BROAD INTELLIGENCE
International Pharmaceutical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1149)

ANNUAL REPORT 2009

Contents

Chairman's Statement

I am pleased to present to our shareholders the 2009 Annual Report ("Annual Report") of Broad Intelligence International Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2009.

To the Group, 2009 was a year full of operational challenges and opportunities. The adverse effects of the financial tsunami has yet to be dissipated and the market demand for pharmaceuticals was therefore affected, coupled with the fact that our Group sells large volume parenteral solution and small volume parenteral solution of which belong to the general medicines, the supply of them in the market is relatively abundant. Our marketing strategy failed to meet the market changes which led to the reduced sales during the year, as well as the consequent impairment loss on plant, equipment and intangible assets and the written-off of inventory also directly affected the performance.

Seventeen production lines of the Group obtained GMP certification of the 國家食品藥品監督管理局 State Food and Drug Administration. This certification enhanced the quality requirements of the factory and increased the production cost. Meanwhile under the proposal of the new medical reform, the implementation of unified medical tenders based on the unit of province also reduced our Group's point of sales, which affected our pharmaceutical business to a certain degree. Despite of facing challenging business environment and intense competitive domestic pharmaceutical market, the Group will actively cope with it and adjust the operation strategy appropriately. The Group understands that only with certain capital investments and recruitments of professional talents for the research and development of patented medicines, can enhance our core competitiveness and improve the sales performance of pharmaceutical business.

Although the pharmaceutical business faced unprecedented challenges in 2009, the Group made adjustments in its strategies at appropriate times, by that, the Group not only solidified its pharmaceutical business, but also stepped into the new security and protection business of which is having great growth potential with 物聯網 ("Internet-of-things") as the base. Internet-of-things is combining information-sensing equipments, such as radio frequency identification, infrared sensor global positioning system and etc with internet, so that an object can be endowed with smart intelligence, of which can then help to realize the communication and dialogue between object and human as well as between object and object. Finally, the "Internet-of-things" will be established to cover everything. Initial framework of standard system of Internet-of-things in China has already been erected, according to《國家中長期科學與技術發展規劃 (2006-2020)》("National Mid-Term and Long-Term Science and Technology Development Plan (2006-2020)"), Internet-of-things is already listed as the key research area. In the future, Internet-of-things will cover many fields such as intelligent traffic system, environmental protection, government works, public and home safety, intelligent fire prevention system, industrial monitoring system and so on. Therefore, the Group acquired Eagle Mascot Limited in October 2009, which indirectly held 100% interest in 深圳市安芯數字發展有限公司 ("安芯") Shenzhen An-xin Digital Development Co., Limited ("An-xin"), an integrated solutions provider of high technology intelligent security warning systems. The company is the pioneer enterprise in China to apply Internet-of-things technology on security and protection area. This acquisition brought an excellent opportunity for the Group to explore new business, which helps to expand our revenue base.

Chairman's Statement

With the rapid development of national economy of China, and the increasing application of security and protection technology and Internet-of-things technology, the premier, Wen JiaBao has made a significant speech《讓科技引領中國可持續發展》("Science and Technology leads the Sustainable Development of China") on 3 November 2009. Internet-of-things was listed as one of the five emerging strategic industries in China. According to the《中國安防行業「十一五」發展規劃指導思想》("The Development Plan and Guidance of the China Security and Protection Industry under the "Eleventh Five-Year-Plan""), during the period under the "Eleventh Five-Year-Plan", the growth rate of the security and protection products' industry in China would reach 20% or above, and it is expected that the increase would achieve RMB80 billion or above by 2010. The market potential is tremendous.

The Board of Directors ("The Board") believes that the acquisition of An-xin will enable the Group to step into the high-tech business, which will lay a solid platform for the Group to reap the enormous gains from the rapid growth of the high-tech industry in the years ahead. Looking into the future, The Group will closely monitor the opportunities arisen from the market, timely adjust operational strategies, so as to create better performance and accomplish the long-term goal of maximizing shareholders' value.

DIVIDENDS AND DIVIDEND POLICY

In view of the unsatisfactory performance of the Group, the Board therefore does not recommend final dividend for the year ended 31 December 2009 (2008: Nil).

ACKNOWLEDGEMENT

On behalf of the Board, I would like to acknowledge the determined efforts and significant contributions made by the management and staff, and would like to extend my acknowledgment to our shareholders and investors for their support. With stable and solid business base and the efforts of all staff, the Group will strive to create success for the coming year.

Zhong Houtai
Chairman

Hong Kong, 23 April 2010

Management Discussion and Analysis

1. BUSINESS REVIEW

Industry Review

In 2009 the pharmaceutical industry greatly developed with the help of implementation of a new healthcare reform and a series of medical related policies in the PRC. Financial crisis continuously impacted on the global economy and the benefits of the healthcare reform are still yet to be realized, which caused conservative consuming behavior among consumers. Intense market competition as well as decreasing product price presents plenty of challenges to the whole pharmaceutical industry. Meanwhile, the adoption of tender system for medicine procurement in each province and city in the PRC narrowed down the group's point of sales to a significant extent. As a result, the business of the Group suffered a severe blow during the reporting period.

Business Review

As opportunities and challenges co-exist, the Group showed a clear awareness and accurate judgment and wisely adjusted its strategies according to the change. In general, the Group will solidify its main business in the production and sales of medicines and healthcare pharmaceutical products, on the other hand, the Group will develop a new intelligent security and protection business which is having great growth potential, this will further strengthen our integrated capability as well as capability of combating risk. The Group's revenue base will therefore be enlarged.

Pharmaceutical Business

As at 31 December 2009, the Group owned 17 production lines which were granted GMP certifications by the State Food And Drug Administration 國家食品藥品監督管理局, among them, one production line is for large volume parenteral solution and one production line is for small volume parenteral solution, the remaining 15 production lines are producing various healthcare pharmaceutical products: pill, capsule, granule, powder, herbal tea, edible solution, syrup, suspension, nasal drop, eye drop, ear drop, tincture, solution, suppository and aerosol.

Due to the increase in capital input and the strengthened supervision in every aspect like raw material, staff, equipment, production process, product packaging and transportation, the Group's pharmaceutical products reached high standards, our brand and product quality both earned high degree of recognition. During the reporting period, the pharmaceutical business recorded a loss. The main reason is (i) decrease in sales of the Group in 2009; (ii) the impairment loss HK$473 million on plants; equipment and intangible assets of the Group due to the decrease in sales of the Group in 2009; and (iii) the written-off of stock HK$30 million which including the stock loss of RMB18 million announced by the Company on 31 July 2009. For the year 2009 the total turnover of the Group's pharmaceutical products was approximately HK$83 million, down 80% as compared to the turnover of same period in 2008 of approximately HK$422 million. The turnover of healthcare pharmaceutical products and parenteral solution products recorded HK$17 million and HK$66 million (2008: HK$114 million and HK$308 million), dropped down 85% and 79% as compared with the year 2008 respectively. The turnover of healthcare pharmaceutical products and parenteral solution products accounted for 14% and 52% of the Group's turnover respectively. Despite of facing challenging business environment and intense competitive domestic pharmaceutical market, the Group will adjust the operation strategy appropriately. The Group understands that only with certain capital investments and recruitments of professional talents, for the research and development of patented medicines, can improve the sales performance of pharmaceutical business.

Security Protection Business

With the rapid development of the PRC's national economy in recent years, people's consciousness of self-safety and self-protection is enhanced. The demand for security and video monitoring systems keeps increasing, which presents attractive opportunities and potentials in the security and protection industry. This industry has grown and prospered along with the internet-based and intelligence-based evolution supported by the Internet protocol technology. According to the《中國安防行業「十一五」發展規劃指導思想》("The Development Plan and Guidance of the China Security and Protection Industry under the "Eleventh Five-Year-Plan""), during the period under the "Eleventh Five-Year-Plan", the growth rate of the security and protection products' industry in China would reach 20% or above, and it is expected that the increase would achieve RMB80 billion or above by 2010. Therefore, the Group determined to acquire Eagle Mascot Limited in October 2009, which indirectly held 100% interest in An-xin, an integrated solutions provider of high technology intelligent security warning systems in the PRC, with the consideration that the intelligent security protection business is possessing high profit visibility and positive prospect and potential.

An-xin is an integrated solutions provider of high technology intelligent security warning systems in the PRC. An-xin had obtained its own independent intellectual property rights, and was entirely engaged in the development of production safety, and gradually developing its market in connection with public security and civil security. An-xin had directly or indirectly made 5 applications for patents in invention rights, application rights and outlook rights in the PRC and some other international PCT rights. An-xin had also applied for not less than 10 software copyrights in the PRC. An-xin was granted the title of 改革開放30年自主創新示範單位 ("30th Anniversary of Reform and Open Policy Independent Innovation Demonstration Unit") by 國家高新技術產業產業化戰略研究室 ("The National High Technology Industry Industrialization Strategic Unit") in 2009. Recently in 2010, it was awarded as 「中關村物聯網產業聯盟」理事單位 (the director unit of Zhongguancun Industry Alliance in Internet of Things) and 「深圳市軟體行業協會」理事單位 (the director unit of Shenzhen Software Industry Association), 「深圳市安全生產科學技術學會」副會長單位 (the deputy chairman unit of Shenzhen Institute of Security Science and Technology) and 「深圳國際商會」常務領事單位 (standing council unit of Shenzhen International Chamber of Commerce) respectively. It was also granted the title as「深圳市工業500強企業」 ("one of the top 500 industrial enterprises of Shenzhen city") in China in 2008, 「南山區領軍企業」("the leading enterprise in Nanshan area") in 2009 and 「中國深圳市南山區百強納税企業」 ("one of the top 100 tax-paying enterprises in the Nanshan area in Shenzhen city") from 2007 to 2009.

Upon completion of the acquisition of An-xin in 2009, the Group's intelligent security protection business contributed HK$43 million, representing 34% of the total turnover of the Group as at 31 December 2009. The Group believed that depending on the well-established competitive advantage, An-Xin will achieve great success again in such profitable and promising industry.

2. FINANCIAL REVIEW

Financial Information

The Group had cash and bank balances amounting to approximately HK$92 million as at 31 December 2009. As at 31 December 2009, the Group's bank loans were HK$45.6 million (2008: Nil), of which HK$22.8 million was secured by corporate guarantee provided by independent mortgage company and HK$22.8 million was secured by property owned by related company. The gearing ratio is 72.26% (2008: Nil). As at 31 December 2009, the current ratio and quick ratio were 1.44 and 1.40 respectively (as at 31 December 2008: 1.24 and 0.19 respectively). As at 31 December 2009, debtors turnover period, inventory turnover period and creditors turnover period were 217.11 days, 24.07 days and 14.62 days respectively (as at 31 December 2008: 3 days, 52 days and 41 days respectively). Overall, the Group has a stable and sound financial position which provides a solid foundation for future development.

Details of business segments are set out in Note 5 to the financial statements.

Management Discussion and Analysis

Changes in the Organisation of the Group

In October 2009, the Group acquired Eagle Mascot Limited, it indirectly held the entire equity interest in An-xin, an integrated solutions provider of high technology intelligent security warning systems in the PRC, at a consideration of HK$1,300,000,000. This acquisition brought an excellent opportunity for the Group to explore new business, which helps to expand our revenue base. The Board considers it will help the Group to realize business diversification into a new business with a huge growth potential.

Capital Expenditure

During the year ended 31 December 2009, the Group acquired new property, plant and equipment totaling HK1.9 million.

Contingent Liabilities

As at 31 December 2009, the Group and the Company did not have any significant contingent liabilities (2008: nil).

Charge on the Group's Assets

Except for those disclosed in note 25(b) to the financial statements, the Group had no charges on the assets as at 31 December 2009.

Closure of register of members

The Register of Members of the Company will be closed from 1 June 2010 to 2 June 2010, both days inclusive, during which period no transfers of shares shall be effected. In order to be eligible to attend and vote at the annual general meeting of the Company to be held on 2 June 2010, all transfers of shares accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's Hong Kong branch share registrar, Tricor Standard Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 31 May 2010.

3. EMPLOYEES AND REMUNERATION POLICY

Business Philosophy: human-oriented

The Group attached great importance to human-oriented business philosophy. In daily operations, the Group insists on treating every staff with respect and care, at the same time motivating their personal initiative, potential and creativity by a series of incentive policies.

Number of Employees and other information

In October 2009, the Group acquired Eagle Mascot Limited, it indirectly held the entire equity interest in An-xin. Therefore, at the end of 2009, the Group had a total of 221 employees (December 2008: 114), a significant increase compared with the year 2008.

The Group regularly reviews the remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including staff provident fund scheme and discretionary bonus scheme.

4. OUTLOOK AND PROSPECT

With the continuous influence of the developing healthcare reform and the expected further policies in medical services, pharmaceutical industry in China will enjoy its rapid growth as well as the growing demand and increasing purchasing power of medicines. The acquisition of An-xin brings new business opportunities. It is believed that security protection business is a promising business, which is an industry with great growth potential.

Looking forward, the Group will timely adjust the strategies to maximize the flexibility to meet the challenges and opportunities. Regarding the Group's production and sales of pharmaceutical products business, the majority of pharmaceutical products are general medicines which the supply of them is relatively abundant. To cope with market changes, the Group understands that only with certain capital investments and recruitments of professional talents, which for the research and development of patented medicines, can improve the sales performance of pharmaceutical business. For the new security protection business, in facing the market with high growth potential, the Group will try to get the opportunities. Through An-xin's well-established competitive advantage and accumulative network resource, the Group will apply the Internet-of-things technology into industrial production safety, public security and civil security, and maximize the returns to the Group's shareholders, who give lasting confidence and support.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhong Houtai, Chairman
Mr. Zhong Houyao
Mr. Sun Daquan
Mr. Lin Supeng

Independent Non Executive Directors

Mr. Pei Renjiu
Mr. Li Kai Ming
Mr. Cheung Chuen

COMPANY SECRETARY

Mr. Chow Chi Wa ACIS, ACS, FCPA, FCCA, MCG

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Standard Chartered Bank
China Minsheng Banking Corp. Ltd
China Development Bank

AUDITOR

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

PO Box 309
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Grand Cayman
KY1-1104
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1903, Allied Kajima Building
138 Gloucester Road
Wan Chai
Hong Kong

Directors, Senior Management and Staff

DIRECTORS

Executive Directors

Mr. Zhong Houtai（鍾厚泰）, aged 53, is the Chairman of the Company. Mr. Zhong is a representative of the tenth provincial people's congress of Fujian. In June 2004, he was named as one of the "Top 100 Outstanding Entrepreneurs in China" by Wu Bangguo, chairman of the Standing Committee of the National People's Congress. Mr. Zhong was appointed as the deputy president of the Association of Sino-foreign Entrepreneurs of Fujian Province（福建省中外企業家聯誼會）and the Fuqian Society of Pharmacy（福清市藥學會）in 2001 and 2002 respectively. In August 2003, he was appointed as the deputy president of the Fujian Association of Pharmaceutical Profession（福建省醫藥行業協會）. Mr. Zhong was accredited as New Long March Pioneer（新長征突擊手）by the Fuzhou Committee of the Communist Youth League of China in 1983 and Model Labour of Fuzhou（福州市勞動模範）by the People's Government of Fuzhou City in 2001. Over the years, Mr. Zhong has participated in healthcare-related business and has accumulated experience in production management for more than 9 years. He had also been engaged in various sectors including cultivation, food and agriculture before he founded the Group in 1996. Under the leadership of Mr. Zhong, 福建南少林藥業有限公司 Fujian Nanshaolin Pharmaceutical Company Limited (formerly known as Fuqing Pharmaceutical) became the first enterprise in Fujian Province passing the national GMP certification in respect of its small volume parenteral solution workshop. Mr. Zhong Houtai is the brother of Mr. Zhong Houyao.

