

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

## 1. GENERAL CORPORATE INFORMATION

The balance sheet of Yaan Security Technology Limited (the “Company”) and the consolidated financial statements of the Group for the financial year ended 31 December 2008 were authorised for issue in accordance with a directors’ resolution dated 26 March 2009.

The Company is incorporated and domiciled in Singapore and is publicly traded on the Catalist, formerly known as the Singapore Exchange Securities Trading Limited Dealing and Automated Quotation System (SGX-SESDAQ). The Company’s registered office is located at 19 Keppel Road #03-10 Jit Poh Building, Singapore 089058.

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are set out in Note 6 to the financial statements.

There have been no significant changes in the nature of these activities during the year.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation of financial statements

The financial statements have been prepared in accordance with the provisions of the Singapore Companies Act, Cap. 50 and Singapore Financial Reporting Standards (“FRS”). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise judgement in the process of applying the Group’s and the Company’s accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the financial year. Although these estimates are based on management’s best knowledge of current events and actions, actual results may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial year in which the estimate is revised if the revision affects only that financial year, or in the financial year of the revision and future financial years if the revision affects both current and future financial years.

Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement or complexity are disclosed in Note 3.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (a) Basis of preparation of financial statements (Continued)

*FRS and INT FRS issued but not yet effective*

The Group and Company have not adopted the following FRS and INT FRS that have been issued as of the balance sheet date but are not yet effective:

	<b>Effective date (Annual periods beginning on or after)</b>
FRS 1 (Revised 2008) : Presentation of Financial Statements	1 January 2009
FRS 23 (Revised) : Borrowing Costs	1 January 2009
FRS 108 : Operating Segments	1 January 2009
INT FRS 113 : Customer Loyalty Programmes	1 July 2008
INT FRS 116 : Hedges of a Net Investment in a Foreign Operation	1 October 2008

The Group and the Company expect that the adoption of the above pronouncements, if applicable, will have no material impact on the financial statements in the period of initial application, except as disclosed below:

#### *FRS 1 – Presentation of Financial Statements (Revised 2008)*

FRS 1 (revised 2008) requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. In addition, a statement of financial position is required at the beginning of the earliest comparative period following a retrospective application of an accounting policy, a retrospective restatement of items in its financial statements or a reclassification of items in the financial statements. FRS 1 (revised 2008) does not have any impact on the Company's financial position or results.

#### *FRS 108 – Operating Segments*

FRS 108 requires an entity to adopt the management approach in reporting financial and descriptive information about its reportable segment. Financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. Additional disclosures are also required to provide more information on the operating segments. The Group will apply FRS 108 from financial period beginning 1 January 2009.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (a) Basis of preparation of financial statements (Continued)

##### *FRS 108 – Operating Segments (Continued)*

The preparation of financial statements in conformity with FRS requires management to make judgements, estimates and assumptions that affect the Group's application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

#### (b) Subsidiaries

Subsidiaries are entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding giving rise to the majority of the voting rights, so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

In the Company's financial statements, investments in subsidiaries are carried at cost less any impairment loss, if any.

#### (c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the end of the financial year.

The results of subsidiaries acquired or disposed of during the financial year are included in or excluded from the consolidated financial statements from the date of their acquisition or disposal, as appropriate.

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated on consolidation. Unrealised gains arising from transactions with associated companies and joint ventures are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no impairment.

#### (d) Business combination

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 103, Business Combinations, are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) Business combination (Continued)

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

#### (e) Associated company

An associated company is an entity over which the Group has significant influence, but not control, and generally accompanied by a shareholding giving rise to between and including 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associated company are incorporated in these financial statements using the equity method of accounting except when the investment is classified as held for sale, in which case it is accounted for under FRS 105 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investment in associated company is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associated company, less any impairment in the value of individual investment. Losses of an associated company in excess of the Group's interest in that associated company (which includes any long-term interests that, in substance, form part of the Group's net investment in the associated company) are not recognised.

Where a Group entity transacts with an associated company of the Group, unrealised profits are eliminated to the extent of the Group's interest in the relevant associated company. Unrealised losses are also eliminated but only to the extent that there is no impairment.

Investment in associated company in the consolidated balance sheet includes goodwill identified on acquisition.

Investment in associated company is stated in the Company's balance sheet at cost less impairment loss, if any.

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

Property, plant and equipment are initially recorded at cost. Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and impairment loss, if any.

The cost of property, plant and equipment includes its purchase price and any costs to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Dismantlement, removal or restoration costs are included as part of the cost of the property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the property, plant and equipment.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (f) Property, plant and equipment (Continued)

Subsequent expenditure relating to the property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that the future economic benefits, in excess of standard performance of the asset before the expenditure was made, will flow to the Group, and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

On disposal or retirement of an item of property, plant and equipment, the difference between the net disposal proceeds and the carrying amount of the asset is taken to the income statement.

