTIAL ACQUISITIONS AND DISPOSALS

During the Year, the Group disposed of its entire equity interest in Money Chain Worldwide Limited, the then indirectly wholly-owned subsidiary of the Company, together with its subsidiaries namely, Sunny Pearl Limited and 青島中天信息技術有限公司 (Qingdao Zhongtian Information Technology Co., Ltd.) at a cash consideration of US$1 to an independent third party. The loss on disposal of the said subsidiaries is approximately RMB1,000,000 and further details are set out in note 25 to the consolidated financial statements.

On 3 December 2009, the Company's wholly-owned subsidiary, New East Glory Limited (the "Purchaser") and Mr. Chen Jun ("Mr. Chen") entered into an acquisition agreement (the "Acquisition Agreement"), pursuant to which the Purchaser had conditionally agreed to acquire and Mr. Chen had conditionally agreed to sell the entire issued share capital of Great Miracle Holdings Limited ("Great Miracle"), together with, among others, the interests of 6,510,000 shares in 青島華豐農村合作銀行 (Qingdao Huafeng Rural Co-operation Bank), a bank established in the PRC, and the interests in two properties located in Qingdao City, the Shandong Province, the PRC, all held by 青島海逸投資諮詢有限公司 (Qingdao Hai Yi Investment and Consultancy Co., Ltd.) which is a wholly-owned subsidiary of Great Miracle, at a consideration of HK$52,704,000 (the "Acquisition"). The consideration under the Acquisition Agreement was to be satisfied by the issue and allotment of 60,859,122 new shares of the Company (the "Consideration Shares") at the issue price of HK$0.866 per Consideration Share to Mr. Chen (or his nominee which shall be a company controlled by him) upon completion of the Acquisition Agreement.

On 3 December 2009, 青島中天企業發展有限公司 (Qingdao Zhongtian Enterprise Development Co., Ltd.) (the "Vendor"), a wholly-owned subsidiary of the Company and Mr. Chen entered into a disposal agreement (the "Disposal Agreement"), pursuant to which the Vendor had conditionally agreed to sell and Mr. Chen had conditionally agreed to acquire (i) the 100% equity interest in the entire registered capital of 青島中天軟件園有限公司 (Qingdao Zhongtian Software Park Co., Ltd.) ("Zhongtian Software Park"), an indirect wholly-owned subsidiary of the Company; and (ii) all amounts due to the Vendor by Zhongtian Software Park and all loans made to Zhongtian Software Park by the Vendor as at 31 October 2009 which amounted to RMB50,026,887.79, at a consideration of RMB35,000,000 (the "Disposal").

As the applicable percentage ratios under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") exceeded 100% for the Acquisition and 75% for the Disposal, the Acquisition and the Disposal constituted a very substantial acquisition and a very substantial disposal of the Company respectively. Mr. Chen is a Director and a controlling Shareholder. Therefore, Mr. Chen is a connected person of the Company and accordingly, the Acquisition and the Disposal constituted connected transactions of the Company and were subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

The completion of the Acquisition and the Disposal was inter-conditional. On 23 February 2010, the independent Shareholders approved, among others, the Acquisition and the Disposal at the extraordinary general meeting held on the same date. The Acquisition and the Disposal completed on 25 February 2010 and all the Consideration Shares were issued and allotted to Fine Mean Investments Limited ("Fine Mean"), a company wholly-owned by Mr. Chen, on the same date.

Details of the Acquisition and the Disposal were announced by the Company in its announcements dated 16 December 2009, 21 December 2009, 23 February 2010 and 25 February 2010, and in its circular dated 29 January 2010 respectively.

Save as disclosed above, during the Year, there was no other material acquisition and disposal of subsidiaries and associated companies by the Company.

CHARGE ON ASSET

The Group and the Company had no pledged asset as at 31 December 2009 (31 December 2008: Nil).

CONTINGENT LIABILITIES

The Group and the Company had no contingent liabilities as at 31 December 2009 (31 December 2008: Nil).

POST BALANCE SHEET EVENTS

Save as disclosed in the section headed "Substantial Acquisitions and Disposals" above and in note 33 to the consolidated financial statements, there are no other significant events occurred after the balance sheet date.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2009, the Group had 14 employees (31 December 2008: 14). Most of the Group's employees were based in the head office of the Group in Qingdao City of Shandong Province in the PRC.

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

The total remuneration cost incurred by the Group for the Year was approximately RMB1,149,000 (31 December 2008: approximately RMB2,811,000).

MANAGEMENT DISCUSSION AND ANALYSIS

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SECURITIES

Save as disclosed below, during the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

The Company has issued 20,000,000 new Shares on 15 October 2009 (the "Placing") pursuant to a placing agreement entered into between the Company and Cinda International Capital Limited (acting as the placing agent) dated 28 September 2009. The net proceeds from the Placing of approximately HK$13,100,000 were used for general working capital of the Group. Further details of the Placing were announced by the Company in its announcements dated 28 September 2009 and 15 October 2009 respectively.

FINAL DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2009 (year ended 31 December 2008: HK$Nil).

REPORT OF THE DIRECTORS

The Board presents their report together with the audited financial statements of the Company and the Group for the Year.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of comprehensive income. The Board does not recommend the payment of any dividend for the Year.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in note 27 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 34.

As at 31 December 2009, the Company had reserves available for distribution of RMB48,844,000 (2008: RMB17,986,000).

REPORT OF THE DIRECTORS

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for last five financial years is set out on page 96 of this annual report.

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. Chen Jun
Mr. Zhao Yun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hung Randy King Kuen
Ms. Yuan Kai Hong *(appointed on 24 April 2009)*
Mr. Chen Wen Ping
Mr. Qi Fa Cheng *(resigned on 24 April 2009)*

Each of Mr. Chen Jun, Mr. Hung Randy King Kuen, Ms. Yuan Kai Hong and Mr. Chen Wen Ping will retire from office as Directors at the forthcoming annual general meeting. Mr. Chen Jun, Mr. Hung Randy King Kuen and Mr. Chen Wen Ping, being eligible, offer themselves for re-election pursuant to Article 87 of the Articles. Due to the need to concentrate on other personal development, Ms. Yuan Kai Hong will not seek re-election at the forthcoming annual general meeting and will resign as an independent non-executive Director with effect from the close of the annual general meeting.

At the forthcoming annual general meeting, an ordinary resolution will be put forward to the Shareholders in relation to the proposed election of Mr. Liu Jinlu as an independent non-executive Director to replace Ms. Yuan Kai Hong.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has entered into a service contract with the Company for a term of three years unless terminated by not less than three months' notice in writing served by either party on the other.

One of the independent non-executive Directors, Mr. Hung Randy King Kuen has entered into a service agreement with the Company for a term of three years commencing on 27 July 2007 unless terminated by not less than one month's notice in writing served by either party on the other. The other two independent non-executive Directors namely, Mr. Chen Wen Ping and Yuan Kai Hong have respectively entered into a service contract with the Company for a term of one year commencing on 24 April 2009 and ending at the conclusion of the forthcoming annual general meeting.

Each of Mr. Chen Jun, Mr. Hung Randy King Kuen, Ms. Yuan Kai Hong and Mr. Chen Wen Ping will retire from office as Directors at the forthcoming annual general meeting. Mr. Chen Jun, Mr. Hung Randy King Kuen and Mr. Chen Wen Ping, being eligible, offer themselves for re-election pursuant to Article 87 of the Articles. Due to the need to concentrate on other personal development, Ms. Yuan Kai Hong will not seek re-election at the forthcoming annual general meeting and will resign as an independent non-executive Director with effect from the close of the annual general meeting.

At the forthcoming annual general meeting, an ordinary resolution will be put forward to the Shareholders in relation to the proposed election of Mr. Liu Jinlu as an independent non-executive Director to replace Ms. Yuan Kai Hong.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHICS

DIRECTORS

Executive Directors

CHEN Jun (陳軍), Chairman of the Board, aged 38, is currently a supervisor of 青島中天企業發展有限公司 (Qingdao Zhongtian Enterprise Development Co., Ltd.) and 豪瑋(上海)投資咨詢有限公司, Mr. Chen is also a director of Success Advantage Limited (成益有限公司), Great Miracle Holdings Limited (精英控股有限公司), Shan Dong Travel Service Holdings Limited (山東旅遊控股有限公司) and 青島海逸投資諮詢有限公司 (Qingdao Hai Yi Investment and Consultancy Co., Ltd.), all are wholly owned subsidiaries of the Company.

Mr. Chen graduated from 中國人民解放軍海軍潛艇學院 (The People's Republic of China's Marine and Submarine College). Mr. Chen has over 13 years of experience in corporate planning and management. Mr. Chen is a director and the sole beneficial owner of the entire issued share capital of Fine Mean Investments Limited ("Fine Mean"), being the controlling Shareholder, holding 57.94% interest in the Company alone and together with parties acting in concert with it holding approximately 62.79% interest in the Company as at the date of this report.

REPORT OF THE DIRECTORS

ZHAO Yun (趙贇), Chief Executive Officer of the Group, aged 38, is currently a director of 青島中天企業發展有限公司 (Qingdao Zhongtian Enterprise Development Co., Ltd.) and Success Advantage Limited (成益有限公司), both are wholly owned subsidiaries of the Group. Mr. Zhao graduated from 南開大學 (Nankai University) and 中國人民解放軍海軍潛艇學院 (The People's Republic of China's Marine and Submarine College). Mr. Zhao has over 8 years of experience in corporate investment.