Mr. Zhong Houyao（鍾厚堯）, aged 56, is a Director and the general manager of the Company. Mr. Zhong was qualified as a senior engineer by the Fujian Province Title Reform Committee（福建省職稱改革領導小組）in 2000. Mr. Zhong graduated from Fujian Normal University（福建師範大學）in 1982, majoring in chemistry. He taught in Fujian Qiaoxing Light Industry School（福建省僑興輕工學校）from 1982 to 1991 and was the leader of the Scientific Research Team and the head of the Food Industry Division there. During his service in the institute, Mr. Zhong coordinated the study on various topics including "alcohol extraction from cane juice" and "food preservation". From 1992 to 1993, Mr. Zhong studied food chemistry in Australia. Currently, Mr. Zhong is an executive of the Fujian Association of Pharmaceutical Profession（福建省醫藥行業協會）. He joined the Group in 1996 and was one of the founders of the Group. Mr. Zhong Houyao is the brother of Mr. Zhong Houtai.

Mr. Sun Daquan（孫大銓）, aged 70, is a Director of the Company. He graduated from Shanghai First Medical School（上海第一醫學院）in 1962, majoring in pharmacy. From 1979 to 1983, Mr. Sun held various senior positions in Industrial Chemistry Bureau of Xiamen City, Fujian. From 1983 to 1995, he was the deputy general manager of Pharmaceutical Company of Fujian（福建省醫藥總公司）, presently known as Drug Administration of Fujian Province. In 1996, he became the chief commissioner of Food and Drug Administration of Fujian（福建省醫藥管理局）. He was qualified as an engineer in pharmacy by the People's Government of Xiamen City in 1981. Mr. Sun joined the Group in April 2003.

Mr. Lin Supeng（林蘇鵬）, aged 26, is a Director of the Company. Mr. Lin holds a degree of Bachelor of Science in 數學與應用數學（信息與計算科學）(Mathematics and Applied Mathematics (Information and Computational Science)) from 深圳大學 (Shenzhen University), the People's Republic of China, and a degree of Master of Information Technology from The University of Queensland, Australia. Mr. Lin is knowledgeable in computer programming and is experienced in software development project management.

Mr. Lin is currently the Chief Officer of the Technical Department of An-xin, an indirect wholly-owned subsidiary of the Company, and is responsible for the supervision and management of the said department, including development of system software and application software. Mr. Lin joined An-xin in May 2009 and became the director of the Group in February 2010.

Independent Non-executive Directors

Mr. Pei Renjiu（裴仁九）, aged 44, graduated from Bangfu Academy of Medical Sciences（蚌阜醫學院）in 1990, majoring in pharmacology. Mr. Pei has been granted various awards. In 1997, one of Mr. Pei's theses was accredited with a first honours award by the chief logistic department of the People's Liberation Army（中國人民解放軍總後勤部）and in 1994 and 1995, two of Mr. Pei's theses were accredited with a third honours award by the logistic department of the Nanjing military zone of the People's Liberation Army（中國人民解放軍南京軍區後勤部）. He has been engaged in the field of pharmacy for more than 11 years. Mr. Pei was qualified as a deputy chief pharmacist by the Examination Board of Senior Technical Staff of Healthcare Professionals of the Nanjing military zone（南京軍區衛生系列高級專業技術職務評審委員會）in 1998. Mr. Pei was appointed as independent non-executive Director in April 2003.

Mr. Li Kai Ming（李開明）, aged 66, graduated from Jimei Light Industrial School（集美輕工業學校）in 1962, majoring in industry planning statistics. Mr. Li was the chief of Financial Bureau of Fuqing（福清市財政局）from 1996 to 2002 and was appointed as visiting professor at China Management Institute（中國管理學院）in 2003. Mr. Li was also a researcher at World Economic Research Centre（世界經濟研究中心）in 2002. Mr. Li was qualified as an economist by the Fuzhou City Title Reform Committee（福州市職稱改革領導小組）in 1992. One of his essays was awarded "First Class Award for Excellent Management Essay in the PRC"（首屆中國優秀領導管理藝術徵文一等獎）in 2000 and his another essay was awarded "Award for International Excellent Essay"（國際優秀論文獎）in 2001. Mr. Li was appointed as independent non-executive Director in July 2003.

Directors, Senior Management and Staff

Mr. Cheung Chuen（張全）, aged 36, graduated from the accounting department of Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in 1999 and obtained a Master degree in accounting from Hong Kong Polytechnic University in 2004. Mr. Cheung is currently a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants. He has more than 10 years' experience in accounting and auditing and is currently qualified to practise as a certified public accountant in the US and Hong Kong. Mr. Cheung joined the Group as independent non-executive director in September 2004. He is also an independent non-executive director of Kingwell Group Limited (stock code: 1195), a listed company in Hong Kong and an Executive director of China High Precision Automation Group Limited (stock code: 591), a listed company in Hong Kong.

SENIOR MANAGEMENT

Mr. Chow Chi Wa（周志華）, aged 42, is the Financial Controller and Company Secretary of the Group. Mr. Chow holds a Master Degree in Corporate Governance. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a fellow member of The Association of Chartered Certified Accountants. He is also an associate of both The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators. Mr. Chow has about 20 years of working experience related to finance and accounting. He joined the Group in March 2007 and is currently responsible for the financial, accounting and company secretarial functions of the Group.

Mr. Guo Wenjing（郭文璟）, aged 66, is a deputy general manager of Fujian Nanshaolin Pharmaceutical Company Limited and is responsible for production and equipment management. He graduated from East China University of Science and Technology（華東化工學院）in 1968, majoring in chemical pharmacy. In 1997, he became the director of a medical industrial research centre in Fuzhou. Mr. Guo served as an executive of the third committee of the Society of Industrial Chemistry of Fujian（福建省化工學會）, a managing executive of the third committee of Fujian Research Institute of Modern Economics and Management（福建省技術經濟與管理現代化研究會）, an executive on the tenth committee of Fujian Branch of the PRC Pharmaceutical Society（中國藥學會福建分會）and a managing executive of the fifth committee of Pharmaceutical Society of Fuzhou City（福州市藥學會）. Mr. Guo had also been appointed as a member in the second committee of Board of Medical Products of Fujian Province（福建省藥品審評委員會）for three years from 1992, a member of Fujian Province Board of Technician in Medical Profession（福建省工程技術人員醫藥專業高級職務評審委員會）from December 1998 to December 1999 and a member of the second technical committee of Fujian Province Administration of Medicine（福建省醫藥管理局第二屆技術委員會）for three years from 1994. In 2001, Mr. Guo was appointed as a member of the Committee of Experts of Investment Decision Expert Consultants of Fujian Industrial and Business Sector（福建省工商領域投資決策諮詢專家庫專家委員會）. He has been granted provincial outstanding new product class 2 award（福建省優秀新產品二等獎）by the Fujian Province Outstanding Products Awards Committee（福建省優秀新產品獎評審委員會）in 1993. From 1987 to 1995, he was accredited several awards for his essays and he qualified as a licensed pharmacist in 1995. Mr. Guo joined the Group and became senior management in April 2003.

Mr. Jin Shushan (金樹山), aged 69, is the chief engineer of Fujian Nanshaolin Pharmaceutical Company Limited. He was qualified as a chief pharmacist by the Examination Board of Middle Technical Staff of Healthcare Professionals of People's Liberation Army Fujian Military Zone (中國人民解放軍福建省軍區衛生系列中級專業技術職務評審委員會) in 1987. He graduated from Jinzhou School of Medicine (錦州醫學院) in 1962, majoring in pharmacy. Upon graduation, he joined the Hospital of Division 73301 of the People's Liberation Army (中國人民解放軍七三三零一部隊醫院) and became the supervisor of its department of medical equipment in 1985. In 1988, he was commissioned to establish military pharmaceutical production facilities (籌建部隊藥廠). Mr. Jin has been engaged in the field of medicine for more than 42 years. He joined the Group and became senior management in December 1996.

Mr. Huang Jinshu (黃敬述), aged 36, is the production manager of Fujian Nanshaolin Pharmaceutical Company Limited and a qualified pharmacist. He graduated from Fuzhou Wenjiao Vocational College (福州文教職業學校) in 1992, majoring in pharmacy. Mr. Huang continued his studies in Beijing Intelligence Development Correspondence School (北京智力開發函授學院) from 1993 to 1994, majoring in pharmacy. He joined the Group and became senior management in December 1996.

Mr. Yu Xiangbin (余祥彬), aged 43, is the production manager of the technical department of Fujian Nanshaolin Pharmaceutical Company Limited. He graduated from the People's Liberation Army Second Military Medical University (中國人民解放軍第二軍醫大學) with a Master degree in medicine in 1994. One of his essays was accredited with the Outstanding Essay Second Honours Award (優秀論文二等獎) by the medical department of Fuzhou Central Hospital of the Nanjing military zone (南京軍區福州總醫院醫務部) in 1997 and his thesis was accredited with Fourth Honours Award by the Logistic Unit of the People's Liberation Army of the Nanjing Military Zone (中國人民解放軍南京軍區聯勤部) in 1999. Mr. Yu joined the Group and became senior management in January 2000.

Mr. Chen Lunbin (陳倫斌), aged 36, is the finance manager of Fujian Nanshaolin Pharmaceutical Company Limited. Mr. Chen graduated from Fuzhou University (福州大學) in 1994, majoring in financial accounting. He joined the Group in December 1996.

Mr. Huang Chenglan (黃成蘭), aged 59, is the equipment manager of Fujian Nanshaolin Pharmaceutical Company Limited. He graduated from Fuzhou Second Technical College (福州市第二技工學校) in 1970, majoring in mechanical engineering. He was a technician in a mechanics factory from 1971 to 1990 and a facility administrator and equipment maintenance officer in a packing company from 1993 to 1995. Mr. Huang joined the Group and became senior management in December 1996.

Directors, Senior Management and Staff

Mr. Chen Hong（陳洪）, aged 46, graduated from college in 1988. He is the president and general manager of An-xin and is the highest business executive officer and manager of An-xin, responsible for coordinating the affairs of various business departments. Mr. Chen has 22 years of working experience in security protection and information technology, and is the vice president of Shenzhen Security Production and Technology Society（深圳市安全生產科學技術學會）and executive chairman（理事長）of Shenzhen Software Industry Association（深圳市軟體行業協會）. Mr. Chen worked for Huawei Technologies Co., Ltd.（深圳華為技術有限公司）, Shenzhen Ruihua Technology Co., Ltd（深圳市瑞華科技發展有限公司）and Shenzhen Jinan Technology & Development Co., Ltd（深圳市金安技術發展有限公司）. Mr. Chen joined An-xin in 1997 and became a member of the senior management of the Group after An-xin was acquired by the Group in October 2009.

Mr. Han Zhengzhong（韓正忠）, aged 64, a professor graduated from Nanjing University in 1965. He is the Assistant Chief Engineer of An-xin mainly responsible for corporate technology management, chairing and completing the scientific research tasks of An-xin. Mr. Han is an expert in computer software, majoring in the research of fuzzy mathematical theories and computer applications. He has accomplished 5 scientific research tasks, including National Natural Science Foundation of China Project and Provincial Ministerial Scientific Research Project. His achievements were appraised by experts at provincial level, a leader in the country with international advanced standards. Mr. Han obtained the second-class award in scientific technology progress issued by the Ministry of Education of the People's Republic of China（國家教育部科技進步二等獎）and third-class award in scientific technology progress issued by the Ministry of Electronics（家電子部科技進步三等獎）. He was accredited as an Outstanding Technology Worker（優秀科技工作者）in Jiangsu Province in January 2000. He was in charge of the research and development and design of human face identification project. He published two books, namely Fuzzy Mathematics Application《模糊數學應用》and A Course in Modern Summary Astronomy《現代天文學簡明教程》respectively. He published over 20 articles in domestic and overseas core journals, such as Science in China, Applied Mathematics and Computation and Chinese Astronomy and Astrophysics. Mr. Han joined An-xin in 1996, and became a member of the senior management of the Group after An-xin was acquired by the Group in October 2009.

Mr. Xiao Hua (肖華), aged 44, graduated from college in 1987 and obtained the professional accountant qualifications from the Ministry of Finance of the PRC. He is the Financial Controller of An-xin, responsible for the financial and accounting affairs of the Group in An-xin and its subsidiaries. Mr. Xiao has 23 years of financial and accounting experience. He was the finance manager of 深圳市賽格集團電顯公司 and 深圳市興濤實業有限公司, financial controller of 深圳市中包威宜投資有限公司, 深圳市瑞華科技發展有限公司 and Shenzhen Jin'an Technology Development Co., Ltd. (深圳市金安技術發展有限公司). Mr. Xiao joined An-xin in 2003, and became a member of the senior management of the Group after An-xin was acquired by the Group in October 2009.

Mr. Yang Ma (楊馬), aged 32, graduated from Huaiyin Institute of Technology (淮陰工學院) in 2000. He is the Deputy General Manager and Manager of the Purchasing Department of An-xin. He is responsible for the sourcing management. He worked for 江蘇省洪澤縣水泥廠, 深圳市穎臻實業有限公司, Shenzhen Ruihua Technology Co., Ltd. (深圳市瑞華科技發展有限公司) and Shenzhen Jinan Technology & Development Co., Ltd (深圳市金安技術發展有限公司) and was in charge of sourcing management. Mr. Yang joined An-xin in 2003, and became a member of the senior management of the Group after An-xin was acquired by the Group in October 2009.

Report of the Directors

The Directors present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in Note 20 to the financial statements.

RESULTS

The Group's results for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 36 of this Annual Report.

DIVIDENDS

Due to the Group's undesirable performance, it does not recommend payment of any final dividend for the year ended 31 December 2009 (2008: HK$Nil). No interim dividend was declared for the six months ended 30 June 2009 (2008: Nil).

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

The Group made a placing of non-listed warrants in 2009, at the warrant issue price of HK$0.02 per warrant and at an initial subscription price of HK$0.415 per new share. Each warrant initially carries the right to subscribe for one new share. All the non-listed warrants were exercised in 2009, under which 92,000,000 new shares were issued. The net proceeds from warrant placing and proceeds from issue of new shares upon the exercise of the subscription rights attaching to the warrants were applied as the general working capital of the Group as well as the fund for the Group's development.

In 2009 the Group made an acquisition of Eagle Mascot Limited and its subsidiary company An-xin with total consideration of HK$1,300,000,000 in the following manner:

(i) the issue of the consideration shares worth HK$85,150,000 with issue price HK$0.65 per share. There are total 131,000,000 consideration shares issued;

(ii) the issue of the non-listed tranche 1 convertible bonds in the principal amount of HK$889,850,000; The conversion price is set at HK$0.65 per share; tranche 1 convertible bonds can be converted into 1,369 million shares;

(iii) HK$35,000,000 are satisfied in cash; and

(iv) the issue of the non-listed tranche 2 convertible bonds in the principal amount of HK$290,000,000; The conversion price is set at HK$0.65 per share; tranche 2 convertible bonds can be converted into 446,153,846 shares.