Depreciation for property, plant and equipment is provided on a straight-line basis so as to write off their depreciable amounts over their estimated useful lives as follows:-

Land use rights	Term of lease of 47 years
Building and building improvements	20 - 47 years
Motor vehicles	5 – 8 years
Machinery	5 years
Office equipment	5 years

The residual values, useful life and depreciation method are reviewed at each balance sheet date to ensure that the residual values, period of depreciation and depreciation method are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

Fully depreciated plant and equipment are retained in the financial statements until they are no longer in use.

#### (g) Intangible assets

An intangible asset that is an identifiable non-monetary asset without physical substance is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

##### *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and prepare the software for its intended use. Direct expenditure, which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured, is recognised as a capital improvement and added to the original cost of the software. Costs associated with maintaining computer software are recognised as an expense as incurred.

Computer software licences are stated at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to the income statement using the straight-line method over their estimated useful lives of 5 - 10 years.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (g) Intangible assets (Continued)

##### *Development costs*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Expenditure incurred on projects to develop new products is capitalised only if all of the following conditions are met:-

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

Deferred development costs are amortised to the income statement using the straight-line basis over the estimated commercial lives of the underlying products of not exceeding five years commencing from the date when the products are put into commercial production.

##### *Membership rights*

Membership rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any.

Membership rights are amortised to the income statement on a straight-line basis over the estimated useful lives of 20 years.

#### (h) Impairment of non-current assets

##### *Non-current assets other than goodwill*

The carrying amounts of non-current assets, are reviewed at each reporting date to determine whether there is any indication of impairment loss and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, or when annual impairment testing for an asset is required the assets' recoverable amounts are estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups of assets. Impairment loss is recognised in the income statement, unless it reverses a previous revaluation, credited to equity, in which case it is charged to equity.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (h) Impairment of non-current assets (Continued)

##### *Non-current assets other than goodwill (Continued)*

The recoverable amount of an asset or cash-generating unit is the higher of the asset's fair value less costs to sell and its value in use. Value in use is the estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or cash-generating unit for which the future cash flow estimates have not been adjusted.

Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment loss recognised for the assets may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

##### *Goodwill*

Goodwill is tested annually for impairment, as well as when there is any indication that the goodwill may be impaired.

Goodwill included in the carrying amount of an investment in associated company is tested for impairment as part of the investment, rather than separately.

For the purposes of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating unit expected to benefit from synergies of the business combination. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit including the goodwill, the impairment loss is recognised in the income statement and allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rate basis of the carrying amount of each asset in the unit. Impairment loss on goodwill is not reversed in a subsequent period.

#### (i) Financial assets

##### *Classification*

The Group and Company classify their financial assets according to the guidelines of FRS 39 Financial Instruments: Recognition and Measurement. The classification depends on the purpose of which the assets were acquired. The management determines the classification of their financial assets at initial recognition and re-evaluate this designation at the balance sheet date, where allowed and appropriate.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are classified within "trade and other receivables" and "cash and bank balances" on the balance sheets.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (i) Financial assets (Continued)

##### *Recognition and derecognition*

The Group recognises financial assets on its balance sheet when it becomes a party to the contractual provision of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group and the Company have transferred substantially all risks and rewards of ownership.

On sale of a financial asset, the difference between the carrying amount and the net sale proceeds is recognised in the income statement.

##### *Initial and subsequent measurement*

Financial assets are initially recognised at fair value plus transaction costs.

After initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less impairment loss, if any. Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period. Income and expense are recognised on an effective interest basis for debt instruments.

##### *Impairment*

The Group and the Company assess at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

An allowance for impairment of loans and receivables is recognised when there is objective evidence that the Group and the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work-in-progress, cost includes cost of material, direct labour and an appropriate share of overheads based on normal operating capacity.

Net realisable value is the estimated selling price at which inventories can be realised in the ordinary course of business after allowing for the costs of realisation. Allowance is made for obsolete, slow-moving and defective inventories.

#### (k) Financial liabilities

The accounting policy adopted for specific financial liability is set out below:

##### *Trade and other payables*

Trade and other payables are recognised initially at cost which represents the fair value of the consideration to be paid in the future, less transaction cost, for goods received or services rendered, whether or not billed to the Group and the Company, and are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

##### *Borrowings*

Borrowings are recognised initially at fair value, net of any transaction costs incurred and are subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

##### *Recognition and derecognition*

Financial liabilities are recognised on the balance sheet when, and only when, the Group and the Company become parties to the contractual provisions of the financial instrument.

Financial liabilities are derecognised when the contractual obligation has been discharged or cancelled or expired.

On derecognition of a financial liability, the difference between the carrying amount and the consideration paid is recognised in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (l) Provisions

Provisions are recognised when the Group and Company have a present legal or constructive obligation where, as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

##### *Warranty*

The Group recognises the estimated liability to repair or replace products still under warranty at balance sheet date. This provision is calculated based on historical experience of the level of repairs and replacements.

#### (m) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Ordinary shares are classified as equity and recognised at the fair value of the consideration received by the Company. Incremental costs directly attributable to the issuance of new equity instruments are shown in the equity as a deduction from the proceeds.