Mr. Zhao is a director of Success Advantage Limited (成益有限公司), New East Glory Limited (東耀有限公司), Boxing Group Limited (寶勝集團有限公司), Golden Century Trade Limited (金世紀貿易有限公司), Sunny Legend Limited (耀瑋有限公司), Best Sight Limited (瑋邦有限公司), Macro Vantage Limited (豪瑋有限公司), 青島中天企業發展有限公司(Qingdao Zhongtian Enterprise Development Co., Ltd.) and 豪瑋(上海)投資咨詢有限公司, all are wholly owned subsidiaries of the Company.

Independent non-executive Directors

HUNG Randy King Kuen (孔敬權), aged 44, is an independent non-executive Director. Mr. Hung is a Fellow Certified Public Accountant of Hong Kong and a Certified Public Accountant of the United States. Mr. Hung holds a bachelor's degree of science in accounting and a certificate of programming and data processing from the University of Southern California, a certificate of China Law, Taxation and Finance from the Chinese University of Hong Kong and a Hong Kong Securities Institute Specialist Certificate in corporate finance. Mr. Hung is currently an executive director of China Shineway Pharmaceutical Group Limited (stock code: 2877), an independent non-executive director of Zhongyu Gas Holding Limited (stock code: 8070) and was an independent non-executive director of ZZNode Technologies Company Limited (formerly known as ZZNode Holdings Company Limited) (stock code: 2371). Mr. Hung is a fellow of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants, deputy chairman of training committee of the Hong Kong Institute of Directors and a member of the Hong Kong Securities Institutes.

CHEN Wen Ping (陳文平), aged 37, is an independent non-executive Director and graduated from 山東經濟學院 (The Shandong Academy of Economy), majoring in finance in 1998 and had been qualified as a PRC lawyer in 2001. Mr. Chen has extensive experience in accounting and financial management. He had worked for 山東匯德會計師事務所有限公司 (Shandong Huide Accounting Firm Co., Ltd.) for 3 years as a practicing accountant and valuer. He is currently the department head of the finance department of 青島高校軟控股份有限公司 (Qingdao Mesnac Co., Ltd.), which is a PRC listed company.

YUAN Kai Hong (袁開紅), aged 43, is an independent non-executive Director. Ms. Yuan holds a bachelor's degree of economics from Renmin University of China and a master's degree of management from University of Waterloo in Canada. She is currently a vice-dean of the training institute and officer of the real estate research centre of the Renmin University of China.

DIRECTORS' RENUMERATION

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

REPORT OF THE DIRECTORS

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

As at 31 December 2009, interests or short positions in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") are as follows:

(A) LONG POSITION IN THE SHARES

Name of Director	Capacity	Number of Shares held/interested	Approximate Shareholding Percentage
Mr. Chen (Note 1)	Interest of a controlled corporation	43,933,659	36.61%
	Beneficial owner	66,384,122 (Notes 2 & 3)	55.32%

Notes:

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

2. Those 66,384,122 Shares included the Consideration Shares (in the amount of 60,859,122 Shares) to be issued under the Acquisition Agreement and 5,525,000 Shares personally held by Mr. Chen.

3. Subsequently on 25 February 2010, the Consideration Shares were issued and allotted to Fine Mean upon completion of the Acquisition, further details of which are set out in the section headed "Substantial Acquisitions and Disposals" in this report. As at the date of this report, Fine Mean beneficially held 104,792,781 Shares, representing approximately 57.94% of the issued share capital of the Company. Mr. Chen is deemed, or taken to be, interested in the Shares which are beneficially owned by Fine Mean for the purposes of the SFO and together with the 5,525,000 Shares personally held by him, Mr. Chen was interested in the total of 110,317,781 Shares, representing approximately 60.99% of the issued share capital of the Company as at the date of this report.

REPORT OF THE DIRECTORS

(B) LONG POSITION IN SHARES OF ASSOCIATED CORPORATIONS

Name of Director	Name of the associated corporation	Capacity	Number of shares held	Approximate Shareholding Percentage
Mr. Chen	Fine Mean	Beneficial owner	1	100%

Save as disclosed above, as at 31 December 2009, none of the Directors nor chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Interest in the Shares:

Name of Substantial Shareholder	Capacity	Number of Shares held/interested	Approximate Shareholding Percentage
Fine Mean (Note 1)	Beneficial owner	43,933,659	36.61%
Ms. Su Haiqing (Notes 2 & 3)	Interest of spouse	110,317,781	91.93%

REPORT OF THE DIRECTORS

Notes:

1. Fine Mean is wholly owned by Mr. Chen. Mr. Chen is the sole director of Fine Mean.

2. Ms. Su Haiqing is the spouse of Mr. Chen. Under the SFO, Ms. Su Haiqing is deemed, or taken to be, interested in all the Shares in which Mr. Chen is interested.

3. Subsequently on 25 February 2010, the Consideration Shares were issued and allotted to Fine Mean upon completion of the Acquisition, further details of which are set out in the section headed "Substantial Acquisitions and Disposals" in this report. As at the date of this report, Fine Mean beneficially held 104,792,781 Shares, representing approximately 57.94% of the issued share capital of the Company. Mr. Chen is deemed, or taken to be, interested in the Shares which are beneficially owned by Fine Mean for the purposes of the SFO and together with the 5,525,000 Shares personally held by him, Mr. Chen was interested in the total of 110,317,781 Shares, representing approximately 60.99% of the issued share capital of the Company as at the date of this report. As Ms. Su Haiqing is the spouse of Mr. Chen, she is deemed, or taken to be, interested in all the Shares in which Mr. Chen is interested for the purposes of the SFO.

Save as disclosed above, as at 31 December 2009, the Company had not been notified of any substantial Shareholders (other than a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares in the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Substantial Acquisitions and Disposals" in this report and note 32 to the financial statement, no Director during the Year had a beneficial interest, either direct or indirect, in any contract of significance (as defined in Appendix 16 to the Listing Rules) to which the Company, its holding company or any of its subsidiaries was a party at the balance sheet date or at any time during the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

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

	2009	2008
	%	%
Percentage of purchases:		
From the largest supplier	**100%**	99%
From the five largest suppliers	**100%**	100%
Percentage of turnover:		
From the largest customer	**100%**	95%
From the five largest customers	**100%**	100%

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

DIRECTORS' INTEREST IN A COMPETING BUSINESS

As at 31 December 2009, the Directors were not aware of any business or interest of the Directors or any substantial Shareholder (as defined under the Listing Rules) and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 - "Model Code for Securities Transactions by Directors of Listed Issuers" to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they had complied with such code of conduct during the Year.

PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public at all times from 1 January 2009 up to the date of this report.

REPORT OF THE DIRECTORS

SHARE OPTION

The following table shows the details of the Company's share options during the Year:

EMPLOYEES

Date of share options granted	Outstanding at the beginning of the Year	Granted/ lapsed during the Year	Exercised during the Year	Cancelled during the Year	Outstanding at the end of the Year	Exercise price	Exercise period
11 May 2007	40,000,000	–	–	40,000,000	–	HK$0.55	11 May 2007 – 10 May 2017

All the outstanding 40,000,000 share options had been cancelled during the Year. There was no share option granted or lapsed during the Year. Details of the share option scheme of the Company are set out in note 29 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

CONNECTED TRANSACTIONS

During the Year, save as disclosed in the section headed "Substantial Acquisitions and Disposals" in this report and note 32 to the financial statement, the Group had not entered into any connected transaction which is not exempt under Rule 14A.31 of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

The Group had no continuing connected transactions (other than continuing connected transactions that are exempt under Rule 14A.33 of the Listing Rules) during the Year.

Save as disclosed above, the Directors consider that those material related party transactions disclosed in note 32 to the consolidated financial statements did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

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

The Group's compliance with the code provisions is set out in the Corporate Governance Report from page 22 to page 28 of this report.

POST BALANCE SHEET EVENTS

Save as disclosed in the section headed "Substantial Acquisitions and Disposals" above and in note 33 to the consolidated financial statements, there are no significant events occurred after the balance sheet date.

CLOSURE OF SHARE REGISTER

The register of members of the Company will be closed from 17 May 2010 to 20 May 2010 (both days inclusive), during which no Share transfers will be registered. To be eligible for attending and voting at the forthcoming annual general meeting, all transfer of Shares accompanied by the relevant Share certificates must be lodged with the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 14 May 2010.

AUDITORS

Deloitte Touche Tohmatsu ("Deloitte") acted as the auditors of the Company for the two years ended 31 December 2004 and 31 December 2005. On 15 March 2007, Deloitte resigned as auditor of the Company and CCIF CPA Limited was appointed as the new auditor of the Company pursuant to the extraordinary general meeting on 10 April 2007.

CCIF CPA Limited has acted as auditor of the Company for the years ended 31 December 2006, 2007, 2008 and 2009.

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

On behalf of the Board

Chen Jun
Chairman

Hong Kong, 9 April 2010

CORPORATION GOVERNANCE REPORT

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

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

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

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

BOARD OF DIRECTORS

COMPOSITION

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

Executive Directors

Chen Jun *(Chairman)*
Zhao Yun *(Chief Executive Officer)*

Independent Non-executive Directors

Hung Randy King Kuen
Yuan Kai Hong *(appointed on 24 April 2009)*
Chen Wen Ping
Qi Fa Cheng *(resigned on 24 April 2009)*

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

CORPORATION GOVERNANCE REPORT

There is no financial, business, family or other material/relevant relationship among the members of the Board, in particular, between the Chairman of the Board and the Chief Executive Officer. One of the independent non-executive Directors, Mr. Hung Randy King Kuen has entered into a service agreement with the Company for a term of three years commencing on 27 July 2007 unless terminated by not less than one month's notice in writing served by either party on the other. The other two independent non-executive Directors namely, Mr. Chen Wen Ping and Ms. Yuan Kai Hong have respectively entered into a service contract with the Company for a term of one year commencing on 24 April 2009 and ending at the conclusion of the forthcoming annual general meeting. The independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Articles of Association.