During the year 2009, the non-listed tranche 1 convertible bonds in the principal amount of HK$186,309,600 and the non-listed tranche 2 convertible bonds in the principal amount of HK$20,000,000 were exercised and converted into 286,630,153 shares and 30,769,230 shares.

Changes in share capital for the year 2009

	Shares '000	Amount HK$'000
As at 1 January, 2009	463,899	46,390
Issue of new share on exercise of warrant	92,000	9,200
Issue of consideration share on acquisition of subsidiaries	131,000	13,100
Issue of shares on conversion of convertible bonds	317,400	31,740
As at 31 December, 2009	1,004,299	100,430

Further details are set out in note 29 to the financial statements.

SHARE OPTIONS

The Company has conditionally adopted the Share Option Scheme, the principal terms of which are set out in Note 32 to the financial statements. The share option scheme is effective for a term of ten years from 3 November 2003. The following table discloses movements in the Company's Share Option Scheme during the year:

		Number of share options							
Category of participant	Date of grant	Outstanding as at 1 Jan 2009	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 Dec 2009	Exercisable period	Exercise price per share HK$	Market value per share at date of grant of options HK$
Consultant	14 May 2007	1,000,000	–	–	1,000,000	–	14 May 2007 to 13 May 2009	1.048	1.03
Total		1,000,000	0	0	1,000,000	0			

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 30 to the financial statements and in the consolidated statement of changes in equity.

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	**17**	16
From the five largest suppliers	**51**	64
Percentage of turnover:		
From the largest customer	**10**	7
From the five largest customers	**26**	25

DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

Executive Directors

Mr. Zhong Houtai, *Chairman*
Mr. Zhong Houyao
Mr. Chong Hoi Fung *(resigned on 3 February 2010)*
Mr. Sun Daquan
Mr. Lin Supeng *(appointed on 3 February 2010)*

Independent Non Executive Directors

Mr. Pei Renjiu
Mr. Li Kai Ming
Mr. Cheung Chuen

Pursuant to the Company's Articles of Association, Mr. Zhong Houyao, Mr. Sun Daquan and Mr. Cheung Chuen will retire from office as directors at the forthcoming Annual General Meeting. Mr. Zhong Houyao and Mr. Cheung Chuen, being eligible, will offer themselves for re-election. Whereas Mr. Sun Daquan will not offer himself for re-election as Director due to retirement, Mr. Sun has confirmed that he has no disagreement with the Board, and there is no matter that needs to be brought to the attention of the shareholders.

DIRECTORS' SERVICE CONTRACT

Mr. Zhong Houtai, Mr. Zhong Houyao, Mr. Chong Hoi Fung and Mr. Sun Daquan have entered into a service contract with the Company for an initial fixed term of 3 years commencing from 24 November 2003, and will continue thereafter until terminated by not less than 3 months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term. Mr. Zhong Houtai, Mr. Zhong Houyao, Mr. Chong Hoi Fung and Mr. Sun Daquan are entitled to the respective basic salary set out below (subject to an annual increment after the first anniversary of the commencement date of the respective service contracts at the discretion of the Directors of not more than 10% of the annual salary immediately prior to such increase). In addition, for the financial year ending 31 December 2003 and each of the financial years thereafter during the initial term, Mr. Zhong Houtai, Mr. Zhong Houyao, Mr. Chong Hoi Fung and Mr. Sun Daquan are also entitled to a discretionary bonus provided that the aggregate amount of the bonuses payable to Mr. Zhong Houtai, Mr. Zhong Houyao, Mr. Chong Hoi Fung and Mr. Sun Daquan in respect of any financial year of the Company shall not exceed 5% of the audited net profit of the Company (or as the case may be, combined or, consolidated audited net profit of the Company and its subsidiaries (if any)) (after taxation but before extraordinary and exceptional items and payment of such bonuses) in respect of that financial year of the Company. An executive Director shall not vote on any resolution of the Directors regarding the amount of the discretionary bonus payable to him. For the year 2009, annual salaries of the executive Directors are as follows:

Name	2009 Salary
Mr. Zhong Houtai	HK$504,000
Mr. Zhong Houyao	HK$36,000
Mr. Chong Hoi Fung	HK$0
Mr. Sun Daquan	HK$36,000

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the Company within one year without the payment of compensation (other than statutory compensation)).

The independent non-executive directors are not appointed for a specific term, but are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Articles of the Company.

No director proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 15 of this Annual Report.

DISCLOSURE OF INTERESTS

Directors' Interest in Share Capital

As at 31 December 2009, the interests of the directors in the shares of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI were as follows:

Director	**No. of shares Held** (Corporate interest *(Note)*)	**Percentage of Interest**
Zhong Houtai	211,720,000	21.08%

Notes:

1. The shares are registered under the name of Elite Achieve Limited.

2. The entire issued share capital of Elite Achieve Limited is legally and beneficially owned by Mr. Zhong Houtai.

3. Under the SFO, Mr. Zhong Houtai is deemed to be interested in all the shares registered in the name of Elite Achieve Limited.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the section headed "Directors' Interests in Share Capital" 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 or 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.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest, either direct or indirect, in any significant contract 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 ended 31 December 2009.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, the following persons or companies (other than the Directors and chief executives) had interest or short positions in the shares or underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO and were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meeting of any other members of the Group were as follow:

Name of substantial shareholder	**Capacity in which shares were held**	**Number of shares**	**Number of underlying shares** *(Note 2)*	**Total**	**Approximate percentage of shareholding**
Yang Kezhi	Interest of controlled corporation *(Note 3)*	131,000,000	1,015,384,615	1,146,384,615	114.15%
Golden Bright Holdings Limited	Beneficial owner and Interest of controlled corporation *(Note 3)*	131,000,000	1,015,384,615	1,146,384,615	114.15%
Talent Eagle Holdings Limited	Beneficial owner *(Note 3)*	76,000,000	1,015,384,615	1,091,384,615	108.67%
Wu Wenying 吳文英	Interest of controlled corporation *(Note 4)*	30,769,230	415,384,616	446,153,846	44.42%
Heroic Rich Limited	Beneficial owner *(Note 4)*	30,769,230	415,384,616	446,153,846	44.42%
Katsomalos Nikolaos	Beneficial owner	106,372,000	0	106,372,000	10.59%
Wang Huiru 王惠如	Interest of controlled corporation *(Note 5)*	100,000,000	0	100,000,000	9.96%
Top Service Holdings Limited	Beneficial owner *(Note 5)*	100,000,000	0	100,000,000	9.96%

Notes:

1. The above are all long positions in the ordinary shares of the Company.

2. On 22 October 2009, the Company issued convertible bonds (the "Convertible Bonds') in an aggregate principal amount of HK$1,179,850,000. There were two tranches within the Convertible Bonds, HK$889,850,000 in principal amount of tranche 1 convertible bonds and HK$290,000,000 in principal amount of tranche 2 convertible bonds. The issue of the convertible bonds is used for the acquisition of An-xin. The convertible bonds, with maturity date of 22 October 2014, are convertible into shares at an conversion price of HK$0.65 per share during the conversion period. As at 31 December 2009, an equivalent amount of HK$186,309,600 tranche 1 convertible bonds and HK$20,000,000 tranche 2 of convertible bonds have been converted into ordinary shares of the Company. As at 31 December 2009, the equivalent amount of the remaining balance of tranche 1 convertible bonds and tranche 2 convertible bonds are HK$703,540,400 and HK$270,000,000 respectively.

3. The entire share capital of Talent Eagle Holdings Limited is legally and beneficiary owned by Golden Bright Holdings Limited and The entire share capital of Golden Bright Holdings Limited is legally and beneficiary owned by Yang Kezhi. Therefore, Yang Kezhi is deemed to be interested in the 1,146,384,615 shares held by Golden Bright Holdings Limited and Talent Eagle Holdings Limited under the SFO.

4. The entire share capital of Heroic Rich Limited is legally and beneficiary owned by Wu Wenying. Therefore, Wu Wenying is deemed to be interested in the 446,153,846 shares held by Heroic Rich Limited under the SFO.

5. The entire share capital of Top Service Holdings Limited is legally and beneficiary owned by Wang Huiru. Therefore, Wang Huiru is deemed to be interested in the 10,000,000 shares held by Top Service Holdings Limited under the SFO.

Save as disclosed above, as at 31 December 2009, the Directors are not aware of any other person (other than the Directors, whose interests are set out in the paragraph headed "Directors' interest in Share Capital"), had an interest or short position in the share or underlying shares of the Company that was required to be recorded in the register kept by the Company under Part XV of section 336 of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or is existing during the year ended 31 December 2009.

CONNECTED AND RELATED PARTY TRANSACTIONS

During the year ended 31 December 2009, except for those disclosed in note 35 to the financial statements, the Group had no transactions with related or connected parties.

RETIREMENT SCHEME

The Group provides retirement benefits to its staff. The retirement contributions paid by the Group are based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and are charged to the income statement as incurred. The contribution paid for the year ended 31 December 2009 was approximately HK$734,000 (2008: HK$841,000). The Group has made adequate provision in the financial statements in respect of the benefit schemes. In addition, the Group also provides housing and food allowance to this staff.

In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK$1,000 by each of the employee and the Group) on a monthly basis to the fund.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company adopted the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its code of conduct for corporate governance, the particulars of which are set out in section ("Corporate Governance Report") in pages 25 to 33 of this Annual Report.

INDEPENDENT NON EXECUTIVE DIRECTOR

The Board considered that all non-executive directors to be independent in character and judgement. None of the non-executive directors have relationships or circumstances that are likely to effect their professional judgement and each non-executive director has provided confirmation of his independence to the Group.

Particulars of the independent non-executive directors are set out in the "Directors, Senior Management and Staff" on pages 10 to 15.

AUDIT COMMITTEE

The Annual Report of the Group for the year ended 31 December 2009 has been reviewed by the Audit Committee. Details on the composition of the Audit Committee are set out in the ("Corporate Governance Report") on pages 25 to 33.

Report of the Directors

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Company's directors.

AUDITOR

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

As a result of these changes, a resolution for the appointment of Crowe Horwath (HK) CPA Limited as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Zhong Houtai
Chairman

23 April 2010

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieving high standards of corporate governance to safeguard the interests of all shareholders and to enhance corporate value and accountability. Throughout the year ended 31 December 2009, the Group has applied the principles and complied with most of the code provisions and recommended best practices prescribed in the Code on Corporate Governance Practices ("CG Code") set out in the Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). This report describes its corporate governance practices, explains the applications of the principles of the CG Code and deviations, if any.

BOARD OF DIRECTORS

The Composition of the Board of Directors

As at 31 December 2009, there were seven Board members consisting of four executive Directors and three independent non-executive Directors.

Executive Directors:
Mr. Zhong Houtai *(chairman)*
Mr. Zhong Houyao
Mr. Sun Daquan
Mr. Chong Hoi Fung *(resigned on 3 February 2010)*

Independent Non-executive Directors:
Mr. Cheung Chuen
Mr. Pei Renjiu
Mr. Li Kai Ming

As at the date of the report, there were seven Board members consisting of four executive Directors and three independent non-executive Directors.

Executive Directors:
Mr. Zhong Houtai *(chairman)*
Mr. Zhong Houyao
Mr. Sun Daquan
Mr. Lin Supeng *(appointed on 3 February 2010)*

Independent Non-executive Directors:
Mr. Cheung Chuen
Mr. Pei Renjiu
Mr. Li Kai Ming

Corporate Governance Report

The composition of the Board of Directors is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business of the Group. Each of the Directors' respective biographical details is set out in the "Directors, Senior Management and Staff" of this annual report. The Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, contributing to the successful performance of the Group for the year under review. Besides, to the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship between the Directors and each of the Directors also does not have any direct or indirect material relationship with the Group.

According to the code provision A2.1 of the CG Code, the roles of the chairman and the chief executive officer should be segregated. However, the Company has no chief executive officer currently. Mr. Zhong Houtai is the chairman and executive Director of the Company responsible for the Group's operations in the PRC. The responsibility of that of a chief executive officer is currently taken up by the chairman of the Company. If the Company can identify a suitable person with capable leadership, knowledge on medicines, security and protection business and relevant skills and experiences for the post from within the Group or outside, the Company may consider appointing a chief executive officer. Owing to the business nature and scope of the Company, a suitable person shall have profound understanding and experiences on medicines, security and protection business, therefore there is no definite timetable for the appointment of chief executive officer.

Functions of the Board of Directors

The Board of Directors has separate functions and duties from the managements. The functions and duties of the Board include convening the Shareholders' general meetings; making decisions on the Company's operational plans, financial accounts and profit distribution scheme; formulating merger, separation, dissolution proposals and significant acquisition or sale proposals; and implementing the resolutions passed at the Shareholders' general meetings. The management is accountable to the Board of Directors and responsible for the day-to-day operations of the Group. Its main functions and duties include production and operation management, organization and implementation of the annual operational plans and investment proposals approved by the Board of Directors, and implementation of the resolutions passed by the Board of Directors. According to the code requirement of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. However, no insurance coverage has been purchased for any of the Directors as the Board does not foresee any contingent liabilities against the Group.

Directors' Appointment, Re-election and Removal

Mr. Zhong Houtai, Mr. Zhong Houyao, Mr. Chong Hoi Fung and Mr. Sun Daquan have entered into a service contract respectively with the Company for an initial fixed term of 3 years commencing from 24 November 2003, and will continue thereafter until terminated by not less than 3 months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

According to the code provision A4.1 of the CG Code, independent non-executive Directors should be appointed for a specific term of service. However, independent non-executive Directors of the Company are not appointed for a specific term as required under the CG Code, but they are subject to retirement in rotation at the annual general meeting of the Company according to the Articles of the Company.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the Company within one year without the payment of compensation (other than statutory compensation)).

According to the provisions of the articles of association of the Company (the "Articles"), any Director appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election. Furthermore, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation.

Board meeting and Board Practices

The Board of Directors holds meetings on a regular basis. If necessary, the Board of Directors will convene additional meetings. The Company Secretary is responsible for distributing detailed documents to Directors prior to the meetings of the Board of Directors to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing to the Board of Directors opinions on matters in relation to the compliance with the procedures of the Board meetings. In addition, to facilitate the decision-making process, the Directors are free to have access to the management for enquiries and to obtain further information, when required. The Directors can also seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company.

During the year ended 31 December 2009, the Company held 16 Board meetings, and the Directors' attendance records for the meetings held are set out below.

Directors' Attendance at Board Meetings

	Number of Board meeting attended/ Number of Board meeting held
Executive Directors	
Mr. Zhong Houtai *(Chairman)*	16/16
Mr. Zhong Houyao	16/16
Mr. Chong Hoi Fung	16/16
Mr. Sun Daquan	16/16
Independent non-Executive Directors	
Mr. Cheung Chuen	16/16
Mr. Pei Renjiu	16/16
Mr. Li Kai Ming	16/16

In compliance of Rule 3.10(1) of the Listing Rules, there are three independent non-executive Directors representing over one-third of the Board of Directors. Amongst them, Mr. Cheung Chuen, who is currently a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants and has more than 10 years' experience in accounting and auditing, has the appropriate professional qualifications required under Rule 3.10(2) of the Listing Rules. In addition, Mr. Chow Chi Wa, the Financial Controller is a qualified accountant responsible for oversight of the Group's financial reporting procedures, in compliance of Rule 3.21.