#### (n) Dividends

Equity dividends are recognised when they become legally payable.

Interim dividends are recorded in the financial year in which they are declared payable.

Final dividends are recorded in the financial year in which the dividends are approved by the shareholders.

#### (o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

##### *Sale of goods*

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (o) Revenue recognition (Continued)

##### *Rendering of services*

Revenue from rendering of services is recognised when the service is rendered.

##### *Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

#### (p) Employee benefits

##### *Defined contribution plans*

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

Pursuant to the relevant regulations of the PRC government, the subsidiaries in the PRC have each participated in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiaries in the PRC are required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries in the PRC. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above.

Contributions under the Scheme are charged to the income statement as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

##### *Employee leave entitlement*

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for unutilised annual leave as a result of services rendered by employees up to the balance sheet date.

#### (q) Finance costs

Interest expense and similar charges are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use or sale.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (r) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### *When the Group is the lessee*

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognised in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

#### (s) Income tax expense

Income tax for the financial year comprises current and deferred taxes. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case such income tax is recognised in equity.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the Company and subsidiaries operate by the balance sheet date.

Deferred tax is recognised using the liability method, providing for temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The amount of deferred tax provided is based on the manner of realisation or settlement of the carrying amount of assets and liabilities, using the tax rates enacted by the balance sheet date, unless the deferred tax liability arises from an initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction affects neither the accounting profit nor taxable profit.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and associated company, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will be available against which the temporary differences can be utilised.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (s) Income tax expense (Continued)

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same tax authority and there is intention to settle the current tax assets and liabilities on a net basis.

#### (t) Foreign currency transactions and translation

##### *Functional and presentation currency*

The individual financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The functional currency of the Company is Singapore Dollar. The consolidated financial statements and the balance sheet of the Company are presented in Renminbi ("RMB"), which is the functional currency of the operating subsidiaries.

##### *Transactions and balances*

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rate of exchange prevailing on the date of the transaction. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in the income statement for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in RMB using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in the income statement in the period in which the foreign operation is disposed.

##### *Group companies*

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that are in functional currencies other than RMB are translated into RMB as follows:

- Assets and liabilities are translated at the closing rate at the balance sheet date;
- Income and expenses are translated at average exchange rates; and
- All resulting exchange differences are taken to the foreign currency translation reserve.

On disposal of a foreign entity, the accumulated currency translation differences are recognised in the income statement as part of the profit or loss on disposal.

## NOTES TO THE FINANCIAL STATEMENTS

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (u) Segment reporting

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate assets and expenses.

The Group's revenue, assets, liabilities and capital expenditures are almost entirely attributable to a single business segment of closed-circuit television security and surveillance products and solutions, and one geographical region, which is the People's Republic of China. Accordingly, no business segments are presented.

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

#### (a) Critical judgements made in applying the accounting policies

In the process of applying the Group's and the Company's accounting policies, the management is of the opinion that there are no critical judgements involved that have a significant effect on the amounts recognised in the financial statements except as discussed below.

##### (i) Recoverability of internally-generated intangible assets

During the year, the Group has considered the recoverability of its internally generated intangible assets arising from development of new products. This requires an estimate of the value in use of the cash-generating units to which the new products are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying value of internally generated intangible assets at the balance sheet date was RMB 4,807,338 (2007: RMB 3,994,873).

##### (ii) Impairment of investments and financial assets

The Group follows the guidance of FRS 39 – Financial Instruments: Recognition and Measurement, in determining whether an investment or a financial asset is other-than-temporarily impaired. This determination requires significant judgement. The Group evaluates, among other factors, the duration and extent to which the fair value of an investment or a financial asset is less than its cost and the financial health of and near-term business outlook for the investment or financial asset, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

##### (iii) Impairment of property, plant and equipment

The Group assesses whether there are any indicators of impairment for the above assets at each reporting date. The above assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

## NOTES TO THE FINANCIAL STATEMENTS

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### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### (a) Critical judgements made in applying the accounting policies (Continued)

##### (iii) Impairment of property, plant and equipment (Continued)

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### (b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### (i) Depreciation of property, plant and equipment

The cost of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these property, plant and equipment to be within 5 to 47 years. The carrying amount of the Group's property, plant and equipment at 31 December 2008 was RMB 27,218,422 (2007: RMB 26,916,107). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

##### (ii) Allowance for slow moving and obsolete inventories

The management carries out an inventory review on a product-by-product basis at each balance sheet date and make allowance for slow moving and obsolete items. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The carrying amount of the Group's inventories at 31 December 2008 was RMB 22,516,050 (2007: RMB 24,492,358).

##### (iii) Allowance for trade and other receivables

The provision policy for doubtful debts of the Group is based on the ageing analysis and management's ongoing evaluation of the recoverability of the outstanding receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, as discussed in Note 9, including the assessment of the creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amount of the Group's trade and other receivables as at 31 December 2008 was RMB 52,620,341 (2007: RMB 38,871,831).