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

Each of Mr. Chen Jun, Mr. Hung Randy King Kuen, Ms. Yuan Kai Hong and Mr. Chen Wenping will retire from office as Directors at the forthcoming annual general meeting. Mr. Chen Jun, Mr. Hung Randy King Kuen and Mr. Chen Wen Ping, being eligible, offer themselves for re-election pursuant to Article 87 of the Articles. Due to the need to concentrate on other personal development, Ms. Yuan Kai Hong will not seek re-election at the forthcoming annual general meeting and will resign as an independent non-executive Director with effect from the close of the annual general meeting.

At the forthcoming annual general meeting, an ordinary resolution will be put forward to the Shareholders in relation to the proposed election of Mr. Liu Jinlu as an independent non-executive Director to replace Ms. Yuan Kai Hong.

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

Save as disclosed in the section headed "Directors' and Senior Management's Biographics" in this Annual Report, all members of the Board have no relationship with each others.

BOARD MEETINGS

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

CORPORATION GOVERNANCE REPORT

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

	Attendance/ Number of Meetings
Executive Directors	
Chen Jun	5/6
Zhao Yun	6/6
Independent Non-executive Directors	
Hung Randy King Kuen	5/6
Yuan Kai Hong	5/6
Chen Wen Ping	5/6

BOARD RESPONSIBILITIES AND DELEGATION

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

CORPORATION GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

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

Newly appointed Directors will receive induction and reference materials to enable them to familiarise with the Group's business operations and Board policies. Each Director is briefed and updated from time to time to ensure that he/she is fully aware of his/her responsibilities under the Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted a code of conduct regarding the Directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 - "Model Code for Securities Transactions by Directors of Listed Issuer" to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they had complied with such code of conduct throughout the Year.

CORPORATION GOVERNANCE REPORT

REMUNERATION COMMITTEE

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

MEMBERS OF REMUNERATION COMMITTEE

Zhao Yun *(Chairman)*
Hung Randy King Kuen
Yuan Kai Hong
Chen Wen Ping

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Group's policy and structure for the remuneration of Directors, reviewing and approving their specific remuneration package by reference to market conditions, performance of the Group and corporate goals and objectives resolved by the Board from time to time. The Remuneration Committee held one meeting during the Year and all the members had attended to review the Group's remuneration policy and approve the terms of executive Directors' service contracts. During the Year, the Board as a whole had determined the remuneration policy and packages of the Directors. No individual Director was allowed to participate in the procedures for deciding his/her individual remuneration package.

COMMUNICATION WITH SHAREHOLDERS

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

INTERNAL CONTROL

The Board is committed to manage business risks and to maintain a proper and effective system of internal control to safeguard the Shareholders' investment and the Group's assets. The Board, through the audit committee of the Company (the "Audit Committee"), has conducted annual review of the effectiveness of the Group's system of internal control covering all controls, including financial, operational and compliance controls, and risk management processes. The Board, through the review of the Audit Committee, is satisfied that the Group had fully complied with the Code Provisions on internal controls during the Year as set forth in the CG Code.

CORPORATION GOVERNANCE REPORT

AUDITOR'S REMUNERATION

The remuneration paid or payable to the external auditor of the Group in 2009 comprised fees for audit services of RMB220,000. The non-audit services rendered by the Company's independent auditor and the relevant fees amounted to RMB203,000 during the Year.

AUDIT COMMITTEE

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

The Audit Committee comprises three independent non-executive Directors. Two meetings of the Audit Committee were held during the Year and were attended by all the members of the Audit Committee:

Members of Audit Committee	**Attendance/ Number of Meetings**
Hung Randy King Kuen *(Chairman)*	2/2
Yuan Kai Hong	2/2
Chen Wen Ping	2/2

The Audit Committee held two meetings during the Year to review the financial results and reports (including the interim results of the Group for the six months ended 30 June 2009). Financial controls, internal controls, risk management systems of the Group, and the reappointment of the external auditor had also been reviewed by the Audit Committee at the meetings. The Audit Committee had reviewed this annual report and have confirmed that this annual report is complete, accurate and complies with all applicable rules and regulations, including but not limited to the Listing Rules. There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditor.

CORPORATION GOVERNANCE REPORT

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2009. The auditor of the Company acknowledge their reporting responsibilities in the auditor's report on the financial statements for the year ended 31 December 2009. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the financial statements.

INDEPENDENT AUDITOR'S REPORT

CCIF

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ZHONGTIAN INTERNATIONAL LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Zhongtian International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 95, which comprise the consolidated and Company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 the 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.

INDEPENDENT AUDITOR'S REPORT

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 the 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 loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 9 April 2010

Leung Chun Wa
Practising Certificate Number P04963

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Turnover	5, 6	**5,402**	8,826
Cost of sales		**(4,911)**	(8,367)
Gross profit		**491**	459
Other income	6	**444**	969
Other net loss	7	**(1,065)**	(143)
Distribution costs		**–**	(970)
Administrative expenses		**(8,364)**	(9,158)
Impairment loss of other receivables		**–**	(206)
Impairment loss of land use rights and property under development	16, 17	**(9,048)**	(44,800)
Loss from operations		**(17,542)**	(53,849)
Finance costs	8	**–**	(1,704)
Loss before taxation	8	**(17,542)**	(55,553)
Income tax	11	**–**	–
Loss for the year		**(17,542)**	(55,553)
Attributable to:			
Owners of the Company	12	**(17,542)**	(55,553)
Other comprehensive income for the year			
Reclassification adjustment for translation reserve released upon disposal of subsidiaries	25	**1,930**	–
Exchange difference on translation of financial statements of foreign subsidiaries		**–**	(114)
		1,930	(114)
Total comprehensive income for the year		**(15,612)**	(55,667)
Attributable to:			
Owners of the Company		**(15,612)**	(55,667)
Loss per share	14	**RMB cents**	RMB cents (restated)
Basic		**(16.8)**	(55.6)
Diluted		**(16.8)**	(55.6)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	15	**159**	612
Land use rights, net	16	**—**	34,028
Property under development, net	17	**—**	—
		159	34,640
Current assets			
Trade and other receivables	19	**6,353**	10,869
Land use rights	16	**—**	972
Securities held for trading	20	**—**	19
Cash and bank balances	21	**19,317**	20,081
		25,670	31,941
Assets of a disposal group classified as held for sale	26 (a)	**36,334**	—
		62,004	31,941
Current liabilities			
Trade and other payables	22	**6,946**	8,896
Amounts due to directors	23	**1,360**	1,733
Income tax payable		**1,100**	1,100
		9,406	11,729
Liabilities of a disposal group classified as held for sale	26 (b)	**1,711**	—
		11,117	11,729
Net current assets		**50,887**	20,212
Net assets		**51,046**	54,852
Capital and reserves			
Share capital	27	**1,237**	42,428
Reserves	28	**49,809**	12,424
Total equity		**51,046**	54,852

Approved and authorised for issue by the board of directors on 9 April 2010

Chen Jun
Director

Zhao Yun
Director

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	15	**–**	65
Interests in subsidiaries, net	18	**43,822**	53,347
		43,822	53,412
Current assets			
Other receivables	19	**26**	342
Cash and bank balances	21	**9,500**	1,276
		9,526	1,618
Current liabilities			
Other payables	22	**566**	317
Amount due to a subsidiary	18	**1,341**	729
Amounts due to directors	23	**1,360**	946
		3,267	1,992
Net current assets/(liabilities)		**6,259**	(374)
Net assets		**50,081**	53,038
Capital and reserves			
Share capital	27	**1,237**	42,428
Reserves	28	**48,844**	10,610
Total equity		**50,081**	53,038

Approved and authorised for issue by the board of directors on 9 April 2010.

Chen Jun	**Zhao Yun**
Director	*Director*

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

		Reserves								
	Share capital	Share premium (note 28 (a))	Special reserve (note a)	Translation reserve (note 28 (b)(iii))	Statutory reserve (note b)	Public welfare fund (note c)	Share option reserve (note 28 (b)(iv))	Accumulated losses	Sub-total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	42,428	47,246	6,740	(1,816)	12,065	5,331	8,216	(9,691)	68,091	110,519
Loss for the year	–	–	–	–	–	–	–	(55,553)	(55,553)	(55,553)
Exchange difference on translation of financial statements of foreign subsidiaries	–	–	–	(114)	–	–	–	–	(114)	(114)
Total comprehensive income for the year	–	–	–	(114)	–	–	–	(55,553)	(55,667)	(55,667)
At 31 December 2008 and 1 January 2009	42,428	47,246	6,740	(1,930)	12,065	5,331	8,216	(65,244)	12,424	54,852
Capital reduction (note 27 (a)(iv))	(41,367)	–	–	–	–	–	–	41,367	41,367	–
Forfeiture of share options (note 29)	–	–	–	–	–	–	(8,216)	8,216	–	–
Issue of new shares (note 27 (b))	176	11,630	–	–	–	–	–	–	11,630	11,806
Transfer	–	–	(6,740)	–	(12,065)	(5,331)	–	24,136	–	–
Loss for the year	–	–	–	–	–	–	–	(17,542)	(17,542)	(17,542)
Released upon disposal of subsidiaries	–	–	–	1,930	–	–	–	–	1,930	1,930
Total comprehensive income for the year	–	–	–	1,930	–	–	–	(17,542)	(15,612)	(15,612)
At 31 December 2009	**1,237**	**58,876**	**–**	**–**	**–**	**–**	**–**	**(9,067)**	**49,809**	**51,046**

Notes:

(a) Special reserve

The special reserve represents the difference of the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisitions at the time of Reorganisation prior to the listing of the Company's share in 2004, less RMB13,261,000 transferred to accumulated losses in 2006. Following the disposal of the subsidiaries as detailed in note 25, the balance of this reserve was transferred to the accumulated losses of the Group during the year.