The independent non-executive Directors have participated in Board meetings as well as its various Board committees, and have given their opinions on the decision-making on significant matters by making use of their professional knowledge and experience. They have conscientiously examined the connected transactions and capital dealings with connected parties to ensure fairness and impartiality, expressing their independent opinions and performing their duties independently. The Board considered that all non-executive Directors to be independent in character and judgement. None of the independent non-executive Directors have relationships or circumstances that are likely to affect their professional judgement and the independent non-executive Directors have made active contribution to protect the interests of the Company as a whole and the legal rights of all of shareholders of the Company, as well as promoting the healthy development of the Company.

Three independent non-executive Directors separately submitted their confirmation letters on their independence, confirming that they had strictly observed the requirements for independence as set out in Rule 3.13 of the Listing Rules during the year under review. Independent non-executive Directors are independent persons of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the code for securities transactions by Directors. During the accounting period covered by this annual report, the Company had complied with the Model Code. After making inquiry of the Directors, the Company confirmed that the Directors had complied with the provisions of the Model Code.

BOARD COMMITTEES

Audit Committee

The Company established an audit committee on 3 November 2003 with written terms of reference in compliance with the CG Code. The audit committee has three members, including the Company's three independent non-executive Directors, namely Mr. Pei Renjiu, Mr. Li Kai Ming and Mr. Cheung Chuen. Mr. Cheung Chuen is the chairman of the committee. The duties of the audit committee are to review the Company's annual report and accounts, interim reports and to provide advice and comments thereon to the Board. In addition, the audit committee will consider any significant and unusual items that are, or may need to be reflected in such reports and accounts and must give due consideration to any matter that has been raised by the Company's qualified accountant, compliance officer and auditor. The audit committee is also responsible for reviewing and supervising the financial reporting process and the internal control system of the Group. Besides, the audit committee will make recommendations to the Board on matters regarding the appointment of external auditors and auditing fee etc. The external auditors of the Group may request a meeting of the Audit Committee to be convened if they consider that it is necessary. 4 meetings were held during the current financial year. The attendance records for the audit committee meetings are set out below:

Members of the audit committee	Number of audit committee meeting attended/ Number of audit committee meeting held
Mr. Cheung Chuen	4/4
Mr. Pei Renjiu	4/4
Mr. Li Kai Ming	4/4

Nomination Committee

According to the CG Code, the Company shall set up a nomination committee with a majority of the members thereof being independent non-executive Directors. However, the Company did not establish a nomination committee.

The process and criteria adopted by the Board to select and recommend candidates for directorship are based on assessment of their professional qualifications and experience. The Company is responsible for determining the independence of each Director and conducting formal assessment of the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board. During the year, no Director has been newly appointed.

Remuneration Committee

The Company established a remuneration committee on 5 August 2005. The remuneration committee is led by Mr. Li Kai Ming, an independent non-executive Director. Other members of the remuneration committee include Mr. Pei Renjiu and Mr. Cheung Chuen, both are independent non-executive Directors. The remuneration committee meets at least once a year. The remuneration committee has adopted a defined terms of reference in consistence with the CG Code and it is available from the Company Secretary at any time.

The duties of the remuneration committee includes making recommendations with respect to the remuneration of the executive Directors for approval by the Board, reviewing and recommending salaries, bonuses, merit plans, reward and recognition strategies, including the appropriation of funds for incentive awards for Directors, and administering and making determinations with regard to the Company's share option scheme.

The attendance record of individual committee members is set out below:

Members of the remuneration committee	Number of remuneration committee meeting attended/ Number of remuneration committee meeting held
Mr. Li Kai Ming	1/1
Mr. Cheung Chuen	1/1
Mr. Pei Renjiu	1/1

Remuneration package for executive Directors

Each of these executive Directors is entitled to the respective basic salary which is reviewed annually. In addition, for the financial year ending 31 December 2003 and each of the financial years thereafter during the initial term, Mr. Zhong Houtai, Mr. Zhong Houyao, Mr. Chong Hoi Fung and Mr. Sun Daquan are also entitled to a discretionary bonus provided that the aggregate amount of the bonuses payable to Mr. Zhong Houtai, Mr. Zhong Houyao, Mr. Chong Hoi Fung and Mr. Sun Daquan in respect of any financial year of the Company shall not exceed 5% of the audited net profit of the Company (or as the case may be, combined or, consolidated audited net profit of the Company and its subsidiaries (if any)) (after taxation but before extraordinary and exceptional items and payment of such bonuses) in respect of that financial year of the Company. An executive Director shall not vote on any resolution of the Directors regarding the amount of the discretionary bonus payable to him.

In order to attract, retain and motivate executives and key employees serving any member of the Group or other persons contributing to the Group, the Company has conditionally adopted the Share Option Scheme, the principal terms of which are set out in note 32 to the financial statements on pages 98 to 100 of this annual report. Such incentive schemes enable the eligible persons to obtain an ownership interest in the Company and thus will motivate them to optimize their contributions to the Group. The Group also provides retirement benefits to its employees. The retirement contributions paid by the Group are based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and are charged to the income statement as incurred. In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK$1,000 each of the employee and the Group) on a monthly basis to the fund. In addition, the Group provides housing allowances and meal allowances to its employees.

ACCOUNTABILITY AND AUDIT

Directors' Responsibility for the Financial Statements

The Board is responsible for the preparation of the financial statements. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

Internal controls

The Board through the audit committee is responsible for maintaining proper internal controls within the Group.

The internal control systems are designed to provide reasonable assurance of the Company's assets, safeguarding them against unauthorised use or disposition by making sure transactions are executed in accordance with management's authorization and that the accounting records are reliable for the preparation of financial information used for the business and publication. The Company has adopted proper procedures with duly assigned levels of authority in areas of financial, operational and compliance controls and risk management to ensure the Company's assets and resources are safeguarded.

During the year, the Board has engaged CCIF Corporate Consultancy Limited to perform internal control review to assist the Board in reviewing the effectiveness of the internal control system of the Group. The Board and the audit committee are satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory and will make further improvements.

Auditor's Remuneration

During the year ended 31 December 2009, the fees paid/payable to CCIF CPA Limited ("CCIF"), the auditor of the Company, in respect of audit and non-audit services provided by CCIF to the Group were as follows:

	2009
	HK$
Audit services	900,000
Non-audit services	
Taxation advisory services	–
Review on 2009 interim results	150,000
Other services	38,000
Total:	1,088,000

INVESTOR RELATIONSHIP AND COMMUNICATION WITH SHAREHOLDERS

The Board of Directors recognizes the importance of maintaining clear, timely and effective communication with shareholders of the Company and investors. To promote investor relations and communications, meeting with fund managers and potential substantial investors are held frequently. The Company acknowledges that its Annual General Meeting is an important channel for having direct communication with shareholders of the Company. At the meeting, the Directors and key executives of the Group will answer and explain to shareholders issues relating to the Group's business strategies and financial results.

The Company is dedicated to providing quality and timely disclosure of information to enhance transparency. The Company is committed to providing clear and full performance information of the Group to shareholders through the publication of interim and annual reports. The Company has also maintained a website at http://www.broadintelligence.com.hk which enables shareholders, investors and the general public to have access to the information of the Company on a timely basis.

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
BROAD INTELLIGENCE INTERNATIONAL PHARMACEUTICAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Broad Intelligence International Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 111, 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 this report.

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's 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, 23 April 2010

Alvin Yeung Sik Hung
Practising Certificate Number P05206

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	2009 *HK$'000*	2008 *HK$'000*
Turnover	6	**126,923**	422,321
Cost of sales		**(72,194)**	(312,307)
Gross profit		**54,729**	110,014
Other revenue	6	**3,875**	6,310
Selling and distribution expenses		**(26,371)**	(51,797)
General and administrative expenses		**(76,214)**	(29,212)
Write-down of inventories	21	**(1,453)**	–
Inventories written off	21	**(30,361)**	–
Impairment loss on property, plant and equipment	15	**(412,515)**	–
Impairment loss on intangible assets	18	**(60,022)**	(3,248)
Fair value changes on convertible bonds	28	**(21,924)**	–
Finance costs	7	**(2,603)**	–
(Loss)/profit before taxation	8	**(572,859)**	32,067
Income tax	9	**(3,931)**	(8,534)
(Loss)/profit for the year attributable to owners of the Company		**(576,790)**	23,533
Other comprehensive income for the year			
Exchange differences arising on			
– translation of foreign operations		**248**	31,850
– translation into presentation currency		**(2,266)**	–
		(2,018)	31,850
Total comprehensive income for the year attributable to owners of the Company		**(578,808)**	55,383
(Loss)/earnings per share			
Basic and diluted	11	**(HK$1.09)**	HK$0.05

The notes on pages 40 to 111 form an integral part of these financial statements.

Statement of Financial Position

At 31 December 2009

	Note	The Group 2009 HK$'000	The Group 2008 HK$'000	The Company 2009 HK$'000	The Company 2008 HK$'000
Non-current assets					
Property, plant and equipment	15	**124,539**	569,903	**10**	11
Prepaid lease payments	16	**2,184**	2,294	**–**	–
Prepayments	17	**17,100**	17,100	**–**	–
Intangible assets	18	**165,965**	91,904	**–**	–
Goodwill	19	**660,225**	–	**–**	–
Investments in subsidiaries	20	**–**	–	**67,564**	134,065
		970,013	681,201	**67,574**	134,076
Current assets					
Inventories	21	**8,371**	60,113	**–**	–
Trade and other receivables	22	**177,998**	6,175	**929,591**	73,728
Tax recoverable	26(a)(i)	**1,660**	1,660	**–**	–
Cash and cash equivalents	23	**92,329**	3,314	**8**	2,384
		280,358	71,262	**929,599**	76,112
Current Liabilities					
Trade and other payables	24	**152,109**	57,422	**2,439**	558
Bank loans	25	**31,008**	–	**–**	–
Tax payable	26(a)(i)	**11,200**	–	**–**	–
		194,317	57,422	**2,439**	558
Net current assets		**86,041**	13,840	**927,160**	75,554
Total assets less current liabilities		**1,056,054**	695,041	**994,734**	209,630
Non-current liabilities					
Other payable	27	**–**	42,541	**–**	–
Deferred tax liabilities	26(b)	**14,759**	–	**–**	
Bank loans	25	**14,592**	–	**–**	–
Convertible bonds	28	**679,856**	–	**679,856**	–
		709,207	42,541	**679,856**	–
NET ASSETS		**346,847**	652,500	**314,878**	209,630
REPRESENTED BY:					
Share capital	29	**100,430**	46,390	**100,430**	46,390
Reserves	30	**246,417**	606,110	**214,448**	163,240
TOTAL EQUITY		**346,847**	652,500	**314,878**	209,630

Approved and authorised for issue by the board of directors on 23 April 2010.

On behalf of the board

Zhong Houtai
Director

Sun Daquan
Director

The notes on pages 40 to 111 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital (Note 29) HK$'000	Share premium (Note 30(b)(i)) HK$'000	Statutory reserve (Note 30(b)(ii)) HK$'000	General reserve (Note 30(b)(iii)) HK$'000	Special reserve (Note 30(b)(iv)) HK$'000	Exchange reserve (Note 30(b)(v)) HK$'000	Share option reserve (Note 30(b)(vi)) HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
As at 1 January 2008	46,390	77,994	20,416	30,012	19,608	46,289	287	356,121	597,117
Total comprehensive income for the year	–	–	–	–	–	31,850	–	23,533	55,383
Transfer to reserve	–	–	–	3,943	–	–	–	(3,943)	–
As at 31 December 2008 and 1 January 2009	46,390	77,994	20,416	33,955	19,608	78,139	287	375,711	652,500
Share option expired	–	–	–	–	–	–	(287)	287	–
Total comprehensive income for the year	–	–	–	–	–	(2,018)	–	(576,790)	(578,808)
Issue of new shares on exercise of warrants	9,200	30,539	–	–	–	–	–	–	39,739
Issue of consideration shares on acquisition of subsidiaries	13,100	78,600	–	–	–	–	–	–	91,700
Issue of shares on conversion of convertible bonds	31,740	109,976	–	–	–	–	–	–	141,716
As at 31 December 2009	**100,430**	**297,109**	**20,416**	**33,955**	**19,608**	**76,121**	**–**	**(200,792)**	**346,847**

The notes on pages 40 to 111 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Cash flows from operation activities			
(Loss)/profit before taxation		**(572,859)**	32,067
Adjustments for:			
Finance costs		**2,603**	–
Interest income		**(42)**	(754)
Amortisation of prepaid lease payments		**110**	109
Amortisation of intangible assets		**22,998**	15,530
Depreciation of property, plant and equipment		**48,091**	27,888
Impairment loss on intangible assets		**60,022**	3,248
Impairment loss on property, plant and equipment		**412,515**	–
Inventories written off		**30,361**	–
Write-down of inventories		**1,453**	–
Fair value changes on convertible bonds		**21,924**	–
Operating profit before working capital changes		**27,176**	78,088
Decrease/(increase) in inventories		**25,483**	(21,973)
(Increase)/decrease in trade receivables		**(32,888)**	95,443
Decrease in prepayments, deposits and other receivables		**3,580**	53,530
Decrease in trade payables		**(2,978)**	(1,280)
Increase in other payable and accruals		**1,356**	42,541
Cash generated from operations		**21,729**	246,349
PRC enterprise income tax paid		**–**	(15,187)
Net cash generated from operating activities		**21,729**	231,162
Investing activities			
Interest received		**42**	754
Purchase of property, plant and equipment		**(1,902)**	(337,332)
Acquisition of Eagle Mascot Limited and its subsidiaries	31(a)	**46,560**	–
Acquisition of Jiangsu Hong-xin Intelligence Technology Co., Limited	31(b)	**(17,100)**	–
Purchase of intangible assets		**–**	(27,360)
Proceeds from issue of warrants		**39,739**	–
Net cash generated from/(used in) investing activities		**67,339**	(363,938)
Financing activities			
Interest paid		**(545)**	–
Net cash used in financing activities		**(545)**	–
Net increase/(decrease) in cash and cash equivalents		**88,523**	(132,776)
Cash and cash equivalents at beginning of the year		**3,314**	123,827
Effect of foreign exchange rate changes, net		**492**	12,263
Cash and cash equivalents at end of the year	23	**92,329**	3,314

The notes on pages 40 to 111 form an integral part of these financial statements.

1. GENERAL

The Company was incorporated in the Cayman Islands on 16 April 2003 as an exempted company with limited liability under the Companies Law (2002 Revision) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 20 to the financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

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

* HKAS represents Hong Kong Accounting Standards.

** IFRIC represents the International Financial Reporting Interpretations Committee.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Except for HKFRS 8, HKAS 1 (revised) and HKFRS 7, the above amendments to HKFRSs and new Interpretations have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group and the Company. The impact of the remainder of these developments on the financial statements is as follows:

a) 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 resulted in additional reportable segments being identified and presented (see note 5). Corresponding amounts have been provided on a basis consistent with the revised segment information.

b) HKAS 1 (revised) affects certain disclosures of the financial statements. Under the revised standard, the Income Statement is renamed as the "Statement of Comprehensive Income", the Balance Sheet is renamed as the "Statement of Financial Position" and the Cash Flow Statement is renamed as the "Statement of Cash Flows". All income and expenses arising from transactions with non-owners (i.e., the non-owner movements of equity) are presented under the "Income Statement" and "Statement of Comprehensive Income", and the total carried to the "Statement of Changes in Equity", while the owner changes in equity are presented in the "Statement of Changes in Equity".

   The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in the income statement, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has chosen to present one statement.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

c) As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data.