##### (iv) Amortisation of computer software

Computer software is amortised on a straight-line basis over its estimated useful life. Management estimates the useful lives to be 5 to 10 years. The carrying amount of computer software as at 31 December 2008 was RMB 643,666 (2007: RMB 685,915). Changes in the expected level of usage and technology development could impact the economic useful life and residual value of the asset, therefore future amortisation charges could be revised.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

#### (b) Key sources of estimation uncertainty (Continued)

##### (v) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units ("CGU") to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. No impairment loss was recognised during the financial year.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

## 4. PROPERTY, PLANT AND EQUIPMENT

Group	Land use rights RMB	Building and leasehold improvements RMB	Machinery RMB	Office equipment RMB	Motor vehicles RMB	Total RMB
<b>Cost</b>						
Balance at 1 January 2008	5,180,683	18,927,598	1,670,534	3,650,422	2,201,938	31,631,175
Additions	-	89,200	390,615	957,622	1,038,544	2,475,981
Disposal	-	-	-	(67,208)	(232,291)	(299,499)
Balance at 31 December 2008	<u>5,180,683</u>	<u>19,016,798</u>	<u>2,061,149</u>	<u>4,540,836</u>	<u>3,008,191</u>	<u>33,807,657</u>
<b>Accumulated depreciation</b>						
Balance at 1 January 2008	422,860	1,403,193	776,319	1,381,062	731,634	4,715,068
Charge for the financial year	102,718	594,863	497,856	659,535	261,581	2,116,553
Disposal	-	-	-	(42,677)	(199,709)	(242,386)
Balance at 31 December 2008	<u>525,578</u>	<u>1,998,056</u>	<u>1,274,175</u>	<u>1,997,920</u>	<u>793,506</u>	<u>6,589,235</u>
<b>Carrying amount</b>						
As at 31 December 2008	<u>4,655,105</u>	<u>17,018,742</u>	<u>786,974</u>	<u>2,542,916</u>	<u>2,214,685</u>	<u>27,218,422</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Land use rights RMB	Building and leasehold improvements RMB	Machinery RMB	Office equipment RMB	Motor vehicles RMB	Total RMB
<b>Cost</b>						
Balance at 1 January 2007	5,310,716	18,820,788	1,173,867	2,282,164	1,811,548	29,399,083
Additions	-	106,810	232,596	1,116,462	129,450	1,585,318
Adjustment*	(130,033)	-	264,071	265,216	260,940	660,194
Written off	-	-	-	(13,219)	-	(13,219)
Currency realignment	-	-	-	(201)	-	(201)
Balance at 31 December 2007	<u>5,180,683</u>	<u>18,927,598</u>	<u>1,670,534</u>	<u>3,650,422</u>	<u>2,201,938</u>	<u>31,631,175</u>
<b>Accumulated depreciation</b>						
Balance at 1 January 2007	409,160	983,248	37,416	623,201	213,114	2,266,139
Charge for the financial year	102,718	460,960	474,832	504,201	257,580	1,800,291
Adjustment*	(89,018)	(41,015)	264,071	265,216	260,940	660,194
Written off	-	-	-	(11,381)	-	(11,381)
Currency realignment	-	-	-	(175)	-	(175)
Balance at 31 December 2007	<u>422,860</u>	<u>1,403,193</u>	<u>776,319</u>	<u>1,381,062</u>	<u>731,634</u>	<u>4,715,068</u>
<b>Carrying amount</b>						
As at 31 December 2007	<u>4,757,823</u>	<u>17,524,405</u>	<u>894,215</u>	<u>2,269,360</u>	<u>1,470,304</u>	<u>26,916,107</u>

\* This relates to adjustment of cost and accumulated depreciation of property, plant and equipment disposed off in 2006.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

## 4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

<b>Company</b>	<b>Office equipment RMB</b>
<b>Cost</b>	
Balance at 1 January 2008 and 31 December 2008	-
<b>Accumulated depreciation</b>	
Balance at 1 January 2008 and 31 December 2008	-
<b>Carrying amount</b>	
At 31 December 2008	-
	<b>Office equipment RMB</b>
<b>Cost</b>	
Balance at 1 January 2007	13,420
Written off	(13,219)
Currency realignment	(201)
Balance at 31 December 2007	-
<b>Accumulated depreciation</b>	
Balance at 1 January 2007	11,556
Written off	(11,381)
Currency realignment	(175)
Balance at 31 December 2007	-
<b>Carrying amount</b>	
At 31 December 2007	-

Depreciation expenses have been classified according to their function and allocated to cost of sales, selling and distribution, administrative expenses and research and development expenses as follows:

	<b>Group</b>	
	<b>2008 RMB</b>	<b>2007 RMB</b>
Cost of sales	726,617	610,955
Selling and distribution expenses	474,069	339,530
Administrative expenses	664,833	683,900
Research and development expenses	251,034	165,906
<b>Total</b>	<u>2,116,553</u>	<u>1,800,291</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 5. INTANGIBLE ASSETS