(b) PRC statutory reserve

Articles of Association of the Company's subsidiaries in the Peoples' Republic of China ("PRC") require the appropriation of certain percentage of their profit after income tax each year to the statutory surplus reserve fund until the balance reaches 50% of the registered capital. In normal circumstances, the statutory surplus reserve fund shall only be used for making up losses, capitalization into registered capital and expansion of the subsidiaries' production and operation. For the capitalization of statutory surplus reserve fund into registered capital, the remaining amount of such reserve shall not be less than 25% of the registered capital. Following the disposal of the subsidiaries as detailed in note 25, this balance was transferred to accumulated losses of the Group during the year.

(c) PRC public welfare fund

Pursuant to the Articles of Association, each of the Company's PRC wholly-owned subsidiaries shall make allocation from their profit after taxation at the rate of 5% to 10% to the public welfare fund. The public welfare fund can only be utilized on capital items for employees' collective welfare. The public welfare fund forms part of the shareholders' equity but it is not distributable other than in liquidation. With effect on 1 January 2006, the appropriation is not a statutory requirement in accordance with the PRC Company Law (2006 Amendment). The appropriation is subject to the shareholders' approval in the annual shareholders meeting of the Company's PRC wholly-owned subsidiaries. Following the disposal of the subsidiaries as detailed in note 25, this balance was transferred to accumulated losses of the Group during the year.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Operating activities			
Loss before taxation		**(17,542)**	(55,553)
Adjustments for:			
Interest income		**(44)**	(63)
Interest expenses		**—**	1,624
Finance lease charges		**—**	80
Depreciation of property, plant and equipment		**319**	802
Impairment loss of other receivables		**—**	206
Loss on disposal of property, plant and equipment		**65**	143
Loss on disposal of subsidiaries	25	**1,000**	—
Gain on disposal of securities held for trading		**—**	(93)
Impairment loss on land use rights and property under development		**9,048**	44,800
Operating cash flows before changes in working capital		**(7,154)**	(8,054)
Decrease/(increase) in trade and other receivables		**3,071**	(8,237)
Increase in trade and other payables		**1,983**	5,461
(Decrease)/increase in amounts due to directors		**(706)**	1,306
Net cash used in operating activities		**(2,806)**	(9,524)
Investing activities			
Interest received		**44**	63
Upfront payment for property development costs refunded		**—**	28,798
Payment for property under development		**(8,671)**	(1,883)
Payment for property, plant and equipment		**(102)**	—
Proceeds from disposal of property, plant and equipment		**—**	247
Proceeds from disposal of securities held for trading		**—**	6,254
Net cash outflow on disposal of subsidiaries	25	**(34)**	—
Net cash (used in)/generated from investing activities		**(8,763)**	33,479

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Financing activities			
Issue of new shares	27(b)	**11,806**	—
Capital element of finance lease rentals paid		**—**	(359)
Interest element of finance lease rentals paid		**—**	(80)
Interest paid		**—**	(1,624)
Repayment of interest-bearing bank borrowing		**—**	(30,000)
Net cash generated from/(used in) financing activities		**11,806**	(32,063)
Net increase/(decrease) in cash and cash equivalents		**237**	(8,108)
Cash and cash equivalents at beginning of the year		**20,081**	28,354
Effect of foreign exchange rate changes		**—**	(165)
Cash and cash equivalents at end of the year, representing cash and bank balances	21	**20,318**	20,081

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 18.

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) STATEMENT OF COMPLIANCE

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

b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries.

The financial statements have been prepared under the historical cost convention. Non-current assets of a disposal group held for sale are stated at lower of carrying amount and fair value less costs to sell (see note (26)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS *(Continued)*

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised Standards, Amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA:

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) - Int 9 and HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) - Int 13	Customer Loyalty Programmes
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) - Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

The adoption of these new and revised HKFRSs had no material effect on the results and financial position of the Group for the current or prior accounting years except for the impact as described as below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKAS 1 (Revised) Presentation of Financial Statements

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 expenses 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. The change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

HKFRS 8 Operating Segments

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 segment information 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 most senior executive management, and has not resulted in additional reportable segments being identified and presented. Corresponding amounts have been provided on a basis consistent with the revised segment information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The Group has not early applied any of the following new and revised Standards, Amendments and Interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2009:

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

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

[2] Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010 as appropriate

[3] Effective for annual periods beginning on or after 1 January 2010

[4] Effective for annual periods beginning on or after 1 February 2010

[5] Effective for annual periods beginning on or after 1 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 amendments 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) SUBSIDIARIES AND MINORITY INTERESTS

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

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

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

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less any impairment losses (see note 2 (j)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sales).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) TRANSLATION OF FOREIGN CURRENCIES

The functional currency of the Company and its subsidiaries in the PRC is Renminbi (“RMB”), respectively. For the purpose of presenting the consolidated financial statements, the Group adopted RMB as its presentation currency.

Foreign currency transactions during the year are translated at the foreign exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates prevailing at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are directly recognised in equity.

Non-monetary assets and liabilities 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 stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

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. Asset and liability items are translated into Renminbi at the foreign exchange rates ruling at the year end date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

f) OTHER INVESTMENT IN EQUITY SECURITIES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and accumulated impairment losses (see note 2 (j)(ii)).

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

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

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

Furniture, fixtures and equipment	20%
Motor vehicles	20%

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

h) PROPERTY UNDER DEVELOPMENT

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

i) LAND USE RIGHTS

Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 2 (j)(ii)). Amortisation on land use rights held for use are charged to profit or loss on a straight-line basis over the terms of the respective leases.

Amortisation on land use rights held for redevelopment are transferred to and capitalised as part of the costs of the property under development. Capitalisation of the amortisation of land use rights held for redevelopment is suspended or ceases when substantially all the redevelopment activities are interrupted or completed.

j) IMPAIRMENT OF ASSETS

i) Impairment of trade and other receivables

Trade and other receivables are stated at amortised cost or cost are reviewed at the end of each reporting period 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;

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

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

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

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

For trade receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset, where the effect of discounting is material. This assessment is made collectively when 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 with credit risk characteristics similar to the collective group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) IMPAIRMENT OF ASSETS *(Continued)*

i) Impairment of trade and other receivables *(Continued)*

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

ii) Impairment of other assets

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

— property, plant and equipment;
— land use rights;
— property under development; and
— interests in subsidiaries

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

— Calculation of recoverable amount

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) IMPAIRMENT OF ASSETS *(Continued)*

ii) Impairment of other assets *(Continued)*

— Recognition of impairment losses

An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an 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

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

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

k) OPERATING LEASE CHARGES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2 (j)(i)).

m) CASH AND CASH EQUIVALENTS

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

n) TRADE AND OTHER PAYABLES

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

o) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost without any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of borrowings, together with any interest and fees payable, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction in progress of an asset which necessarily takes a substantial period of time to get ready for its intended use of sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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.

q) PROVISIONS AND CONTINGENT LIABILITIES

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

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

r) EMPLOYEES BENEFITS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) EMPLOYEES BENEFITS *(Continued)*

ii) Share-based payments

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

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

iii) Termination benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) INCOME TAX

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) INCOME TAX *(Continued)*

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

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

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

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

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

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

    — the same taxable entity; or

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) REVENUE RECOGNITION

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

i) Sales of goods

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

ii) Service income

Services income is recognised when the related services are rendered.

iii) Interest income

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

iv) Government grants

Unconditional government grants are recognised in profit or loss when the grants become receivable.

u) RELATED PARTIES

Parties are considered to be related to the Group if:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

u) RELATED PARTIES *(Continued)*

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

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

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

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

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

v) 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 most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is bought up-to-date in accordance with the accounting policies before the reclassification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2 (b).

(ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs if the operation is abandoned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

w) NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS *(Continued)*

(ii) Discontinued operations *(Continued)*

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of comprehensive income, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

a) CREDIT RISK

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

i) Trade and other receivables

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or the counterparties. The default risk of the industry and country in which customers or the counterparties operate also has an influence on credit risk but to a lesser extent. Further quantitative analysis in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

At the balance sheet date, the Group has a significant concentration of credit risk as 100% (2008: 100%) and 100% (2008: 100%) of the total trade receivables were due from the Group's largest customer and the five largest customers as at 31 December 2009, respectively.

ii) Deposits with banks

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

b) LIQUIDITY RISK

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

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

Group

	2009			
	Carrying amount RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Within 1 year or on demand RMB'000**	**After 1 year but within 5 years RMB'000**
Trade and other payables	**6,946**	**6,946**	**6,946**	**–**
Amounts due to directors	**1,360**	**1,360**	**1,360**	**–**
	8,306	**8,306**	**8,306**	**–**

	2008			
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	After 1 year but within 5 years RMB'000
Trade and other payables	8,896	8,896	6,685	2,211
Amounts due to directors	1,733	1,733	1,733	–
	10,629	10,629	8,418	2,211

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

b) LIQUIDITY RISK *(Continued)*

Company

	2009		
	Carrying amount RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Within 1 year or on demand RMB'000**
Other payables	**566**	**566**	**566**
Amount due to a subsidiary	**1,341**	**1,341**	**1,341**
Amounts due to directors	**1,360**	**1,360**	**1,360**
	3,267	**3,267**	**3,267**

	2008		
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000
Other payables	317	317	317
Amount due to a subsidiary	729	729	729
Amounts due to directors	946	946	946
	1,992	1,992	1,992

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

c) INTEREST RATE RISK

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

At 31 December 2009, it is estimated that a general increase/decrease 100 basis points in interest rates, with all other variable held constant, the Group's loss would decrease/increase by RMB203,100 (2008: RMB201,000) and the Company's loss for the year would decrease/ increaseby RMB95,000 (2008: RMB13,000). This is mainly attributable to the interest earned from bank balances.