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

The Company and its subsidiaries has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for the current accounting period.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 24 (Revised)	Related party disclosures[3]
HKAS 27 (Revised 2008)	Consolidated and separate financial statements[1]
HKAS 32 (Amendment)	Classification of rights issues[4]
HKAS 39 (Amendment)	Eligible hedged items[1]
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters[5]
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions[5]
HKFRS 3 (Revised 2008)	Business combinations[1]
HKFRS 9	Financial instruments[6]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a minimum funding requirement[3]
HK(IFRIC)-Int 17	Distributions of non-cash assets to owners[1]
HK(IFRIC)-Int 19	Extinguishing financial liabilities with equity instruments[7]

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

2 Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate

3 Effective for annual periods beginning on or after 1 January 2011

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

5 Effective for annual periods beginning on or after 1 January 2010

6 Effective for annual periods beginning on or after 1 January 2013

7 Effective for annual periods beginning on or after 1 July 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, other new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

b) Basis of preparation of financial statements

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except for certain financial instruments, which are stated at fair value as explained in the accounting policies set out below.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Basis of preparation of financial statements (Continued)

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 major sources of estimation uncertainty are discussed in note 4 to the financial statements.

c) Subsidiaries

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, if any (see note 3(h)).

d) Goodwill

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 3(h)).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Goodwill (Continued)

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

On disposal of a CGU, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

e) 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 3(h)), if any.

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

Buildings situated on leasehold land	Over the shorter of the term of the lease or 20 years
Leasehold improvements	20%
Plant and machinery	10%
Office and other equipment	20%
Motor vehicles	10%

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Intangible Asset

i) *Patents*

Purchased patents are stated in the statement of financial position at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and any identified accumulated impairment losses (see note 3(h)). Patents are amortised on a straight-line basis over their estimated useful lives of five to ten years. Both the period and method of amortisation are reviewed annually.

ii) *Technology, customer base and unfinished contracts*

Technology, customer base and unfinished contracts acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets are their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives of two to five years. Both the period and method of amortisation are reviewed annually.

g) Leased assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Leased assets (Continued)

i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the exception of land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset or, if lower, the present value of the minimum lease payments of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset. Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(h). Finance charges implicit in the lease payments are charged to statement of comprehensive income over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Leased assets (Continued)

iii) Operating lease charges

Where the Group has the use of assets held 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 charged to profit or loss in the accounting period in which they are incurred.

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

h) Impairment of assets

i) Impairment of receivables

Current and non-current receivables that are stated at cost or amortised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Impairment of assets (Continued)

i) Impairment of receivables (Continued)

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

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

  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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Impairment of assets (Continued)

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;
– prepaid lease payments;
– intangible assets;
– investments in subsidiaries; and
– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the higher 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 CGU).

– *Recognition of impairment losses*

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Impairment of assets (Continued)

ii) Impairment of other assets (Continued)

– *Reversals of impairment losses*

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

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

i) Inventories

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

Cost is calculated using the weighted-average cost formula and comprises direct materials and, where appropriate, direct labour costs and those overhead incurred in bringing the inventories to their present location and condition.

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

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

j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of 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 allowance for impairment of doubtful debts (see note 3(h)).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Trade and other payables

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

l) Cash and cash equivalents

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

m) Convertible bonds

Convertible bonds issued by the Company (including related embedded derivates) are designated as financial liabilities at fair value through profit or loss ("FVTPL") on initial recognition. At each reporting date subsequent to initial recognition, the entire convertible bonds are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

n) Interest-bearing borrowings

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

o) Employee benefits

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Employee benefits (Continued)

ii) *Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option 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 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 that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share option 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 share option 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.

p) Share-based payment transactions

i) *Share options granted to employees*

The accounting policy is set out in note 3(o)(ii).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Share-based payment transactions (Continued)

ii) Share options granted to suppliers/consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the Group obtain the goods or when the counterparties render services,, unless the goods or services quality for recognition as assets.

q) Income Tax

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Income Tax (Continued)

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

The amount of deferred tax recognised is 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 end of the reporting period. 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 the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Provision and Contingencies

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

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.

s) Revenue Recognition

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

i) Sales of goods

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

ii) Service income

System solution services income is recognised on a time proportion basis over the period of the contract, or when the relevant services are provided.

iii) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

t) Research and development costs

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

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

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

u) Foreign Currency Translation

i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), rounded to the nearest thousand.

In prior years, the directors regarded HK$ as the functional currency of the Company. During the year ended 31 December 2009, the directors reassessed the Company's functional currency after the acquisition of subsidiaries in October 2009 in which their main operations are located in the PRC. It is expected that currency of the primary economic environment in which the subsidiaries of the Company operates will substantially denominated in Renminbi ("RMB"). Accordingly, the directors determined that the functional currency of the Company should be changed from HK$ to RMB starting from the date of acquisition of subsidiaries. The change of functional currency is applied prospectively from the date of change in accordance with HKAS 21 "The Effect of Changes in Foreign Exchange Rates".

As the Company is listed on the Main Board of The Stock Exchanges of Hong Kong Limited, the directors consider that it will be more appropriate to adopt HK$ as the Group's and the Company's presentation currency.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Foreign Currency Translation (Continued)

ii) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the reporting date. Exchange gains and losses are recognised in profit or loss.

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

The results of foreign operations are translated into HK$ at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations, are translated into HK$ at the closing foreign exchange rates at the reporting date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

v) Related parties

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) Related parties (Continued)

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

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

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

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

w) 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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

Key sources of estimation uncertainty

a) Assessment of useful lives of property, plant and equipment

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

b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2009, the carrying amount of goodwill is HK$660,225,000. Details of the recoverable amount calculation are disclosed in note 19.

c) Impairment of intangible assets

The policy for impairment of intangible assets of the Group is based on an evaluation of their recoverable amount with reference to expected future cash flows based on management's estimation. A considerable amount of judgement is required in estimating the expected future cash flows from the Group's pharmaceutical products, system hardware and application software acquired and system solution services provided. If the recoverable amounts are less than the carrying amounts of the intangible assets, impairment may be required.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Key sources of estimation uncertainty (Continued)

d) *Impairment of trade receivables and other receivables*

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

e) *Estimate of net realisable value of inventories*

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

(f) *Fair values of convertible bonds*

The fair values of the convertible bonds were calculated using Binominal Model. The model involves assumptions on the Company's credit spread, discount rate, expected credit rating and future cash flows. Should these assumptions change, there would be material changes to the valuation.

g) *Income taxes*

Determining income tax provisions involves judgement of the future tax treatment of certain transactions and the interpretation of tax rules. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

5. SEGMENT REPORTING

The Group manages its businesses by business line. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Pharmaceutical business

Manufacture, sale, research and development of pharmaceutical products.

Security warning system business

Sale of system hardware and application software for installation of high technology intelligent security warning system and provision of system solutions services.

a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all current and non-current assets with the exception of other corporate assets. Segment liabilities include all current and non-current liabilities with the exception of convertible bonds and other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation and amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "profit before taxation" generated by the respective operating segment. To arrive at "profit before taxation", the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as fair value changes on convertible bonds and other corporate income and expenses.

5. SEGMENT REPORTING (Continued)

a) *Segment results, assets and liabilities (Continued)*

i) Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purpose of resource allocation and assessment of segment performance is set out below:

For the year ended 31 December 2009

	Pharmaceutical business HK$'000	Securities warning system business HK$'000	Total HK$'000
Reportable segment revenue from external customers	83,433	43,490	126,923
Reportable segment profit/(loss)	(580,240)	35,858	(544,382)
Interest income	5	36	41
Interest expense	2,058	545	2,603
Depreciation of property, plant and equipment	48,015	74	48,089
Amortisation of intangible assets	16,188	6,810	22,998
Amortisation of prepaid lease payments	110	–	110
Impairment loss on intangible assets	60,022	–	60,022
Impairment loss on property, plant and equipment	412,515	–	412,515
Write-down of inventories	1,453	–	1,453
Inventories written off	30,361	–	30,361
Reportable segment assets	148,339	1,101,694	1,250,033
Additions to property, plant and equipment	–	1,902	1,902
Reportable segment liabilities	80,764	140,315	221,079

5. SEGMENT REPORTING (Continued)

a) *Segment results, assets and liabilities (Continued)*

i) (Continued)

For the year ended 31 December 2008

	Pharmaceutical business HK$'000	Securities warning system business HK$'000	Total HK$'000
Reportable segment revenue from external customers	422,321	–	422,321
Reportable segment profit	35,847	–	35,847
Interest income	720	–	720
Depreciation of property, plant and equipment	27,802	–	27,802
Amortisation of intangible assets	15,530	–	15,530
Amortisation of prepaid lease payments	109	–	109
Reportable segment assets	749,397	–	749,397
Additions to property, plant and equipment	337,320	–	337,320
Reportable segment liabilities	99,385	–	99,385

5. SEGMENT REPORTING (Continued)

a) Segment results, assets and liabilities (Continued)

ii) Reconciliations of reportable segment profit or loss, assets and liabilities

	2009	2008
	HK$'000	HK$'000
Profit or loss		
Reportable segment (loss)/profit	**(544,382)**	35,847
Change in fair value of convertible bonds	**(21,924)**	–
Other corporate income and expenses	**(6,553)**	(3,780)
Consolidated (loss)/profit before taxation	**(572,859)**	32,067

	2009	2008
	HK$'000	HK$'000
Assets		
Total segment assets	**1,250,033**	749,397
Unallocated corporate assets	**338**	3,066
Consolidated assets	**1,250,371**	752,463

	2009	2008
	HK$'000	HK$'000
Liabilities		
Total segment liabilities	**221,079**	99,385
Convertible bonds	**679,856**	–
Unallocated corporate liabilities	**2,589**	578
Consolidated liabilities	**903,524**	99,963

b) Information about geographical areas

As the senior executive management of the Group considers that all of the Group's consolidated revenue and results are attributable to the market in the PRC, the Group's consolidated assets are substantially located inside the PRC, no geographical information is presented.

5. SEGMENT REPORTING (Continued)

c) *Information about major customers*

For the year ended 31 December 2009, revenue from two clients of the Group amounting to HK$27,791,000 and HK$13,940,000 reported in securities warning system business and pharmaceutical business respectively had individually accounted for over 10% of the Group's total revenue. For the year ended 31 December 2008, no revenue from transactions with single external customer accounted for 10% or more of the Group's total revenue.

6. TURNOVER AND OTHER REVENUE

Turnover represents (i) the invoiced value of goods sold, after deducting goods returns, trade discount and sales tax and (ii) income from the provision of system solution services.

Turnover and other revenue and net income consisted of:

	2009 **HK$'000**	2008 HK$'000
Turnover		
Sales of pharmaceutical products	**83,433**	422,321
Sales of system hardware and application software	**37,558**	–
Provision of system solution services	**5,932**	–
	126,923	422,321
Other revenue and net income		
Bank interest income	**42**	754
Total interest income on financial assets not at fair value through profit or loss	**42**	754
PRC VAT tax concession	**3,831**	–
Sundry income	**2**	–
Net exchange gain	**–**	5,556
	3,875	6,310
Total revenue	**130,798**	428,631

7. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interest on construction payable wholly repayable within 5 years	**2,058**	–
Interest on bank loans wholly repayable within 5 years	**545**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**2,603**	–

8. (LOSS)/PROFIT BEFORE TAXATION

The (loss)/profit before taxation is stated after charging the following:

		2009 HK$'000	2008 HK$'000
a)	Staff costs (including directors' remuneration)*		
	Salaries and allowance	**5,008**	5,354
	Contributions to retirement scheme	**734**	841
		5,742	6,195
b)	Other item:		
	Amortisation of intangible assets*	**22,998**	15,530
	Amortisation of prepaid lease payments	**110**	109
	Auditor's remuneration	**969**	595
	Cost of inventories*	**72,194**	312,307
	Depreciation of property, plant and equipment*	**48,091**	27,888
	Research and development costs	**983**	75
	Written off deposit paid on registration of trademark	**–**	60
	Operating lease payment in respect of premises	**1,513**	1,059
	Net exchange loss	**515**	–

* Cost of inventories includes HK$12,803,000 (2008: HK$27,332,000) relating to amortisation of intangible assets, depreciation of property, plant and equipment and staff costs, which amount is also included in the respective total amounts disclosed separately above.

9. INCOME TAX

(a) Income tax in the consolidated statement of comprehensive income represents:

	2009	2008
	HK$'000	HK$'000
Current tax – PRC enterprise income tax		
Provision for the year	**4,602**	8,534
	4,602	8,534
Deferred taxation		
– reversal of temporary differences	**(671)**	–
	3,931	8,534

i) The provision for PRC enterprise income tax is calculated on the assessable profit of the Group's PRC subsidiaries at a statutory tax rate of 25% during the year ended 31 December 2008 and 2009, except for Shenzhen An-xin Digital Development Co., Ltd. ("An-xin") and Fujian Nanshaolin Pharmaceutical Co., Ltd. ("Fujian Nanshaolin").

ii) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Enterprise Income Tax Law of the PRC for unified tax rate arrangements among different types of the PRC entities which results in a reduction of income tax rate from 33% to 25% with effect from 1 January 2008 (the "EIT Law"). The State Council of the PRC passed an implementation guidance note ("Implementation Guidance") on 26 December 2007, which sets out details of how existing preferential income tax rates will be adjusted to the standard rate of 25%. According to the Implementation Guidance, there will be a transitional period of five years for the Company's PRC subsidiaries whereby the applicable income tax rate will be progressively increased to 18%, 20%, 22%, 24% and 25% for the years 2008, 2009, 2010, 2011 and 2012 respectively.

Pursuant to an approval document "Shen Di Shui She Han [2007] No. 132" dated 12 December 2007 issued by the District Tax Bureau of Shehou District, Shenzhen, An-xin is qualified as a production enterprise and entitles to EIT exemption for the years 2005 and 2006 and a 50% reduction in EIT for the years from 2007 to 2009. The application of the EIT Law has not altered the entitlement of An-xin. The income tax rate of 10% is applied for the year ended 31 December 2009.

9. INCOME TAX (Continued)

iii) Fujian Nanshaolin, a wholly foreign owned enterprise, was subject to PRC enterprise income tax at a rate of 15% (2008: 18%) applicable to the company on the assessable profits for the year.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise income tax (the "New Law") by order no. 63 of the president of the PRC. On 6 December 2007, the State Council of the PRC issued the Implementation Regulation of the New Law. Under the New Law and the Implementation Regulation, the Enterprise income tax rate of Fujian Nanshaolin was increased from 15% to 18% progressively from 1 January 2008 onwards.

On 25 November 2008, Fujian Nanshaolin was approved as a high-technology enterprise, which is subject to the PRC enterprise income tax at a reduced rate of 15% from 2009 up to and including year 2011. The entitlement of such preferential tax policy after 2011 is subject to verification by the relevant tax authority.

iv) No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the year (2008: Nil).

v) The Group had no significant unprovided deferred tax assets or liabilities at 31 December 2008 and 2009.

b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	2009 **HK$'000**	2008 HK$'000
(Loss)/profit before taxation	**(572,859)**	32,067
Notional tax on (loss)/profit before tax, calculated at the rates applicable to profits in the jurisdictions concerned	**(81,763)**	5,858
Tax effect of non-taxable income	**(958)**	(786)
Tax effect of income under exemption	**(4,427)**	–
Tax effect of non-deductible expenses	**36,973**	2,455
Tax effect of temporary timing difference	**(574)**	–
Tax effect of unused tax losses not recognised	**54,680**	1,007
Actual tax expenses	**3,931**	8,534

10. DIVIDENDS

The directors do not recommend the payment of final dividend for the year (2008: Nil).