#### (a) Computer software

	Group	
	2008 RMB	2007 RMB
<b>Cost</b>		
At beginning of financial year	881,213	619,713
Additions	82,800	261,500
At end of financial year	<u>964,013</u>	<u>881,213</u>
<b>Accumulated amortisation</b>		
At beginning of financial year	195,298	102,303
Amortisation for the financial year	125,049	92,995
At end of financial year	<u>320,347</u>	<u>195,298</u>
<b>Carrying amount</b>		
At end of financial year	<u>643,666</u>	<u>685,915</u>

#### (b) Development costs

<b>Cost</b>		
At beginning of financial year	5,587,167	3,200,140
Additions	2,170,564	2,387,027
At end of financial year	<u>7,757,731</u>	<u>5,587,167</u>
<b>Accumulated amortisation</b>		
At beginning of financial year	1,592,294	588,202
Amortisation for the financial year	1,358,099	1,004,092
At end of financial year	<u>2,950,393</u>	<u>1,592,294</u>
<b>Carrying amount</b>		
At end of financial year	<u>4,807,338</u>	<u>3,994,873</u>

#### (c) Membership rights

<b>Cost</b>		
At beginning and end of financial year	220,000	220,000
<b>Accumulated amortisation</b>		
At beginning of financial year	33,000	22,000
Amortisation for the financial year	11,000	11,000
At end of financial year	<u>44,000</u>	<u>33,000</u>
<b>Carrying amount</b>		
At end of financial year	<u>176,000</u>	<u>187,000</u>
<b>Total</b>	<u>5,627,004</u>	<u>4,867,788</u>

Amortisation of intangible assets for the year amounting to RMB 1,494,148 (2007: RMB 1,108,087) is included as part of administrative expenses.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 6. INVESTMENT IN SUBSIDIARIES

	Company	
	2008 RMB	2007 RMB
Unquoted equity shares, at cost	<u>13,729,363</u>	<u>13,729,363</u>

Details of the subsidiaries are as follows:

Name of company (Country of incorporation and place of business)	Percentage of equity held by the Group		Principal activities
	2008 %	2007 %	
Tianjin Yaan Technology Electronic Co. Ltd * (People's Republic of China)	100	100	Design, development and marketing of CCTV security and surveillance products and accessories
<u>Held by Tianjin Yaan Technology Electronic Co. Ltd</u>			
Guangzhou Yaan Technology Electronic Co. Ltd * (People's Republic of China)	100	100	Development and marketing of CCTV security and surveillance products and accessories

\* Audited by BDO Shanghai Zhonghua, Certified Public Accountants, People's Republic of China ("PRC"), a member firm of BDO International.

### 7. INVESTMENT IN ASSOCIATED COMPANY

	Group	
	2008 RMB	2007 RMB
Unquoted shares, at cost	17,336,000	17,336,000
Share of net post-acquisition reserves	3,159,078	1,662,988
	<u>20,495,078</u>	<u>18,998,988</u>

Name of company (Country of incorporation and place of business)	Percentage of equity held by the Group		Principal activities
	2008 %	2007 %	
Shenzhen Launch Xinchuang Technology Co., Ltd * (People's Republic of China)	40	40	Design, development, marketing and service of the network video products

\* Audited by BDO Shanghai Zhonghua, Certified Public Accountants, People's Republic of China ("PRC"), a member firm of BDO International.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 7. INVESTMENT IN ASSOCIATED COMPANY (CONTINUED)

The summarised financial information of the associated company is as follows:-

	2008 RMB	2007 RMB
<b>Assets and liabilities</b>		
Non-current assets	1,212,937	578,963
Current assets	32,260,938	26,431,342
Total assets	<u>33,473,875</u>	<u>27,010,305</u>
Non-current liabilities	-	-
Current liabilities	9,663,389	7,724,308
Total liabilities	<u>9,663,389</u>	<u>7,724,308</u>
<b>Results for the financial year</b>		
Revenue	32,117,834	7,306,110
Profit after income tax	<u>4,524,490</u>	<u>4,157,469</u>

The associated company was acquired on 23 November 2007 and the Group's share of the associated company's profit for the year is RMB 1,496,090 (2007: RMB 1,662,988).

### 8. INVENTORIES

	2008 RMB	Group 2007 RMB
Raw materials	13,283,361	10,817,640
Finished goods	9,836,250	15,117,707
Work in progress	602,131	176,434
Allowance for inventory obsolescence	(1,205,692)	(1,619,423)
Total inventories at lower of cost and net realisable value	<u>22,516,050</u>	<u>24,492,358</u>

During the financial year, the Group recorded a write-back of inventory which was previously written-down to net realisable value amounting to RMB 628,207 (2007: RMB 189,700) in "cost of sales". The write-back of inventories was made when the related inventories were sold above their carrying amounts.

The Group recorded a write-down of inventory to net realisable value amounting to RMB 214,476 (2007: RMB 269,460) in "cost of sales".