The sensitivity analysis above, which include interest rate exposure on variable interest bearing deposits, have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. A 100 basis point change is used which represents the management's assessment of the possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2008.

d) BUSINESS RISK

The Group's sales for the current year are primarily made to one major customer. The Group has a certain concentration of business risk as 100% (2008: 100%) of the total sales from the Group's five largest customers. In the event that these customers ceased to purchase from the Group and the Group could not secure orders from other customers, the Group's turnover and profitability would be adversely affected.

The Group's purchases of raw materials are primarily from one major supplier. The Group has not entered into long-term agreement with this major supplier and there can be no assurance that they will continue to supply the Group as and when needed. The Group has a certain concentration of business risk as 100% (2008: 100%) of the total purchases were from the Group's five largest suppliers. If the Group could not purchase adequate quantities of materials from these suppliers and failed to identify alternative sources, the Group's turnover and profitability could be adversely affected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

e) CURRENCY RISK

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

i) Exposure to currency risk

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
US dollars	**347**	348	**308**	309
Hong Kong dollars	**10,221**	1,074	**9,179**	954

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

e) CURRENCY RISK *(Continued)*

ii) Sensitivity analysis

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

	2009			2008		
	Increase/ (decrease) in foreign exchange rates	**Effect on loss after tax and accumulated losses RMB'000**	**Effect on other components of equity RMB'000**	Increase/ (decrease) in foreign exchange rates	Increase/ loss after tax and accumulated losses RMB'000	Effect on Effect on other components of equity RMB'000
US dollars	5%	–	17	5%	–	17
	(5%)	–	(17)	(5%)	–	(17)
Hong Kong dollars	(5%)	–	(511)	(5%)	–	(54)
	5%	–	511	5%	–	54

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

f) CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in light of change in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2009 and 2008.

Consistent with the industry practice, the Group monitors its capital structure on the basis of net debt-to-capital ratio, which is calculated as the Group's total borrowings as shown in consolidated balance sheet less cash and cash equivalents. Debts comprise secured bank borrowings, trade and other payables, amounts due to directors and obligations under finance leases. Shareholders' equity comprises all components of equity attributable to the equity shareholders of the Company.

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

Group

	2009 RMB'000	2008 RMB'000
Trade and other payables	**6,946**	8,896
Amounts due to directors	**1,360**	1,733
Total debt	**8,306**	10,629
Less: Cash and bank balances	**(20,318)**	(20,081)
Net debt	**N/A**	N/A
Shareholders' equity	**51,046**	54,852
Net debt-to-capital ratio	**N/A**	N/A

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

g) ESTIMATION OF FAIR VALUE

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

i) Interest-bearing loans and borrowings

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

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

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

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

KEY SOURCES OF ESTIMATION UNCERTAINTY

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

a) Impairment of property, plant and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

4. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

b) Impairment of trade and other receivables

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

c) Income taxes

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

The potential deferred tax liabilities of RMB13,462,000 (2008: RMB11,200,000) attributable to the impairment of the land use rights and property under development are not recognised as they can be fully offset by the effects of potential tax loss arising.

d) Impairment on interests in subsidiaries

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

5. SEGMENT INFORMATION

The Group manages its business by divisions, which are mainly organised by business lines. On first-time adoption of HKFRS 8, Operating Segments and in a manner consistent with the way in which information is reported internally to the board of directors (as chief operating decision maker) for the purpose of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

— Information technology i.e. sale of intelligent electronics products and system integration

— Property investment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. SEGMENT INFORMATION *(Continued)*

	2009			
	Information technology RMB'000	Property investment RMB'000	Unallocated RMB'000	Group RMB'000
Turnover				
— external	5,402	—	—	5,402
— inter-segment	—	—	—	—
	5,402	—	—	5,402
Segment results	(1,893)	(2,789)	—	(4,682)
Loss on disposal of subsidiaries	(1,000)	—	—	(1,000)
Impairment loss of land use rights and property under development	—	(9,048)	—	(9,048)
Loss on disposal of property, plant and equipment	(65)	—	—	(65)
Unallocated corporate expenses	—	—	(2,747)	(2,747)
Loss from operations	(2,958)	(11,837)	(2,747)	(17,542)
Finance costs	—	—	—	—
Loss before taxation	(2,958)	(11,837)	(2,747)	(17,542)
Income tax	—	—	—	—
Loss for the year	(2,958)	(11,837)	(2,747)	(17,542)
Assets				
Segment assets	16,303	36,334	—	52,637
Unallocated assets	—	—	9,526	9,526
Total assets	16,303	36,334	9,526	62,163
Liabilities				
Segment liabilities	7,480	1,711	—	9,191
Unallocated liabilities	—	—	1,926	1,926
Total liabilities	7,480	1,711	1,926	11,117
Other information				
Depreciation	319	—	—	319

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. SEGMENT INFORMATION *(Continued)*

	2008			
	Information technology RMB'000	Property investment RMB'000	Unallocated RMB'000	Group RMB'000
Turnover				
— external	8,826	—	—	8,826
— inter-segment	—	—	—	—
	8,826	—	—	8,826
Segment results	(4,464)	(763)	—	(5,227)
Impairment loss of other receivables	(206)	—	—	(206)
Impairment loss of land use rights and property under development	—	(44,800)	—	(44,800)
Loss on disposal of property, plant and equipment	(143)	—	—	(143)
Unallocated corporate expenses	—	—	(3,473)	(3,473)
Loss from operations	(4,813)	(45,563)	(3,473)	(53,849)
Finance costs	—	(1,704)	—	(1,704)
Loss before taxation	(4,813)	(47,267)	(3,473)	(55,553)
Income tax	—	—	—	—
Loss for the year	(4,813)	(47,267)	(3,473)	(55,553)
Assets				
Segment assets	7,481	39,000	—	46,481
Unallocated assets	—	—	20,100	20,100
Total assets	7,481	39,000	20,100	66,581
Liabilities				
Segment liabilities	8,665	400	—	9,065
Unallocated liabilities	—	—	2,664	2,664
Total liabilities	8,665	400	2,664	11,729
Other information:				
Depreciation	802	—	—	802

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. SEGMENT INFORMATION *(Continued)*

As all segments of the Group are operating in the PRC, no geographical information has further been disclosed.

INFORMATION FROM MAJOR CUSTOMERS

Revenues from customers contributing over 10% of the total sales of the Group are as follows:

	2009	2008
	RMB'000	RMB'000
Revenue from information technology:		
Customer A	**5,402**	—
Customer B	**–**	8,450
	5,402	8,450

Further details of concentration of credit risk arising from these customers are set out in note 3 (a)(i).

6. TURNOVER AND OTHER INCOME

An analysis of the Group's turnover and other income is as follows:

	2009	2008
	RMB'000	RMB'000
Turnover		
Sale of intelligent electronics products	**5,402**	8,450
System integration	**–**	376
	5,402	8,826
Other income		
Reversal of compensation expenses	**400**	—
Government subsidy (note 22(a))	**–**	724
Interest income on bank deposits	**44**	63
Gain on disposal of securities held for trading	**–**	93
Others	**–**	89
	444	969

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

7. OTHER NET LOSS

	2009 RMB'000	2008 RMB'000
Loss on disposal of subsidiaries (note 25)	**(1,000)**	—
Loss on disposal of property, plant and equipment	**(65)**	(143)
	(1,065)	(143)

8. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	2009 RMB'000	2008 RMB'000
a) FINANCE COSTS		
Interest on bank borrowings wholly repayable within five years	**—**	1,624
Interest on finance lease	**—**	80
	—	1,704
b) STAFF COSTS		
Directors' emoluments (note 9)	**845**	1,092
Salaries, wages and other benefits	**229**	1,526
Contributions to defined retirement scheme	**75**	193
	1,149	2,811
c) OTHER ITEMS		
Cost of inventories sold	**4,911**	8,367
Auditor's remuneration		
— audit services	**220**	228
— non-audit services	**203**	—
Deprecation of property, plant and equipment	**319**	802
Compensation for termination of an agreement for construction materials	**—**	400
Operating leases charges in respect of land and buildings	**1,013**	1,300

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

9. DIRECTORS' EMOLUMENTS

Details of directors' remuneration are as follows:

	Year ended 31 December 2009			
Name of directors	**Fees RMB'000**	**Salaries and other benefits RMB'000**	**Retirement benefit scheme contributions RMB'000**	**Total emoluments RMB'000**
Executive directors				
Chen Jun	**—**	**457**	**—**	**457**
Zhao Yun	**—**	**288**	**—**	**288**
Independent non-executive directors				
Chen Wen Ping	**26**	**—**	**—**	**26**
Hung Randy King Kuen	**53**	**—**	**—**	**53**
Qi Fa Cheng (resigned on 24 April 2009)	**9**	**—**	**—**	**9**
Yuan Kai Hong (appointed on 24 April 2009)	**12**	**—**	**—**	**12**
	100	**745**	**—**	**845**

	Year ended 31 December 2008			
Name of directors	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Executive directors				
Chen Jun	—	617	21	638
Zhao Yun	—	324	21	345
Independent non-executive directors				
Hung Randy King Kuen	55	—	—	55
Qi Fa Cheng	27	—	—	27
Chen Wen Ping	27	—	—	27
	109	941	42	1,092

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

9. DIRECTORS' EMOLUMENTS *(Continued)*

An analysis of directors' remuneration by the number of directors and remuneration range is as follows:

	2009	2008
Nil to RMB880,000 (equivalent to Nil to HK$1,000,000)	**6**	5

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include two directors of the Company during the year ended 31 December 2009 (2008: two), whose remuneration are reflected in the analysis presented above. Details of remuneration paid to the remaining three (2008: three) highest paid individuals of the Group are as follows:

	2009 **RMB'000**	2008 RMB'000
Salaries and other benefits	**152**	194
Contributions to retirement benefit schemes	**26**	34
	178	228

Their emoluments all fell within the Nil to RMB880,000 (equivalent to Nil to HK$1,000,000) (2008:Nil to RMB883,000 (equivalent to Nil to HK$1,000,000) band.