11. (LOSS)/EARNINGS PER SHARE

a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company of approximately HK$576,790,000 (2008: profit attributable to owners of the Company of approximately HK$23,533,000) and the weighted-average of 530,642,000 ordinary shares (2008: 463,899,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2009	2008
	'000	'000
Issued ordinary shares at 1 January	**463,899**	463,899
Issue of new shares on exercise of warrants	**32,515**	–
Issue of consideration shares on acquisition of subsidiaries	**25,482**	–
Issue of shares on conversion of convertible bonds	**8,746**	–
Weighted average number of ordinary shares at 31 December	**530,642**	463,899

b) Diluted (loss)/earnings per share

Diluted loss per share is equal to basic loss per share for the year ended 31 December 2009 as the exercise of the Company's outstanding convertible bonds would have no dilutive effect.

Diluted earnings per share is equal to basic earnings per share for the year ended 31 December 2008 as there was no dilutive potential ordinary shares outstanding for the year ended 31 December 2008.

12. STAFF RETIREMENT BENEFITS

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

12. STAFF RETIREMENT BENEFITS (Continued)

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

The Group has no other material obligation for the payment of retirement benefits associated with the schemes beyond the contribution described above.

The contributions paid for the year were approximately HK$734,000 (2008: HK$841,000). As at 31 December 2009, there were no material forfeitures available to offset the Group's future contributions (2008: Nil).

13. DIRECTORS' REMUNERATION

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

	For the year ended 31 December 2009				
	Directors' fees HK$'000	Salaries allowance and benefits in kind HK$'000	Bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors					
Zhong Houtai	–	492	–	12	504
Zhong Houyao	–	36	–	–	36
Chong Hoi Fung	–	–	–	–	–
Sun Daquan	–	36	–	–	36
Independent non-executive directors					
Pei Renjiu	30	–	–	–	30
Li Kai Ming	30	–	–	–	30
Cheung Chuen	45	–	–	–	45
	105	564	–	12	681

13. DIRECTORS' REMUNERATION (Continued)

	For the year ended 31 December 2008				
	Directors' fees HK$'000	Salaries allowance and benefits in kind HK$'000	Bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors					
Zhong Houtai	–	619	18	32	669
Zhong Houyao	–	36	–	–	36
Chong Hoi Fung	–	–	–	–	–
Sun Daquan	–	36	–	–	36
Independent non-executive directors					
Pei Renjiu	30	–	–	–	30
Li Kai Ming	30	–	–	–	30
Cheung Chuen	45	–	–	–	45
	105	691	18	32	846

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

14. INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

	2009 HK$'000	2008 HK$'000
Basic salaries and allowance	**956**	923
Bonuses	**24**	23
Contributions to retirement scheme	**46**	45
	1,026	991

The emoluments of the four (2008: four) individuals with the highest emoluments are within the following bands:

	2009 Number of individuals	2008 Number of individuals
Nil – HK$1,000,000 (approximately equivalent to RMB877,000)	**4**	4

During the year, no emoluments had been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for the loss of office (2008: Nil).

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Leasehold improvements	Plant and machinery	Office and other equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost						
At 1 January 2008	197,326	289	83,424	3,380	1,469	285,888
Exchange adjustments	12,462	–	5,268	205	93	18,028
Additions	–	–	310,645	24,992	1,695	337,332
At 31 December 2008 and 1 January 2009	209,788	289	399,337	28,577	3,257	641,248
Exchange adjustments	2	8	3	1	1	15
Additions	–	1,770	–	132	–	1,902
Acquisition of subsidiary	2,845	40	–	16,711	1,045	20,641
At 31 December 2009	212,635	2,107	399,340	45,421	4,303	663,806
Accumulated depreciation and impairment losses						
At 1 January 2008	16,903	232	21,114	1,350	828	40,427
Exchange adjustments	1,234	–	1,636	102	58	3,030
Charge for the year	9,275	57	16,898	1,383	275	27,888
At 31 December 2008 and 1 January 2009	27,412	289	39,648	2,835	1,161	71,345
Acquisition of subsidiary	1,144	–	–	3,691	330	5,165
Exchange adjustments	684	–	1,367	100	–	2,151
Charge for the year	9,167	–	35,558	3,041	325	48,091
Impairment loss (Note)	137,229	–	257,075	18,211	–	412,515
At 31 December 2009	175,636	289	333,648	27,878	1,816	539,267
Carrying amount						
At 31 December 2009	**36,999**	**1,818**	**65,692**	**17,543**	**2,487**	**124,539**
At 31 December 2008	182,376	–	359,689	25,742	2,096	569,903

Note: In view of the operating losses incurred for the pharmaceutical segment during the year, the Group conducted a review of the carrying amount of the relevant assets. Based on the valuation report prepared by Jones Lang LaSalle Sallmanns, an independent professional valuer, the Group has recognised an impairment loss of HK$412,515,000 (2008: Nil) for the equipment and related assets in relation to this segment. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rate in measuring the amount of value in use was 16%.

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company

	Leasehold improvements HK$'000	Office and other equipment HK$'000	Total HK$'000
Cost			
At 1 January 2008	289	134	423
Additions	–	12	12
At 31 December 2008 and 1 January 2009	289	146	435
Additions	–	1	1
At 31 December 2009	289	147	436
Accumulated depreciation			
At 1 January 2008	231	107	338
Charge for the year	58	28	86
At 31 December 2008 and 1 January 2009	289	135	424
Charge for the year	–	2	2
At 31 December 2009	289	137	426
Carrying amount			
At 31 December 2009	**–**	**10**	**10**
At 31 December 2008	–	11	11

16. PREPAID LEASE PAYMENTS

	The Group	
	2009 HK$'000	2008 HK$'000
Carrying amount at 1 January	**2,294**	2,262
Exchange adjustments	**–**	141
Amortisation	**(110)**	(109)
At 31 December	**2,184**	2,294

All the prepaid lease payments represent land situated in the PRC under medium-term leases.

17. PREPAYMENTS

	The Group	
	2009	2008
	HK$'000	HK$'000
Prepaid for		
– the acquisition of intangible assets	**17,100**	17,100

The amount represents payment made by the Group during the year ended 31 December 2007 for the acquisition of prescription in the pharmaceutical segment. The prescription is still in the process of applying the production permits from the State Food and Drug Administration, PRC.

18. INTANGIBLE ASSETS

The Group	Patents	Technology	Customer base	Unfinished contracts	Total
		(Note a)	(Note a)	(Note a)	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation					
At 1 January 2008	109,802	–	–	–	109,802
Exchange adjustments	6,934	–	–	–	6,934
Additions	27,360	–	–	–	27,360
At 31 December 2008 and 1 January 2009	144,096	–	–	–	144,096
Exchange adjustments	1	–	–	–	1
Acquisition of subsidiaries	–	122,621	21,613	13,203	157,437
At 31 December 2009	144,097	122,621	21,613	13,203	301,534
Accumulated depreciation and impairment losses					
At 1 January 2008	31,113	–	–	–	31,113
Exchange adjustments	2,301	–	–	–	2,301
Amortisation	15,530	–	–	–	15,530
Impairment loss	3,248	–	–	–	3,248
At 31 December 2008 and 1 January 2009	52,192	–	–	–	52,192
Exchange adjustments	357	–	–	–	357
Amortisation (Note b)	16,188	4,523	797	1,490	22,998
Impairment loss (Note c)	60,022	–	–	–	60,022
At 31 December 2009	128,759	4,523	797	1,490	135,569
Carrying amount					
At 31 December 2009	**15,338**	**118,098**	**20,816**	**11,713**	**165,965**
At 31 December 2008	91,904	–	–	–	91,904

18. INTANGIBLE ASSETS (Continued)

Notes:

a) Intangible assets arising from the acquisition of Eagle Mascot Limited and its subsidiaries ("Eagle Mascot Group") included technology, customer base and unfinished contacts totalling HK$157,437,000.

b) The amortisation charge for the year of HK$16,188,000 and HK$6,810,000 is included in the consolidated statement of comprehensive income under "general and administrative expenses" and "cost of sales" respectively.

c) In view of the operating losses incurred for the pharmaceutical segment during the year, the Group conducted a review of the carrying amount of the relevant intangible assets. Based on the valuation report prepared by Jones Lang LaSalle Sallmanns, an independent professional valuer, the Group has recognised an impairment loss of HK$60,022,000 (2008: HK$3,248,000) for the patents in relation to this segment. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rate in measuring the amount of value in use was 16%.

19. GOODWILL

	The Group HK$'000
Cost	
At 31 January 2008, 31 December 2008 and 1 January 2009	–
Arising on acquisition of subsidiaries (Note 31)	660,225
At 31 December 2009	660,225
Accumulated impairment losses	
At 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009	–
Carrying amount	
At 31 December 2009	**660,225**
At 31 December 2008	–

19. GOODWILL (Continued)

a) Impairment testing on goodwill

i) For the purposes of impairment testing, goodwill has been allocated to one individual CGU, including three subsidiaries in the securities warning system business segment.

During the year ended 31 December 2009, management of the Group determines that there are no impairments of the above CGU containing goodwill.

ii) The basis of the recoverable amounts of the above CGU and their major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use valuation prepared by Jones Lang LaSalle Sallmanns, an independent professional valuer. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 16.17%. CGU's cash flows beyond the five-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry, management of the Group believes that the growth rate is reasonable. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the above CGU to exceed the aggregate recoverable amount of the CGU.

20. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost (Note 20(i))	**207,134**	134,065
Less: Impairment loss	**(139,570)**	–
	67,564	134,065
Due from subsidiaries (Note 20(ii) and Note 22)	**929,284**	73,066

20. INVESTMENT IN SUBSIDIARIES (Continued)

Notes:

(i) The directors of the Company performed impairment tests on the carrying amounts of its investments and advances to subsidiaries in accordance with the accounting policy as stated in note 3(h). As at 31 December 2009, impairment losses of investments in subsidiaries of approximately HK$139,570,000 (2008: Nil) were recognised in the Company's financial statements. The impairment losses associated with the pharmaceutical segment. The Company's directors consider that the impairment losses arose in light of the operating losses of certain subsidiaries due to less optimistic estimated future expected operating results.

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

Details of subsidiaries as at 31 December 2009 are as follows:

Name	Country of incorporation/ operations	Issued and fully paid share/ registered capital	Proportion of Ownership interest Directly	Proportion of Ownership interest Indirectly	Principal activities
Long Master International Limited	British Virgin Islands	10,000 shares of USD1 each	100%	–	Investment holding
Hover Rise Limited 翔興有限公司*	British Virgin Islands	50,000 shares of USD1 each	100%	–	Investment holding
Fujian Nanshaolin	PRC (wholly foreign owned enterprise for a term of 26 years commencing 30 December 1996)	RMB56,238,452	–	100%	Manufacturing, sale, research and development of pharmaceutical products
Eagle Mascot Limited**	British Virgin Islands	50,000 shares of USD1 each	–	100%	Investment holding
Eagle Champion Holdings Limited 毅宏控股有限公司**	Hong Kong	10,000 shares of HKD1 each	–	100%	Investment holding

20. INVESTMENT IN SUBSIDIARIES (Continued)

Name	Country of incorporation/ operations	Issued and fully paid share/ registered capital	Proportion of Ownership interest Directly	Proportion of Ownership interest Indirectly	Principal activities
An-xin 深圳市安芯數字發展有限公司**	PRC (wholly foreign owned enterprise for a term of 30 years commencing 25 December 1997)	RMB75,000,000	–	100%	Production of system software and application software. Provision of system solutions according to client's need and provision of long term agency operation and maintenance services on system solutions
Jiangsu Hong-xin Intelligence Technology Co., Limited ("Hong-xin") 江蘇省洪芯智能技術有限公司**	PRC (limited liability company for a term of 20 years commencing 24 September 2008)	RMB15,000,000	–	100%	Production of intelligence product and provision of consultancy services on intelligence system
Shenzhen Anke Safety Production Information Services Co., Limited 深圳市安科安全生產信息服務有限公司**	PRC (limited liability company for a term of 10 years commencing 24 August 2006)	RMB5,000,000	–	100%	Development on enterprise safety technology provision of consultancy services for enterprises safety technology

* Incorporated on 6 August 2009 by the Group.

** Acquired by the Group during the year. Further details of the acquisitions are included in Note 31 to the financial statements.

21. INVENTORIES

	The Group	
	2009	2008
	HK$'000	HK$'000
Raw materials	**1,944**	30,945
Work in progress	**–**	22,921
Finished goods	**6,427**	6,247
Total	**8,371**	60,113

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2009	2008
	HK$'000	HK$'000
Carrying amount of inventory sold	**72,194**	312,307
Inventories written off	**30,361**	–
Write-down of inventories	**1,453**	–
	104,008	312,307

22. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables (Note 22(a) and (b))	**104,374**	3,745	**–**	–
Other receivables	**10,084**	–	**–**	–
Due from related companies (Note 35(a))	**24,956**	–	**–**	–
Due from subsidiaries (Note 20)	**–**	–	**929,284**	73,066
Loans and receivables	**139,414**	3,745	**929,284**	73,066
Prepayments and deposits	**38,584**	2,430	**307**	662
	177,998	6,175	**929,591**	73,728

22. TRADE AND OTHER RECEIVABLES (Continued)

The amount of the Group's and the Company's prepayments, deposits and other receivables are expected to be recovered or recognised as expense within one year.

a) Ageing analysis

Trade receivables with the following age analysis presented based on invoice date as of the end of the reporting period:

	The Group	
	2009	2008
	HK$'000	HK$'000
0 – 30 days	**42,666**	3,745
31– 60 days	**6,039**	–
60 – 90 days	**36,699**	–
91 – 180 days	**2,111**	–
181 – 365 days	**16,302**	–
Over 1 year	**557**	–
	104,374	3,745

Trade receivables are due within 90 days from the date of billing. Trade receivables generally include the balances yet to be due such as the quality retention monies (typically 5% to 20% of the total contracted value) that are retained by the customers until the fulfillment of the warranty period of generally 1 to 2 years and receivable pursuant to the payment terms of the respective contracts.

Further details on the Group's credit policy are set out in note 34(b)(ii).

b) Trade receivables that are not impaired

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

	The Group	
	2009	2008
	HK$'000	HK$'000
Neither past due nor impaired	**104,374**	3,745
Past due but not impaired	**–**	–
	104,374	3,745

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

23. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and on hand	**92,329**	3,314	**8**	2,384

During the year, the bank deposits of the Group carry interest at rates ranging from nil to 0.36% (2008: 0.1% to 0.81%) per annum.

24. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables (Note 24(a))	**1,396**	3,432	**–**	–
Accrued and other payables	**28,160**	26,104	**1,939**	558
Construction work payable (Note 27)	**62,850**	24,851	**–**	–
Dividend payable (Note 24(b))	**42,531**	–	**–**	–
Amount due to a director (Note 24(c))	**500**	2	**500**	–
Amounts due to related companies (Note 24(c))	**9,380**	–	**–**	–
Financial liabilities measured at amortised cost	**144,817**	54,389	**2,439**	558
Other PRC tax payables	**7,292**	3,033	**–**	–
	152,109	57,422	**2,439**	558

a) The following is an ageing analysis of trade payables as at the reporting date:

	2009	2008
	HK$'000	HK$'000
0 – 30 days	**–**	3,432
31– 90 days	**1,182**	–
91 – 180 days	**148**	–
181 – 365 days	**66**	–
	1,396	3,432

b) The dividend payable represents dividend declared by An-xin to its then shareholder before acquisition by the Group.

c) The amounts due to a director and related companies are unsecured, non-interest bearing and repayable on demand.