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

## 9. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008 RMB	2007 RMB	2008 RMB	2007 RMB
Trade receivables	53,706,992	37,775,613	-	-
Allowance for doubtful trade debts	(5,122,451)	(1,653,852)	-	-
	<u>48,584,541</u>	<u>36,121,761</u>	-	-
Notes receivables	764,091	-	-	-
Staff loans and advances	259,600	428,526	-	-
Advance payment to suppliers	234,866	497,237	-	-
Amount due from subsidiary (non-trade)	-	-	-	745,073
Deposits	135,524	177,390	-	-
Prepayments	270,381	263,505	2,534	5,345
Others	2,471,338	1,383,412	-	-
Allowance for doubtful non-trade debts	(100,000)	-	-	-
	<u>52,620,341</u>	<u>38,871,831</u>	<u>2,534</u>	<u>750,418</u>

The average credit period on sales of goods excluding sales to government is 60 days (2007: 60 days). The credit period for government projects is 90 to 180 days (2007: 90 to 180 days). No interest is charged on trade receivables. Allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Before accepting any new customers, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and terms attributed to customers are reviewed twice a year.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the allowance for doubtful debts.

The Group's other receivables are unsecured, interest-free and are repayable on demand.

Movements in the allowance for doubtful trade debts:

	Group	
	2008 RMB	2007 RMB
Balance at beginning of the year	1,653,852	1,950,122
Allowance recognised in income statement	4,084,737	198,637
Allowance written off during the year	(616,138)	(494,907)
Balance at end of the year	<u>5,122,451</u>	<u>1,653,852</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 9. TRADE AND OTHER RECEIVABLES (CONTINUED)

Movements in the allowance for doubtful non-trade debts:

	Group	
	2008 RMB	2007 RMB
Balance at beginning of the year	-	-
Allowance recognised in income statement	100,000	-
Balance at end of the year	<u>100,000</u>	<u>-</u>

Trade and other receivables are denominated in the following currencies:

	Group		Company	
	2008 RMB	2007 RMB	2008 RMB	2007 RMB
Renminbi	52,617,807	38,866,486	-	-
Singapore Dollar	2,534	5,345	2,534	750,418
	<u>52,620,341</u>	<u>38,871,831</u>	<u>2,534</u>	<u>750,418</u>

### 10. CASH AND BANK BALANCES

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2008 RMB	2007 RMB	2008 RMB	2007 RMB
Renminbi	15,322,703	10,051,507	-	-
Singapore Dollar	453,315	51,109	453,315	51,109
United States Dollar	330,815	371,044	-	-
	<u>16,106,833</u>	<u>10,473,660</u>	<u>453,315</u>	<u>51,109</u>

### 11. TRADE AND OTHER PAYABLES

	Group		Company	
	2008 RMB	2007 RMB	2008 RMB	2007 RMB
Trade payables	49,796,398	37,225,559	-	-
Value-added tax and other taxes payable	3,260,017	4,583,284	-	-
Accrued expenses	4,519,531	3,212,708	756,181	770,208
Due to a Director (non-trade)	-	872,609	-	-
Advance payment from customers	2,108,603	1,494,836	-	-
Other payables	143,772	624,666	-	-
	<u>59,828,321</u>	<u>48,013,662</u>	<u>756,181</u>	<u>770,208</u>

The amount due to a Director is unsecured, interest-free and is repayable on demand.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 11. TRADE AND OTHER PAYABLES (CONTINUED)

Trade and other payables are denominated in the following currencies:

	Group		Company	
	2008 RMB	2007 RMB	2008 RMB	2007 RMB
Renminbi	59,072,140	47,243,454	-	-
Singapore Dollar	756,181	770,208	756,181	770,208
	<u>59,828,321</u>	<u>48,013,662</u>	<u>756,181</u>	<u>770,208</u>

### 12. PROVISION FOR WARRANTY

	Group	
	2008 RMB	2007 RMB
Balance at beginning of the year	385,311	288,916
Provision made for the year	1,316,042	756,283
Provision utilised	(602,101)	(659,888)
Balance at end of the year	<u>1,099,252</u>	<u>385,311</u>

### 13. SHORT-TERM BANK LOAN

The bank loan was guaranteed by an independent third party established in the People's Republic of China and bore interest from 5.841% to 8.217% (2007: 6.23% to 8.217%) per annum.

The bank loan was fully repaid during the current financial year.

### 14. SHARE CAPITAL

	Group and Company 2008		Group and Company 2007	
	Number of shares	RMB	Number of shares	RMB
<b>Issued and fully paid:-</b>				
<b>Ordinary shares</b>				
Balance at end of the year	<u>61,002,000</u>	<u>16,868,943</u>	<u>61,002,000</u>	<u>16,868,943</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 15. STATUTORY RESERVE

In accordance with the Foreign Enterprise Law applicable to the subsidiaries in the People's Republic of China (PRC), PRC subsidiaries are required to transfer 10% of its profit after income tax as reported in their PRC statutory financial statements to the statutory reserve, until the reserve balance reaches 50% of their registered capital. Voluntary transfers can be made to this reserve after this 50% requirement is met. The transfer to this reserve must be made before the distribution of dividends to equity owners. Statutory reserve can be used to make up for previous years' losses, if any, and may be converted into registered capital in proportion to the existing interests of equity owners, provided that the balance after such conversion is not less than 25% of the registered capital.