11. INCOME TAX

	2009 **RMB'000**	2008 RMB'000
Current tax	**—**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

11. INCOME TAX *(Continued)*

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

	2009 **RMB'000**	2008 RMB'000
Loss before taxation	**(17,542)**	(55,553)
Notional tax on loss before taxation, calculated at the rates applicable to loss in the countries concerned	**(4,018)**	(13,888)
Tax effect of non-taxable income	**(7)**	(1,722)
Tax effect of non-deductible expenses	**3,322**	14,939
Tax effect of unrecognised tax loss	**703**	671
Current tax	**–**	–

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

No provision for Hong Kong Profits Tax has been made for the year as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2009 and 2008.

Pursuant to the income tax rules and regulations of the PRC, the applicable PRC Enterprise Income Tax of the Group's subsidiaries is 25% (2008: 25%).

12. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company includes a loss of RMB30,355,000 (2008: RMB28,638,000) which has been dealt with in the financial statements of the Company.

13. DIVIDENDS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

14. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of RMB17,542,000 (2008: RMB55,553,000) and the weighted average number of 104,273,973 (2008: 100,000,000 as restated due to a share consolidation of every 4 ordinary shares of the Company into 1 ordinary share which was completed on 15 July 2009) ordinary shares in issue during the year.

	2009 Number of shares ’000	2008 Number of shares ’000
Ordinary shares issued at 1 January	**400,000**	400,000
Effect of capital reduction (note 27 (a))	**(300,000)**	(300,000)
Effect of issue of new shares (note 27 (b))	**4,274**	—
Weighted average number of ordinary shares by the year	**104,274**	100,000

The diluted loss per share for the year ended 31 December 2009 is same as the basic loss per share as there were no dilutive potential shares during the year.

The diluted loss per share for the year ended 31 December 2008 was same as the basic loss per share because the existence of outstanding share options had an anti-dilutive effect on the calculation of diluted loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

15. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Total RMB'000
Cost			
At 1 January 2008	3,188	1,435	4,623
Additions	—	70	70
Disposals	(633)	(324)	(957)
Exchange difference	(29)	—	(29)
At 31 December 2008 and 1 January 2009	2,526	1,181	3,707
Additions	—	102	102
Disposal of subsidiaries (note 25)	—	(1,110)	(1,110)
Disposals	—	(70)	(70)
At 31 December 2009	2,526	103	2,629
Accumulated depreciation and impairment			
At 1 January 2008	1,941	929	2,870
Charge for the year	549	253	802
Disposals	(250)	(321)	(571)
Exchange difference	(6)	—	(6)
At 31 December 2008 and 1 January 2009	2,234	861	3,095
Charge for the year	232	87	319
Disposal of subsidiaries (note 25)	—	(939)	(939)
Disposals	—	(5)	(5)
At 31 December 2009	2,466	4	2,470
Carrying amount			
At 31 December 2009	60	99	159
At 31 December 2008	292	320	612

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

COMPANY

	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Total RMB'000
Cost			
At 1 January 2008	479	—	479
Additions	—	70	70
Disposals	(450)	—	(450)
Exchange difference	(29)	—	(29)
At 31 December 2008 and 1 January 2009	—	70	70
Disposals	—	(70)	(70)
At 31 December 2009	—	—	—
Accumulated depreciation and impairment			
At 1 January 2008	41	—	41
Charge for the year	70	5	75
Disposals	(105)	—	(105)
Exchange difference	(6)	—	(6)
At 31 December 2008 and 1 January 2009	—	5	5
Disposals	—	(5)	(5)
At 31 December 2009	—	—	—
Carrying amount			
At 31 December 2009	—	—	—
At 31 December 2008	—	65	65

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

16. LAND USE RIGHTS

	Group	
	2009	2008
	RMB'000	RMB'000
Cost		
At 1 January 2008, 31 December 2008 and 31 December 2009	**67,524**	67,524
Accumulated amortisation and impairment		
At 1 January	**32,524**	2,124
Impairment loss	**377**	28,654
Amortisation for the year transferred to property under development	**–**	1,746
At 31 December	**32,901**	32,524
Carrying amount		
At 31 December	**34,623**	35,000
Classified as non-current assets	**–**	34,028
Classified as current assets	**–**	972
Classified as assets of a disposal group held for sale	**34,623**	–
	34,623	35,000

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

During the year ended 31 December 2008, the Group carried out a detailed review of the recoverable amount of the land use rights, having regard to the slump in the property market in the PRC due to the global financial turmoil and suspension of the redevelopment project on the land and with reference to the valuation performed by an independent professional valuers, which led to the recognition of impairment loss of RMB28,654,000.

Amortisation was not provided for the current year as the development was suspended.

As disclosed in notes 26 and 33(b), the land use rights were subsequently disposed of on 25 February 2010 and they have been classified under assets of a disposal group held for sale which are stated at fair value of RMB35,000,000, determined with reference to the independent professional report issued by Asset Appraisal Limited, less cost to sell of RMB377,000. Impairment loss of RMB377,000 was recognised in the consolidated statement of comprehensive income for the year ended 31 December 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. PROPERTY UNDER DEVELOPMENT

	Group	
	2009	2008
	RMB'000	RMB'000
At 1 January	**–**	41,315
Upfront payment for construction costs advanced to an independent third party main contractor	**–**	1,639
Amortisation of land use rights	**–**	1,746
Other direct costs	**8,671**	244
Refund received from an independent third party main constractor	**–**	(28,798)
	8,671	16,146
Impairment loss	**(8,671)**	(16,146)
At 1 December	**–**	–

The redevelopment project was at its preliminary stage under construction with mainly some foundation works and architectural design and related works performed on the land located in Qingdao, PRC as referred to note 16 above.

The Group originally planned to redevelop the land into a research and development centre for system integration, The development project was suspended in the second half of 2008 due to the global financial turmoil. However, during the year ended 31 December 2009, non-refundable deposits of RMB8,671,000 were incurred and paid to the local authorities for the city infrastructure related to the development project in order to prevent the possible reclamation of the land and withdrawal of the rights to redevelop the land by the PRC local authorities. Impairment of RMB8,671,000 was recognised for the year ended 31 December 2009 (2008: RMB16,146,000), based on the agreement dated 3 December 2009 for the disposal of Zhongtian Software Park as referred to note 26 and an independent professional valuation performed by Asset Appraisal Limited. As disclosed in note 26, the land (note 16) and the property under development were subsequently disposed on 25 February 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

18. SUBSIDIARIES

		Company	
		2009	2008
		RMB'000	RMB'000
(a)	Interests in subsidiaries:		
	At cost:		
	Unlisted shares	**53,347**	53,347
	Amount due from a subsidiary (note (c))	**59,106**	58,243
	Total cost of investment	**112,453**	111,590
	Impairment loss (note (c))	**(68,631)**	(58,243)
	Interest in subsidiaries, net	**43,822**	53,347
(b)	Amount due to a subsidiary	**(1,341)**	(729)

(c) The amount due from a subsidiary of RMB59,106,000 (2008: RMB58,243,000) is unsecured, interest-free, and will not be demanded for repayment and, in substance, forms part of the Company's investment in a subsidiary as its capital contribution. An allowance for the Company's investment in a subsidiary of RMB68,631,000 (2008: RMB58,243,000) was recognised as at 31 December 2009 because the related recoverable amount of the interest in the subsidiary was estimated to be less than its carrying amount.