25. BANK LOANS

At 31 December 2009, the bank loans were secured and repayable as follows:

	The Group	
	2009	2008
	HK$'000	HK$'000
Carrying amount repayable		
On demand or within one year	**31,008**	–
More than one year, but not exceeding two years	**14,592**	–
	45,600	–
Less: Amounts due within one year shown under current liabilities	**(31,008)**	–
	14,592	–

The effective interest rates (which are also equal to contracted interest rates) on the Group's bank loans are as follows:

	2009		2008	
	Effective interest rate	**HK$'000**	Effective interest rate	HK$'000
Fixed-rate bank loan (Note 25(a))	**5.31%**	**22,800**	Nil	–
Variable-rate bank loan (Note 25(b))	**6.81%**	**22,800**	Nil	–
		45,600		–

a) The bank loan was secured by a property of a related company, in which a director of An-xin has controlling interest.

b) The bank loan was secured by a corporate guarantee to the extent of HK$22,800,000 executed by an independent mortgage company. The corporate guarantee was secured by a guarantee deposit of HK$1,345,000 and a property of the Group with carrying amount of HK$1,933,000.

26. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

a) Current taxation in the statement of financial position represents:

	The Group	
	2009	2008
	HK$'000	HK$'000
As at 1 January	**(1,660)**	4,808
Acquisition of subsidiaries	**6,576**	–
Provision for PRC enterprise income tax for the year	**4,602**	8,534
PRC enterprise income tax paid	**–**	(15,187)
Exchange adjustments	**22**	185
As at 31 December	**9,540**	(1,660)

i) Reconciliation to the statement of financial position

	The Group	
	2009	2008
	HK$'000	HK$'000
Tax recoverable recognised in the statement of financial position	**(1,660)**	(1,660)
Tax payable recognised in the statement of financial position	**11,200**	–
	9,540	(1,660)

26. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (Continued)

b) Deferred tax liabilities recognised:

(i) The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	The Group
	HK$'000
At 31 December 2008 and 1 January 2009	–
Arising from acquisition of subsidiaries	15,430
Credited to profit and loss	(671)
At 31 December 2009	14,759

c) Deferred tax liabilities not recognised

Under the Corporate Income Tax Law of the PRC with effect from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. Pursuant to the double tax arrangement between the PRC and Hong Kong effective on 8 December 2006, the withholding income tax rate will be reduced to 5% if the investment by the Hong Kong investor in the invested entities in the PRC is not less than 25% equity interest. On 22 February 2008, the Ministry of Finance and State Administration of Tax approved Caishui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax.

As at 31 December 2009, temporary differences relating to the undistributed profits of these subsidiaries amounted to HK$37,500,000 (2008: HK$34,978,000). Deferred tax liabilities of HK$1,884,000 (2008: HK$1,780,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Group is able to control the timing of the reversal of the temporary differences and it is possible that the temporary differences will not reverse in the foreseeable future.

27. OTHER PAYABLE

	The Group	
	2009	2008
	HK$'000	HK$'000
Construction work payable:		
At 1 January	**67,392**	–
Arising on acquisition of plant and machinery	**–**	101,592
Effective interest expense on construction payables wholly repayable within 5 years	**2,058**	–
Repayment during the year	**(6,600)**	(34,200)
At 31 December	**62,850**	67,392
Less: Amount due within one year show under current liabilities (Note 24)	**(62,850)**	(24,851)
	–	42,541

Construction work payable is unsecured and interest free. On 26 September 2008, the Group's subsidiary, Fujian Nanshaolin, entered into an agreement with 福建省東昇建設工程公司 (the "Contractor"), an independent third party, to construct plant and machinery in Fuqing, the PRC, for a consideration of RMB96,000,000. The construction has been completed in 2008.

On 12 December 2008, Fujian Nanshaolin and the Contractor entered into a supplementary repayment agreement (the "Agreement"). Pursuant to the Agreement, the outstanding construction work payable of RMB40,000,000 will have to repay by 30 June 2010.

Pursuant to the valuation report issued by an independent valuer in Hong Kong, the construction work payable as at 31 December 2008 has been discounted to present value at an effective interest rate of 4.75% and subsequently carried at amortised cost using the effective interest method.

28. CONVERTIBLE BONDS

The Group and the Company

	2009	2008
	HK$'000	HK$'000
Convertible bonds measured at fair value:		
Issued during the year	**799,648**	–
Change in fair value	**21,924**	–
Conversion to shares	**(141,716)**	–
At the end of the year	**679,856**	–

28. CONVERTIBLE BONDS (Continued)

On 22 October 2009, the Company issued convertible bonds (the "Convertible Bonds") in an aggregate principal amount of HK$1,179,850,000. There were two tranches within the Convertible Bonds, HK$889,850,000 in principal amount of Tranche 1 convertible bonds and HK$290,000,000 in principal amount of Tranche 2 convertible bonds. The net proceeds from the issue of the convertible bonds are used to finance the acquisition of Eagle Mascot Group (Note 31).

The principal terms of the Convertible Bonds are as follows:

a) Optional conversion

Tranche 1 and Tranche 2 convertible bonds may be converted at the option of the holders at any time from 12 months and 24 months subsequent to the issue date of the Convertible Bonds respectively up to the maturity date of the Convertible Bonds which is 22 October 2014. Subject to adjustments upon the occurrence of various events including share consolidation, share sub-division, capitalisation issue, capital distribution, right issue and issue of convertible securities by the Company, the initial conversion price for the Convertible Bonds is HK$0.65 per conversion share.

b) Redemption at the option of the Company

The Company shall have the right to redeem any portion of the Convertible Bonds outstanding at an amount equals to the principal amount of the Convertible Bonds at its sole and absolute discretion at any time and from time to time prior to its maturity date.

The functional currency of the Group is RMB and the conversion option of these bonds are denominated in HK$. Since the conversion price for the notes is subject to change, the conversion will not result in settlement by the exchange of a fixed number of equity instruments. Therefore, upon application of HKAS 32 and HKAS 39, it was determined that the bonds do not contain any equity component and the entire bonds were designated as "financial liabilities at FVTPL" which requires the bonds to be carried at fair value at the reporting date and the changes in fair values are recognised in profit or loss in the period in which they arise. During the year ended 31 December 2009, a loss on change in its fair value of approximately HK$21,924,000 (2008: HK$Nil) is recognised in the consolidated statement of comprehensive income.

28. CONVERTIBLE BONDS (Continued)

On 29 October 2009, 23 December 2009, 28 December 2009, 29 December 2009, 30 December 2009 and 31 December 2009, the Convertible Bonds in an aggregate principal amount of HK$20,000,000, HK$65,000,000, HK$10,467,600, HK$10,842,000, HK$35,500,000 and HK$64,500,000 respectively were converted into the Company's shares at a conversion price of HK$0.65 per share. As a result of the conversion, 317,399,383 new shares were issued.

The binomial model is used in the valuation of the fair value of the Convertible Bonds by Jones Lang LaSalle Sallmanns, an independent professional valuer. Inputs into the model are as follows:

	22 October 2009	**31 December 2009**
Stock price	HK$0.7	HK$0.62
Exercise price	HK$0.65	HK$0.65
Risk-free rate of interest	1.142%	1.929%
Dividend yield	0%	0%
Time to expiration	5 years	4.8 years
Volatility	59.83%	60.43%

Notes:

i) The risk-free rate of interest adopted was reference to yield of HKMA 5 year Exchange Fund Bill and Notes Fixings as at the valuation date.

ii) The dividend yield adopted was based on the dividend yield of the Company and discussion with the management regarding the future dividend policy.

iii) The volatility adopted was based on the Company's 5-years daily historical share price volatility.

The variables and assumptions used in computing the fair value of the Convertible Bonds are based on the directors' best estimates. The value of Convertible Bonds varies with different variables of certain subjective assumptions.

29. SHARE CAPITAL

The Company

	Number of shares		Amount	
	2009	2008	**2009**	2008
	'000	'000	**HK$'000**	HK$'000
Authorised:				
At 1 January, ordinary shares of HK$0.1 each	**2,000,000**	2,000,000	**200,000**	200,000
Increase in authorized share capital (Note (a))	**2,000,000**	–	**200,000**	–
At 31 December, ordinary share of HK$0.1 each	**4,000,000**	2,000,000	**400,000**	200,000
Issued and fully paid:				
As at 1 January	**463,899**	463,899	**46,390**	46,390
Issue of new share on exercise of warrant (Note (b))	**92,000**	–	**9,200**	–
Issue of consideration shares on acquisition of subsidiaries (Note (c))	**131,000**	–	**13,100**	–
Issue of shares on conversion of convertible bonds (Note (d))	**317,400**	–	**31,740**	–
As at 31 December	**1,004,299**	463,899	**100,430**	46,390

Notes:

a) Pursuant to the written resolutions of the shareholders of the Company on 13 October 2009, the authorised share capital of the Company was increased from HK$200,000,000 to HK$400,000,000 by the creation of 2,000,000,000 shares of HK$0.1 each.

b) During the year, 92,000,000 warrants were exercised at a subscription price of HK$0.415 per share, resulting in the issue of 92,000,000 ordinary shares of HK$0.1 each in the Company.

c) During the year, 131,000,000 ordinary shares of par value HK$0.1 each were issued at a fair value of HK$0.7 per share as part of the consideration for the acquisition of Eagle Mascot Limited. The fair value of the ordinary shares of the Company, determined using the published price at the date of the acquisition, amounted to HK$91,700,000, of which HK$13,100,000 was credited to share capital and the remaining balance of HK$78,600,000 was credited to the share premium account.

29. SHARE CAPITAL (Continued)

The Company (Continued)

d) On 29 October 2009, 23 December 2009, 28 December 2009, 29 December 2009, 30 December 2009 and 31 December 2009, the Convertible Bonds in an aggregate principal amount of HK$20,000,000, HK$65,000,000, HK$10,467,600, HK$10,842,000, HK$35,500,000 and HK$64,500,000 respectively were converted into the Company's shares at a conversion price of HK$0.65 per share. As a result of the conversion, 317,399,383 new shares were issued.

30. RESERVES

a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share premium	Contributed surplus	Share option reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2008	77,994	133,865	287	(40,585)	171,561
Total comprehensive income for the year	–	–	–	(8,321)	(8,321)
As at 31 December 2008 and 1 January 2009	77,994	133,865	287	(48,906)	163,240
Cancellation of share option	–	–	(287)	287	–
Issue of new shares on exercise of warrant	30,539	–	–	–	30,539
Issue of consideration shares on acquisition of subsidiaries	78,600	–	–	–	78,600
Issue of shares on conversion of convertible bonds	109,976	–	–	–	109,976
Total comprehensive income for the year	–	–	–	(167,907)	(167,907)
As at 31 December 2009	**297,109**	**133,865**	**–**	**(216,526)**	**214,448**

30. RESERVES (Continued)

b) Nature and purpose of reserves

i) Share premium

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

ii) Statutory reserve

Fujian Nanshaolin, a wholly-foreign-owned enterprise in The People's Republic of China, is required to appropriate at least 10% of after-tax profit (after offsetting prior year losses) to a statutory reserve until the balance of the reserve reaches 50% of its share capital and thereafter any further appropriation is optional. The statutory reserve can be utilised to offset prior year losses, or for the issuance of bonus shares on the condition that the statutory reserve shall be maintained at a minimum of 25% of the share capital after such issuance.

iii) General reserve

General reserve represents enterprise expansion fund which is non-distributable. Appropriations to such reserve is made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries while the amount and allocation basis are decided by its board of directors annually. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of capitalisation issue.

iv) Special reserve

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

30. RESERVES (Continued)

b) Nature and purpose of reserves (Continued)

v) Exchange reserve

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

vi) Share option reserve

The share option reserve of the Company and the Group arising on the grant of share options of the Company is dealt with in accordance with the accounting policies set out in note 3(p).

vii) Contributed surplus

The contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the group reorganisation prior to listing of the Company's shares in 2003.

30. RESERVES (Continued)

c) Distributable reserves of the Company

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

As at 31 December 2009, the Company's reserves available for distribution to shareholders amounted to approximately HK$214,448,000 (2008: HK162,953,000) computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium of HK$297,109,000 (2008: HK$77,994,000) and contributed surplus of HK$133,865,000 (2008: HK$133,865,000), less accumulated losses of HK$216,526,000 (2008: HK$48,906,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

d) Capital management

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

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

Consistent with industry practice, the management monitors the Group's capital structure on the basis of a debt-to-equity ratio. For this purpose, the Group defines debt as total debt (which includes interest-bearing loans, trade and other payables and convertible bonds) plus unaccrued proposed dividends.

During 2009, the Group's debt-to-equity ratio increased as a result of increase in bank loans and convertible bonds of the Group.

30. RESERVES (Continued)

d) Capital management (Continued)

The debt-to-equity ratio at 31 December 2009 and 2008 was as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current liabilities				
Trade and other payables	**152,109**	57,422	**2,439**	558
Bank loans	**31,008**	–	**–**	–
Non-current liabilities:				
Bank loans	**14,592**	–	**–**	–
Convertible bonds	**679,856**	–	**679,856**	–
Other payable	**–**	42,541	**–**	–
Total debt	**877,565**	99,963	**682,295**	558
Total equity	**346,847**	652,500	**314,878**	209,630
Debt-to-equity ratio	**253%**	15%	**217%**	0%

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

31. ACQUISITION OF SUBSIDIARIES

a) Acquisition of Eagle Mascot Group

On 22 October 2009, the Group acquired the entire share capital of Eagle Mascot Limited for a total consideration of approximately HK$929,267,000. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK$659,840,000.

The Eagle Mascot Group is engaged in sale of system software and application hardware for installation of high technology intelligent security warning system and provision of system solution services.

31. ACQUISITION OF SUBSIDIARIES (Continued)

a) Acquisition of Eagle Mascot Group (Continued)

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount immediately before combination	Fair value adjustments	Fair value
			(Note c)
	HK$'000	HK$'000	HK$'000
Net assets acquired:			
Property, plant and equipment	15,469	–	15,469
Intangible assets	3,135	154,302	157,437
Inventories	5,555	–	5,555
Trade and other receivables	119,312	–	119,312
Cash and cash equivalents	84,479	–	84,479
Bank loans	(45,600)	–	(45,600)
Trade and other payable	(45,219)	–	(45,219)
Tax payable	(6,576)	–	(6,576)
Deferred tax liabilities	–	(15,430)	(15,430)
	130,555	138,872	269,427
Goodwill			659,840
			929,267
Total consideration satisfied by:			
Cash			35,000
Relevant costs for acquisition			2,919
Shares issued (note a)			91,700
Convertible bonds (note b)			799,648
			929,267
Net cash inflow arising on acquisition			
Cash consideration paid			(35,000)
Relevant costs for acquisition			(2,919)
Cash and cash equivalents acquired			84,479
			46,560

31. ACQUISITION OF SUBSIDIARIES (Continued)

a) Acquisition of Eagle Mascot Group (Continued)

Notes:

a) As part of the consideration for the acquisition of Eagle Mascot Limited, 131,000,000 ordinary shares of the Company with par value of HK$0.1 each were issued. The fair value of the ordinary shares of the Company, determined using the published price available at the date of acquisition, amounted to HK$0.7 per share.

b) The determination of the fair value of the convertible bonds are set out in note 29.

c) The fair value was determined with reference to the valuation report prepared by Jones Lang LaSalle Sallmanns, an independent professional valuer.