### 16. REVENUE

Revenue represents income from sale of goods and related services net of discounts, returns and value added tax.

### 17. OTHER INCOME

	Group	
	2008	2007
	RMB	RMB
Bank interest income	77,807	86,015
Service income	482,950	69,908
Government subsidies	136,800	300,000
Income from raw material sold to supplier	256,163	-
Others	54,300	14,563
	<u>1,008,020</u>	<u>470,486</u>

### 18. STAFF COSTS

	Group	
	2008	2007
	RMB	RMB
Salaries and welfare	16,597,911	12,646,710
Contribution to defined contribution plans	1,308,870	1,021,474
	<u>17,906,781</u>	<u>13,668,184</u>

### 19. FINANCE COSTS

Finance costs relate to interest on short-term bank loan.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 20. PROFIT BEFORE INCOME TAX

	Group	
	2008	2007
	RMB	RMB
This is arrived at after charging/(crediting):		
Non-audit fees paid to auditors of the Company	8,944	16,385
Cost of inventories included in cost of sales	119,930,260	79,173,057
Depreciation of property, plant and equipment	2,116,553	1,800,291
Amortisation of intangible assets	1,494,148	1,108,087
Property, plant and equipment written off	-	1,838
Loss on disposal of property, plant and equipment	57,113	-
Research and development costs expensed off	8,415,947	3,142,260
Operating lease expenses	1,396,996	1,431,907
Provision for warranty	1,316,042	756,283
Allowance for inventory obsolescence	214,476	269,460
Allowance for inventory obsolescence reversed during the financial year	(628,207)	(189,700)
Allowance for doubtful trade debts, net	3,468,599	198,637
Allowance for doubtful non-trade debts	100,000	-

### 21. INCOME TAX EXPENSE

	Group	
	2008	2007
	RMB	RMB
Current income tax expense		
- Current year	1,462,967	1,317,346
- Under/(over) provision in prior years	42,902	(92,035)
	1,505,869	1,225,311

In accordance with the Income Tax Law of the People's Republic of China ("PRC") for Enterprises with Foreign Investment and Foreign Enterprises, the subsidiary, Tianjin Yaan Technology Electronic Co., Ltd ("Tianjin Yaan") in the PRC is entitled to full exemption from Enterprise Income Tax ("EIT") for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

Tianjin Yaan obtained its foreign investment enterprise license in June 2004 and accordingly is exempted from income tax commencing from June 2004. For the financial year 2008, Tianjin Yaan was taxed at 50% reduction of the normal income tax rate.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 21. INCOME TAX EXPENSE (CONTINUED)

The Group's operations are mainly arising from Tianjin Yaan. As a High-Tech company in High-Tech Industry Zone, Tianjin Yaan is subjected to 15% tax rate. The tax expense on profit differs from the amount that would arise using the PRC standard income tax rate of 15% due to the following:

	Group	
	2008	2007
	RMB	RMB
Profit before income tax	19,405,931	18,150,251
Less: Share of result of associated company	<u>(1,496,090)</u>	<u>(1,662,988)</u>
	17,909,841	16,487,263
Tax based on statutory rate of 15%	2,686,476	2,473,090
Effect of:		
- Different tax rate in other countries	(41,019)	(44,962)
- Tax exemption	(1,464,065)	(1,226,046)
- Additional deduction on qualifying expenses	(366,527)	(207,348)
- Deferred tax assets not recognised	199,217	-
- Expenses not deductible for tax purposes	448,885	322,612
- Under/(over) provision for income tax in prior years	<u>42,902</u>	<u>(92,035)</u>
	<u>1,505,869</u>	<u>1,225,311</u>

Deferred tax asset amounting to RMB 199,217 (2007: nil) in respect of unutilised tax loss of RMB 796,868 has not been recognised in the financial statements due to unpredictability of future profit streams.

### 22. EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the net profit attributable to members of the Company by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2008	2007
Net profit attributable to members of the Company	17,900,062	16,924,940
Weighted average number of ordinary shares in issue during the financial year for computation of earnings per share	61,002,000	61,002,000
Basic earnings per share (cents)	<u>29.34</u>	<u>27.74</u>
Diluted earnings per share (cents)	<u>29.34</u>	<u>27.74</u>

Diluted earnings per share are the same as basic earnings per share because the Company does not have potential dilutive shares.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 23. DIVIDEND PAID

	<b>Group and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>RMB</b>	<b>RMB</b>
Final (one-tier) dividend for 2006: S\$0.003 per share	-	918,105
	-	918,105

The Company did not recommend any dividends in respect of the financial year ended 31 December 2008.