(d) The amount due to a subsidiary is unsecured, interest-free and has no fixed repayment terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

18. SUBSIDIARIES *(Continued)*

(e) Details of the Company's subsidiaries as at 31 December 2009 are as follows:

Name	Form of business structure	Place of incorporation/ establishment and operation	Issued and fully paid share capital	Interest held		Principal activities
				directly	indirectly	
Success Advantage Limited ("Success Advantage")	Limited liability company	British VirginIsl ands ("BVI")	US$100	100%	–	Investment holding and trading of hardware and software products
Qingdao Zhongtian Software Park Co., Ltd. #	Wholly foreign-owned enterprise	PRC	RMB10,000,000	–	100%	Property development and provision of software training services
Qingdao Zhongtian Enterprise Development Co., Ltd. ("Zhongtian Enterprise")	Wholly foreign-owned enterprise	PRC	RMB70,000,000	–	100%	Provision of service related to consultancy and property development
Best Sight Limited	Limitedl iability company	Hong Kong	HK$1	–	100%	Investment holding
Golden Century Trade Limited	Limited liability company	Hong Kong	HK$1	–	100%	Investment holding
Sunny Legend Limited (note)	Limited liability company	Hong Kong	HK$1	–	100%	Investment holding
Macro Vantage Limited (note)	Limited liability company	Hong Kong	HK$1	–	100%	Investment holding
New East Glory Limited (note)	Limited liability company	BVI	US$1	100%	–	Investment holding
Boxing Group Limited (note)	Limited liability company	BVI	US$1	100%	–	Investment holding
MacroVantage (Shanghai) Investment & Consultant Limited (note)	Wholly foreign-owned enterprise	PRC	HK$1,000,000	–	100%	Dormant

Note: Incorporated during the year ended 31 December 2009

\# As disclosed notes 26 and note 33(b), Qingdao Zhongtian Software Park Co., Ltd. was subsequently disposed of on 25 February 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

19. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**6,321**	11,662	**—**	—
Less: allowance for doubtful debts	**—**	(5,585)	—	—
	6,321	6,077	**—**	—
Prepayments and deposits	**32**	4,375	**26**	342
Other receivables, net	**—**	249	**—**	—
VAT refundable	**—**	168	**—**	—
	6,353	10,869	**26**	342

All of the trade receivables are expected to be recovered within one year.

The other receivables of RMB710,000 at 31 December 2009 attributable to the disposal group held for sale were separately classified and disclosed in note 26.

a) AGEING ANALYSIS

Included in trade and other receivables are trade receivables with the following ageing analysis as of the end of the reporting period:

	Group	
	2009	2008
	RMB'000	RMB'000
Current	**6,321**	6,077
Over 1 month but less than 3 months	**—**	—
Over 3 months but less than 12 months	**—**	—
Over 12 months	**—**	5,585
	6,321	11,662
Less: allowance for doubtful debts	**—**	(5,585)
	6,321	6,077

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

19. TRADE AND OTHER RECEIVABLES *(Continued)*

b) IMPAIRMENT OF TRADE RECEIVABLES

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

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

	Group	
	2009	2008
	RMB'000	RMB'000
At 1 January	**5,585**	6,348
Derecognized upon disposal of subsidiaries	**(5,585)**	—
Amounts recovered during the year	**—**	(763)
At 31 December	**—**	5,585

The trade receivables of RMB5,585,000, which were fully impaired in the prior years, were derecognised together with the allowance for doubtful debts upon disposal of the subsidiaries during the year ended 31 December 2009 as referred to note 25 below.

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

	Group	
	2009	2008
	RMB'000	RMB'000
Neither past due nor impaired	**6,321**	6,077

Receivables that were neither past due nor impaired for whom there was no recent history of default.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

20. SECURITIES HELD FOR TRADING

	Group	
	2009	2008
	RMB'000	RMB'000
At fair value:		
Listed securities outside Hong Kong	**–**	19

21. CASH AND BANK BALANCES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**19,317**	20,081	**9,500**	1,276
Cash and bank balances included in assets of disposal group held for sale (note 26 (a))	**1,001**	—	**–**	—
Cash and cash equivalents in the consolidated statement of cash flows	**20,318**	20,081	**9,500**	1,276

Cash at banks earns interest at floating rate based on daily market bank deposit rate at an average rate of 0.30% (2008: 0.36%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**5,746**	6,523	**–**	–
Other payables				
Accruals	**893**	598	**566**	317
Receipts in advance	**–**	166	**–**	–
Deferred grant income (note (a))	**–**	344	**–**	–
Others	**307**	1,265	–	–
	6,946	8,896	**566**	317

Note:

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

b) The other payables of RMB1,711,000 at 31 December 2009 attributable to the disposal group held for sale were separately classified and disclosed in note 26.

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current to 30 days	**5,746**	6,523	**–**	–

The carrying amounts of trade and other payables approximate their fair values at 31 December 2009 and 2008.

23. AMOUNTS DUE TO DIRECTORS

The amounts due to directors represented director's emoluments payable to Chen Jun of RMB1,140,000 (2008: RMB541,000) and Zhao Yun of RMB220,000 (2008: RMB 405,000), are unsecured, interest free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

24. DEFERRED TAXATION

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements as the Group has accumulated losses as at 31 December 2009 and 2008.

At the end of the reporting period, the Group has not recognised deferred tax assets in respect of unused tax losses of RMB5,612,000 (2008: RMB5,455,000) because it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses expire five years after the year the loss occurred under the current tax legislation.

25. DISPOSAL OF SUBSIDIARIES - 2009

During the year ended 31 December 2009, the Group disposed of its entire equity interest in Money Chain Worldwide Limited, the then indirectly wholly-owned subsidiary of the Company, together with its subsidiaries, Sunny Pearl Limited and Qingdao Zhongtian Information Technology Co., Ltd, at a cash consideration of US$1 to an independent third party. The loss on disposal of RMB1,000,000 was recognised to the consolidated statement of comprehensive income for the year ended 31 December 2009.

The net liabilities of the disposed subsidiaries at the date of disposal were as follows:

	RMB'000
Property, plant and equipment	171
Securities held for trading	19
Trade and other receivables, net of allowance for doubtful debts	735
Amounts due from directors	333
Cash and bank balances	34
Trade and other payables	(2,222)
Net liabilities disposed of	(930)
Translation reserve realised	1,930
Loss on disposal of subsidiaries	1,000
Net cash outflow arising from the disposal:	
Cash at bank disposed of	34

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

26. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE-2009

On 3 December 2009, the Company and Mr. Chen Jun, the controlling shareholder and director of the Company entered into a sale and purchase agreement to dispose of its entire equity interest in Qingdao Zhongtian Software Park Co., Ltd ("Zhongtian Software Park"), an indirect wholly-owned subsidiary of the Company at a consideration of RMB35,000,000. The transaction was approved by the Company's independent shareholders at the extraordinary general meeting held on 23 February 2010. The transaction was subsequently completed on 25 February 2010 as referred to note 33(b). The assets and liabilities of Zhongtian Software Park have been classified as assets and liabilities of a disposal group held for sale in the financial statements for the year ended 31 December 2009.

a) ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE- GROUP

	2009 RMB'000
Land use rights and property under development, net (notes 16 and 17) (note below)	**34,623**
Other receivables (note 19)	**710**
Cash and bank balances (note 21)	**1,001**
	36,334

b) LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE- GROUP

	2009 RMB'000
Other payables (note 22 (b))	**1,711**
	1,711

Note:

The carrying value of the land use rights and the property under development, net of impairment losses recognized of RMB9,048,000 (2008: RMB44,800,000), was determined with reference to the fair value of RMB35,000,000 based on an independent professional valuation report issued by Asset Appraisal Limited dated 31 October 2009 less the cost of RMB377,000 to complete the disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

27. SHARE CAPITAL

	Number of shares		Share capital	
	2009	2008	**2009**	2008
	'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
At 1 January	**1,000,000**	1,000,000	**100,000**	100,000
Subdivision of every 1 ordinary share into 40 ordinary shares (note (a)(ii))	**39,000,000**	—	**—**	—
Consolidation of every 4 ordinary shares into 1 ordinary share (note (a)(iii))	**(30,000,000)**	—	**—**	—
At 31 December	**10,000,000**	1,000,000	**100,000**	100,000
Issued and fully paid:				
At 1 January	**400,000**	400,000	**40,000**	40,000
Capital reduction (note (a)(i))	**—**	—	**(39,000)**	—
Consolidation of every 4 ordinary shares into 1 ordinary share (note (a)(iii))	**(300,000)**	—	**—**	—
Issue of new ordinary shares (note (b))	**20,000**	—	**200**	—
At 31 December	**120,000**	400,000	**1,200**	40,000
Equivalent to RMB'000			**1,237**	42,428

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

27. SHARE CAPITAL *(Continued)*

a) CAPITAL REORGANISATION

On 10 July 2009, the Cayman Islands Court approved the capital reorganisation of the Company ("Capital Reorganisation"). The Capital Reorganisation was completed and became effective on 15 July 2009.

(i) the nominal value of the consolidated shares in issue was reduced from HK$0.10 to HK$0.0025 each by cancelling the issued share capital to the extent of HK$0.0975 paid up on each of the issued consolidated share ("Capital Reduction");

(ii) each of the authorised but unissued ordinary share of the Company was subdivided into 40 new ordinary shares of HK$0.01 each, taking into account the number of issued new ordinary shares ranking pari passu with the then existing ordinary shares of the Company;

(iii) immediately thereafter every four issued and unissued ordinary shares of HK$0.0025 each consolidated into one ordinary share of HK$0.01 each; and

(iv) credit arising from Capital Reduction of HK$39,000,000 (equivalent to RMB41,367,000) was entirely transferred to the accumulated losses of the Company.

b) ISSUE OF NEW SHARES

On 15 October 2009, the Company issued 20,000,000 new ordinary shares of HK$0.01 each at a price of HK$0.67 each which rank pari passu in all respects with the then existing ordinary shares of the Company.