The goodwill arising on the acquisition of subsidiaries is attributable to the anticipated profitability from Eagle Mascot Group for the market of security and protection products' industry.

According to the《中國安防行業「十一五」發展規劃指導思想》("The Development Plan and Guidance of the China Security and Protection Industry under the "Eleventh Five-Year-Plan""), during the period under the "Eleventh Five-Year-Plan", the security and protection products' industry will rapidly grow and the market potential is tremendous. As the Eagle Mascot Group is one of the pioneer enterprises in the security and protection area in the PRC, this couple with the skills and technical talent of Eagle Mascot Group's senior management and research and development staff, the directors expected that they can maintain their existing market shares and significant future operating profits will be generated from the Eagle Mascot Group.

Eagle Mascot Group contributed HK$26 million profit to the Group's loss for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2009, total group revenue for the period would have been HK$222 million, and loss for the period would have been HK$380 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

b) Acquisition of Hong-xin

On 31 October 2009, the Group acquired the entire share capital of Hong-xin for consideration of HK$17,100,000. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$385,000.

Hong-xin is engaged in production of intelligence product and provision of consultancy services on intelligence system.

31. ACQUISITION OF SUBSIDIARIES (Continued)

b) Acquisition of Hong-xin (Continued)

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount immediately before combination	Fair value adjustments	Fair value
	HK$'000	HK$'000	HK$'000
Net assets acquired:			
Property, plant and equipment	7	–	7
Trade and other receivables	23,203	–	23,203
Trade and other payable	(6,491)	–	(6,491)
Tax payable	(4)	–	(4)
	16,715	–	16,715
Goodwill			385
			17,100
Total consideration satisfied by:			
Cash			17,100
Net cash outflow arising on acquisition:			
Cash consideration paid			(17,100)

The goodwill arising on the acquisition of Hong-xin is attributable to the anticipated profitability from Hong-xin in the intelligence product market.

Hong-xin contributed HK$7 million profit to the Group's loss for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2009, total group revenue for the period would have been HK$127 million, and loss for the period would have been HK$466 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

32. SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 3 November 2003. The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives and/or rewards for their contribution and support to the Company. Under the Share Option Scheme, the Board of Directors of the Company may grant options to the following eligible participants:

i) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries and any entity ("Invested Entity") in which any member of the Group holds any equity interest;

ii) any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries and any Invested Entity;

iii) any supplier of goods or services to any member of the Group or any Invested Entity;

iv) any customer of any member of the Group or any Invested Entity;

v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be issued by any member of the Group or any Invested Entity; and

vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 30% of the shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any participant is not permitted to exceed 1% of the shares of the Company in issue during the twelve-month period before the date of grant, without prior approval from the Company's shareholders.

HK$1 per option is payable on the acceptance of an option offer. Options may be exercised in accordance with the terms of the Share Option Scheme and expiring in accordance with the terms of the Share Option Scheme or the expiry of the tenth anniversary of the Share Option Scheme, whichever is the earlier.

32. SHARE OPTION SCHEME (Continued)

The exercise price is determined by the Board of Directors, and shall not be less than the highest of (i) the official closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average official closing price of the Company's shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Company's share.

The Share Option Scheme will remain in force for a period of 10 years commencing on 3 November 2003.

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

	Number of shares issuable under option	**Vesting conditions**	**Contractual life of options**
Option granted to consultants:			
– On 14 September 2006	2,000,000	No vesting conditions	2 years
– On 14 May 2007	1,000,000	No vesting conditions	2 years
Total share options	3,000,000		

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

	2009		2008	
	Weighted average exercise price HK$	**Number of options '000**	Weighted average exercise price HK$	Number of options '000
Outstanding at the beginning of the year	**1.048**	**1,000**	1.048	1,000
Expired during the year	**1.048**	**(1,000)**	–	–
Outstanding at the end of the year	**–**	**–**	1.048	1,000
Exercisable at the end of the year	**–**	**–**	1.048	1,000

32. SHARE OPTION SCHEME (Continued)

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

The option outstanding at 31 December 2008 had an exercise price of HK$1.048 and a weighted average remaining contractual life of 0.37 year.

c) **Fair value of share options and assumptions**

The fair value of services received cannot be reliably measured, therefore, the services are measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial (Cox. Ross. Rubinstein) option pricing model ("Binomial Model") for the year ended 31 December 2007. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Binomial Model.

Fair value of share options exercisable from 14 May 2007 to 13 May 2009 and assumption

Fair value per share at measurement date	HK$0.287
Market value per share at the date of grant of options	HK$1.03
Exercise price per share	HK$1.048
Expected volatility based on past two years historical price volatility of the Company	46%
Option life (expressed as weighted average life used in the modelling under binomial model)	2 years
Expected dividends	Nil
Risk-free interest rate (based on exchange fund notes)	3.95%

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

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

33. WARRANTS

On 21 April 2009, the Company entered into the warrant placing agreement with an independent placing agent (the "Placing Agent"), whereby the Company appointed the Placing Agent as the sole and exclusive placing agent to procure not less than six placees to subscribe for up to 92,000,000 warrants (the "Warrants"), on the best effort basis, at the warrant issue price of HK$0.02 per Warrant.

The Warrants entitle the placees to subscribe for a maximum of 92,000,000 new shares at an initial subscription price of HK$0.415 per new share (subject to adjustment) for a period of 12 months commencing from (and inclusive of) the date of issue of the Warrants. Each Warrant initially carries the right to subscribe for one new share.

During the year, all warrants were exercised, resulting in the issue of 92,000,000 ordinary shares of HK$0.1 each in the Company.

34. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Loans and receivables	**139,414**	3,745	**929,284**	73,066
Cash and cash equivalents	**92,329**	3,314	**8**	2,384
	231,743	7,059	**929,292**	75,450
Financial liabilities				
Trade and other payables	**144,817**	54,389	**2,439**	558
Bank loans	**45,600**	–	**–**	–
Other payable	**–**	42,541	**–**	–
Financial liabilities measured at amortised cost	**190,417**	96,930	**2,439**	558
Convertible bonds	**679,856**	–	**679,856**	–
Financial liabilities designated at fair value through profit or loss	**679,856**	–	**679,856**	–

34. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies

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

i) Fair values

i) Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial liabilities that are measured at fair value at 31 December 2009 included the convertible bonds of HK$679,856,000 presented as financial liabilities designated at fair value through profit or loss on the statement of financial position. Their fair value are determined by valuation models in which all significant inputs are directly or indirectly based on the observable market data. All of them are classified as level 2.

ii) All financial instruments carried at cost or at amortised cost are not materially different from their fair values as at 31 December 2009 and 2008 because of the short maturity of these instruments.

34. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

ii) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 days from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry and country in which customers operate and therefore significant concentrations of credit risk primarily arise when the group has significant exposure to individual customers. At the reporting date, the Group has certain concentration of credit risk as 28.79% (2008: 0%) and 84.39% (2008: 10.27%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

In respect of bank balances, the Group has diversified its exposure into different financial institutions. Substantially all of the Group's bank balances are held in major financial institutions located in the PRC, which management believes are of high credit ratings and expose no high credit risk in this aspect.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 22.

iii) Interest rate risk

The Group's fair value interest rate risk arises primarily from short-term bank loans, convertible bonds and bank deposits at fixed-rates. The Group's cash flow interest rate risk relates primarily to bank balances and long-term bank loan at variable-rate. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management of the Company will consider hedging significant interest rate exposures should the need arises.

34. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

iii) *Interest rate risk (Continued)*

Interest rate profile

The following table details the interest rate profile of the Group's and the Company's borrowings and bank deposits at the reporting date.

		The Group	
	Effective interest rate	**2009**	**2008**
		HK$'000	HK$'000
Fixed-rate borrowings:			
Convertible bonds	5.28	679,856	–
Short term bank loan	5.31	22,800	–
		702,656	–
Variable-rate borrowings:			
Long term bank loan	6.81	22,800	–
Total borrowings		725,456	–
Variable-rate bank deposits		92,280	3,299

		The Company	
	Effective interest rate	**2009**	**2008**
		HK$'000	HK$'000
Fixed-rate borrowings:			
Convertible bonds	5.28	679,856	–
Variable-rate bank deposits		5	2,384

34. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

iii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to cash flow interest rates at the reporting date.

At 31 December 2009, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would decrease the Group's loss after taxation and increase the retained profits by approximately HK$608,000 (2008: increase the Group's profit after taxation and retained profits by approximately HK$28,000). Other components of consolidated equity would not change (2008: Nil) in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the reporting date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next reporting date. The analysis is performed on the same basis for 2008.

iv) Liquidity risk

To manage liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the directors to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group held cash and cash equivalents amounting to approximately HK$92,329,000 at 31 December 2009 (2008: approximately HK$3,314,000).

As at 31 December 2009, the Group has utilised all the available banking facilities.

34. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

iv) Liquidity risk (Continued)

The following liquidity table set out the remaining contractual maturities at the reporting date of the Group's and the Company's financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group and the Company required to pay:

The Group

2009

		Contractual undiscounted cash flow					
	Weighted average effective interest rate	**Within 1 year or on demand HK$'000**	**More than 1 year but less than 2 years HK$'000**	**More than 2 years but less than 5 years HK$'000**	**More than 5 years HK$'000**	**Total HK$'000**	**Carrying amount at reporting date HK$'000**
Trade and other payables	**Nil**	**144,817**	**–**	**–**	**–**	**144,817**	**144,817**
Bank loan	**5.31%-6.81%**	**33,020**	**14,853**	**–**	**–**	**47,873**	**45,600**
Convertible bonds	**5.28%**	**–**	**–**	**973,540**	**–**	**973,540**	**679,856**
		177,837	**14,853**	**973,540**	**–**	**1,166,230**	**870,273**

2008

		Contractual undiscounted cash flow					
	Weighted average effective interest rate	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Carrying amount at reporting date HK$'000
Trade and other payables	Nil	54,389	–	–	–	54,389	54,389
Other payable	Nil	–	45,600	–	–	45,600	42,541
		54,389	45,600	–	–	99,989	96,930

34. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

iv) Liquidity risk (Continued)

The Company

2009

	Weighted average effective interest rate	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Carrying amount at reporting date HK$'000
		Contractual undiscounted cash flow					
Trade and other payables	Nil	2,439	–	–	–	2,439	2,439
Convertible bonds		–	–	973,540	–	973,540	679,856
		2,439	–	973,540	–	975,979	682,295

2008

	Weighted average effective interest rate	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Carrying amount at reporting date HK$'000
		Contractual undiscounted cash flow					
Trade and other payables	Nil	558	–	–	–	558	558

34. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

v) *Currency risk*

The Group's undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

The Group currently does not have a foreign currency hedging policy but the directors monitor its foreign exchange exposures and will consider hedging significant foreign currency exposures should the need arises.

i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the reporting date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HK$, translated using the spot rate at the end of the reporting period.

	The Group		**The Company**	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalents	**22**	–	**7**	–

ii) Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% in the exchange rate of RMB against HK$ (2008: HK$ against RMB) while all other variables are held constant. 5% is the sensitivity rate used when reporting foreign currency risk internally adopted by key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusted at each reporting date for a 5% change in foreign currency rates.

34. FINANCIAL INSTRUMENTS (Continued)

b) Financial risk management objectives and policies (Continued)

v) Currency risk (Continued)

ii) Sensitivity analysis (Continued)

A positive number below indicates an decrease in loss for the year where RMB weakens by 5% against the relevant currency. For a 5% strengthening of RMB against the relevant currency, there would be an equal and opposite impact on the loss. The analysis is performed on the same basis for 2008.

	2009 **HK$'000**	2008 HK$'000
Loss of the Group for the year	**1**	–

The Group's equity would not be affected (2008: nil) by changes in foreign exchange rates.

35. MATERIAL RELATED PARTY TRANSACTIONS

The Group has entered into the following material related party transactions:

(a) Amounts due from related companies, included in trade and other receivables, comprise:

Name of related companies	**Nature of relationship**	**2009** **HK$'000**	2008 HK$'000
深圳市業軒投資發展有限公司	A company controlled by a director of An-xin	**1,850**	–
深圳市元軒科技發展有限公司 (formerly know as 深圳市隱形貓安防技術有限公司)	The shareholder is 深圳市業軒投資發展有限公司, a company controlled by a director of An-xin	**4,788**	–
深圳市朗眾文化傳播有限公司	A company controlled by a relative of a director of An-xin	**13,758**	–
江蘇省高標房地產開發有限公司	The shareholder is 深圳市業軒投資發展有限公司, a company controlled by a director of An-xin	**4,560**	–
		24,956	–

The amounts due from related companies are unsecured, non-interest bearing and repayable on demand.

35. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 13, is as follows:

	2009	2008
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**770**	814
Retirement scheme contributions	**15**	32
	785	846

c) Other related party transactions

i) During the year, the Group entered into the following material related party transactions which were carried out in the normal course of the Group's business:

Name of related party	**Relationship with related party**	**Nature of transaction**	**2009**	2008
			HK$'000	HK$'000
深圳市安科安全科技文化發展有限公司	The shareholder is 深圳市業軒投資發展有限公司, a company controlled by a director of An-xin	Sales of system hardware and application software	**9,504**	–

ii) On 31 October 2009, the Group through its wholly owned subsidiary, An-xin, entered into an agreement with 深圳市朗眾文化傳播有限公司, a company which is controlled by a relative of a director of An-xin, pursuant to which the Group acquired the entire share capital of Hong-xin for a consideration of HK$17,100,000.

iii) At 31 December 2009, the bank loan of HK$22,800,000 with fixed-rate borrowings was secured by a property of a related company, in which a director of An-xin has controlling interest.

36. COMMITMENTS

a) Capital commitments

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

	The Group	
	2009	2008
	HK$'000	HK$'000
Authorised and contracted for		
– the acquisition of intangible assets	**5,700**	5,700
– leasehold improvements	**5,671**	–
	11,371	5,700

b) Operating lease commitments

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

	The Group	
	2009	2008
	HK$'000	HK$'000
Within on year	**1,958**	1,046
After one year but within five years	**1,607**	–
	3,565	1,046

Significant leasing arrangements in respect of land held under operating leases are described in note 17.

37. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, Convertible Bonds with an aggregate principal amount of HK$173,540,000 were converted into ordinary shares of the Company at a conversion price of HK$0.65 per share, resulting in the issue of 266,985,230 ordinary shares of HK$0.1 each in the Company.

38. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements*, and HKFRS 8, *Operating segments*, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

Financial Summary

RESULTS

	For the year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000 (restated)	HK$'000
Turnover	**126,923**	422,321	411,990	342,232	259,832
(Loss)/profit before taxation	**(572,859)**	32,067	109,013	100,318	79,202
Taxation	**(3,931)**	(8,534)	(18,268)	(16,391)	(13,198)
Net (loss)/profit for the year	**(576,790)**	23,533	90,745	83,927	66,004

ASSETS AND LIABILITIES

	At 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000 (restated)	HK$'000
Total assets	**1,250,371**	752,463	660,627	491,255	386,235
Total liabilities	**(903,524)**	(99,963)	(63,510)	(54,759)	(45,982)
Shareholders' equity	**346,847**	652,500	597,117	436,496	340,253