28. RESERVES

a) GROUP

The amount of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 34 of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

28. RESERVES *(Continued)*

b) COMPANY

	Share premium RMB'000 Note (i)	Special reserve RMB'000 Note (ii)	Translation reserve RMB'000 Note (iii)	Share option reserve RMB'000 Note (iv)	Accumulated losses RMB'000	Total RMB'000
At 1 January 2008	47,253	50,837	(13,382)	8,216	(51,466)	41,458
Exchange differences on translation	–	–	(2,210)	–	–	(2,210)
Loss for the year	–	–	–	–	(28,638)	(28,638)
Total comprehensive income for the year	–	–	(2,210)	–	(28,638)	(30,848)
At 31 December 2008 and 1 January 2009	47,253	50,837	(15,592)	8,216	(80,104)	10,610
Capital Reduction (note 27 (a)(iv))	–	–	–	–	41,367	41,367
Transfer	–	(50,837)	–	–	50,837	–
Forfeiture of share options (note 29)	–	–	–	(8,216)	8,216	–
Issue of new shares (note 27 (b))	11,630	–	–	–	–	11,630
Loss for the year	–	–	–	–	(30,355)	(30,355)
Derecognition of foreign operation	–	–	15,592	–	–	15,592
Total comprehensive income for the year	–	–	15,592	–	(30,355)	(14,763)
At 31 December 2009	58,883	–	–	–	(10,039)	48,844

(i) Share premium

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

28. RESERVES *(Continued)*

b) COMPANY *(Continued)*

(ii) Special reserve

The special reserve of the Company represented the difference between the nominal value of the shares of the Company issued in exchange for the issued share capital of the subsidiaries and the value of the underlying assets of the subsidiaries pursuant to the Group Reorganization prior to listing of the Company's shares in 2004, less the transfer of RMB13,261,000 to the accumulated loss in 2006. Subject to the Companies Law of the Cayman Islands and the Article of Association of the Company, the special reserve is distributable to the shareholders of the Company. Following the completion of disposal of subsidiaries as detailed in note 25, the balance of this special reserve was transferred to the accumulated losses of the Company during the year.

(iii) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and/or foreign Subsidiaries. The reserve is dealt with in accordance with the accounting policies in note 2 (e).

(iv) Share option reserve

The share option reserve represents the fair value of the actual or estimated number of unexpected share options granted to the eligible participants recognised in accordance with the accounting policy adopted for equity-settled payments in note 2 (r)(ii)).

The balance of this reserve was transferred to the accumulated loss as an equity movement when the attributable share options were waived by the grantees during the year ended 31 December 2009.

c) DISTRIBUTABILITY OF RESERVES

The Company's reserves available for distribution represent the share premium, special reserve and accumulated losses. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors, as at 31 December 2009, the Company had reserves available for distribution to equity shareholders of RMB48,844,000 (2008: RMB17,986,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

29. SHARE OPTION SCHEME

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

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

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

The total number of shares available for issue under the Scheme as at the date of this report was 12,000,000 shares which represented 10% of the issued share capital of the Company as at the date of this report. There is no minimum period for which an option must be held before it can be exercised under the Scheme.

2009

During the year ended 31 December 2009 and prior to the Capital Reduction of the Company as referred to note 27(a), all of the outstanding 40,000,000 share options brought forward from 2007 were cancelled as they were waived by the grantees who are the employees of the Group. The share option reserve balance of these waived options was transferred to the accumulated loss as an equity movement during the year ended 31 December 2009.

No share option was granted during the year ended 31 December 2009.

At 31 December 2009, there were no outstanding share options (2008: 40,000,000 options).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

29. SHARE OPTION SCHEME *(Continued)*

2008

The following table shows the details of the outstanding Company's share options granted to the employees of the Group during the year ended 31 December 2008:

Employees

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

No share option was granted during the year ended 31 December 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. OPERATING LEASE COMMITMENTS

At 31 December 2009, the Group had commitments payable in the following year under non-cancellable operating leases in respect of rented premises as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**187**	1,391	**–**	1,234
Two to five years	**–**	456	**–**	456
	187	1,847	**–**	1,690

31. RETIREMENT BENEFITS SCHEME

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

The total cost charged to consolidated statement of comprehensive income of approximately RMB75,000 (2008: RMB193,000) represents contributions payable to these schemes by the Group for the year ended 31 December 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

32. RELATED PARTY TRANSACTIONS

a) KEY MANAGEMENT PERSONNEL REMUNERATION

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

	Group	
	2009	2008
	RMB'000	RMB'000
Salaries and allowances	**745**	941
Retirement scheme contributions	**–**	42
Share-based payments	**–**	–
	745	983

Total remuneration is included in staff cost in note 8.

b) BALANCES WITH RELATED PARTIES

Details of the balances with related parties as at 31 December 2009 and 2008 are set out in note 23 to the financial statements.

c) TRANSACTIONS WITH RELATED PARTIES

	Group	
	2009	2008
	RMB'000	RMB'000
Rental expenses paid to Qingdao Hai Yi Investment and Consultancy Co., Ltd. ("Hai Yi Investment")	**188**	–

Mr. Chen Jun is a common director of Hai Yi Investment.

On 3 December 2009, the Group entered into agreements with Mr. Chen Jun, the controlling shareholder and a director of the Company, to dispose of its entire equity interests in Zhongtian Software Park and to acquire Great Miracle Holdings Limited and its subsidiaries. Details of the disposal and acquisitions transactions are set out in notes 26 and 33(a), respectively. These transactions were inter-conditional and subsequently approved by the independent shareholders of the Company at the extra-ordinary general meeting held on 23 February 2010 and were completed on 25 February 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

33. EVENTS AFTER THE REPORTING PERIOD

a) ACQUISITIONS OF SUBSIDIARIES

On 25 February 2010, the Group acquired from Mr. Chen Jun, the controlling shareholder and a director of the Company, 100% equity interest in Great Miracle Holdings Limited and its subsidiaries which are principally engaged in properties and investment holding and sale of building materials and intelligent electronic components in the PRC, for an aggregate consideration of RMB71,432,000, comprising cash consideration of RMB25,000,000 and RMB46,432,000 (equivalent to HK$52,704,000) to be satisfied by the issue of an aggregate of 60,859,122 new shares ("consideration shares") of the Company. This transaction was approved by the Company's independent shareholders at the extra-ordinary general meeting held on 23 February 2010. This transaction has been reflected as purchase of assets and liabilities in next financial year 2010.

The assets and liabilities arising from the acquisition, provisionally determined, as follows:

	Acquiree's carrying amount RMB'000	**Fair value** RMB'000
Investment properties	50,400	50,400
Plant and equipment	102	102
Available-for-sale equity investment	34,140	34,140
Trade and other receivables	1,669	1,669
Amounts due from related companies	2,144	2,144
Amount due from a relate party, Mr. Chen Jun	2,136	2,136
Cash and bank balances	21	21
Trade and other payables	(1,091)	(1,091)
Amount due to a related party	(2,136)	(2,136)
Deferred tax liabilities	(15,953)	(15,953)
Net assets acquired	71,432	71,432
Direct costs relating to the acquisitions		768
Deemed distribution to the controlling shareholder (note (ii))		22,344
		94,544
Consideration represented:		
— Cash		25,000
— Fair value of consideration shares issued		69,544
		94,544

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

33. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

a) ACQUISITIONS OF SUBSIDIARIES *(Continued)*

Notes:

(i) Pursuant to the sale and purchase agreement dated 3 December 2009 for the acquisitions of Great Miracle Holdings Limited and its subsidiaries, 60,859,122 ordinary shares of the Company with par value of HK$0.01 were issued. The fair value of the ordinary shares issued for the acquisitions amounting to approximately HK$79,117,000 (equivalent to RMB69,544,000) was determined using the published closing price of the shares of the Company at the date of acquisition.

(ii) Great Miracle Holdings Limited and its subsidiaries were acquired from the controlling shareholder. The deemed distribution represented the excess of the fair value of the consideration over the fair value of assets acquired, which was resulted from the difference of the share price of HK$0.86 each issued for acquisitions and the published closing price of the shares of the Company at the completion date of the acquisition.

b) DISPOSAL OF ZHONGTIAN SOFTWARE PARK

On 25 February 2010, the Group completed the disposal of the entire equity interest in Zhongtian Software Park under the agreement dated 3 December 2009 (note 26), which was approved by the independent shareholders of the Company at the extra-ordinary general meeting held on 23 February 2010. Further details of the transaction are disclosed in note 26 to the financial statements.

34. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (Revised), Presentation of financial statements, and HKFRS 8, Operating segments, certain comparative figures have been adjusted to conform to the 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 2.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2005 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000	**2009** **RMB'000**
Results					
Turnover	103,303	23,466	6,966	8,826	**5,402**
Profit/(loss) from operations	10,296	(16,115)	(32,994)	(53,849)	**(17,542)**
Share of result of an associate	218	(81)	–	–	**–**
Finance costs	–	–	(10)	(1,704)	**–**
Profit/(loss) before taxation	10,514	(16,196)	(33,004)	(55,553)	**(17,542)**
Income tax	(1,100)	–	–	–	**–**
Profit/(loss) for the year	9,414	(16,196)	(33,004)	(55,553)	**(17,542)**
Attributable to:					
Owners of the Company	9,469	(16,192)	(33,004)	(55,553)	**(17,542)**
Non-controlling interest	(55)	(4)	–	–	**–**
Earnings/(loss) per share					
– Basic	9.48 cents	(16.2 cents)	(33 cents)	(55.60 cents)	**(16.8 cents)**
– Diluted	9.48 cents	(16.2 cents)	(33 cents)	(55.60 cents)	**(16.8 cents)**

	As at 31 December				
	2005 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000	**2009** **RMB'000**
Assets and liabilities					
Total assets	175,854	143,055	145,840	66,581	**62,163**
Total liabilities	(20,184)	(7,037)	(35,321)	(11,729)	**(11,117)**
	155,670	136,018	110,519	54,852	**51,046**