### 24. SIGNIFICANT RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

In addition to the related party information disclosed elsewhere in the financial statements, the following are significant related party transactions during the financial year at terms and rates agreed between the parties:

#### (a) Purchase of goods and services

	<b>Group</b>	
	<b>2008</b>	<b>2007</b>
	<b>RMB</b>	<b>RMB</b>
<b>With a Director</b>		
- Rental paid	180,000	180,000
	180,000	180,000
<b>With associated company</b>		
- Purchase of goods	1,629,573	150,000
- Sale of goods	215,063	-
	1,844,636	150,000
<b>With a firm of which a Director is a member</b>		
- Administration fee paid	88,508	90,302
	88,508	90,302

#### (b) Key management personnel compensation

	<b>Group</b>	
	<b>2008</b>	<b>2007</b>
	<b>RMB</b>	<b>RMB</b>
Directors' fees	1,011,182	989,138
Salaries and other short-term employee benefits	3,392,296	2,785,375
Contribution to defined contribution plans	145,680	142,705
	4,549,158	3,917,218
Comprising amounts paid to :		
Directors of the Company	3,170,334	2,380,778
Other key management executives	1,378,824	1,536,440
	4,549,158	3,917,218

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 24. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

#### (b) Key management personnel compensation (Continued)

	Group	
	2008	2007
Number of Directors of the Company in remuneration bands of:-		
- above RMB 2,500,000	-	-
- RMB 1,250,000 to below RMB 2,500,000	1	1
- below RMB 1,250,000	4	4
Total	<u>5</u>	<u>5</u>

### 25. OPERATING LEASE COMMITMENTS

As at the balance sheet date, commitments in respect of non-cancellable operating leases in respect of office premises are as follows:

	Group	
	2008 RMB	2007 RMB
Future minimum lease payments payables:		
Within one year	673,680	698,107
After one year but not more than five years	40,960	5,900
	<u>714,640</u>	<u>704,007</u>

Operating lease payments represent rents payable by the Group and Company for office premises. Leases are negotiated for an average term of one financial year.

### 26. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT

#### (a) Financial instruments

The following sets out the financial instruments as at balance sheet date:

	Group		Company	
	2008 RMB	2007 RMB	2008 RMB	2007 RMB
<b>Financial assets</b>				
Loans and receivables (including cash and bank balances)	<u>68,456,793</u>	<u>49,081,986</u>	<u>453,315</u>	<u>796,182</u>
<b>Financial liabilities</b>				
Amortised cost	<u>59,828,321</u>	<u>58,013,662</u>	<u>756,181</u>	<u>770,208</u>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 26. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (CONTINUED)

#### (b) Financial risks

The Group's activities expose it to credit risks, market risks (including foreign currency risks and interest rates risks) and liquidity risk. The Group's overall risk management strategy seeks to minimise adverse effects from the volatility of financial markets on the Group's financial performance.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group. The Group management then establishes the detailed policies such as oversight responsibilities, risk identification and measurement, and exposure limits, in accordance with the objectives and underlying principles approved by the Board of Directors.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risk. As the Group does not have significant market risks, sensitivity analysis is not presented.

#### (i) Credit risks

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group performs ongoing credit evaluation of its counterparties' financial condition and generally do not require a collateral.

The Group does not have any significant credit exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, grossed up for any allowances for losses, represents the Group's maximum exposure to credit risk. The Group and Company do not hold any collateral.

The Group's major classes of financial assets are bank balances and trade receivables.

Bank balances are mainly deposits with banks with high credit-ratings assigned by international credit rating agencies.

Trade receivables that are neither past due nor impaired are substantially companies with good collection track record with the Group.

Further details of credit risks on trade receivables are disclosed in Note 9.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 26. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (CONTINUED)

#### (b) Financial risks (Continued)

##### (i) Credit risks (Continued)

The age analysis of trade receivables past due but not impaired is as follows:

	Group	
	2008	2007
	RMB	RMB
Past due within 3 months	7,310,001	4,406,338
Past due 3 months to 9 months	2,325,365	1,255,918
Past due more than 9 months	-	1,506,816
	9,635,366	7,169,072

##### (ii) Market risks

###### *Foreign currency risks*

The Group does not have significant foreign currency risks exposure as most of its transactions are settled in RMB.

###### *Interest rate risks*

Interest rate risks are the risks that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risks arises primarily from their bank borrowing. Information regarding the interest rate of the Group's bank borrowing is in Note 13.

As the bank borrowing was fully repaid in 2008, there is no exposure to interest rate risks as at the balance sheet date.

##### (iii) Liquidity risks

Liquidity risks are the risks that the Group will encounter difficulty in meeting its short-term financial obligations. There is no significant exposure to liquidity risks. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of committed credit facilities.

The Group's liquidity risk management policy is to match the maturities of financial assets and liabilities and to maintain sufficient liquid financial assets and committed credit facilities.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

## 26. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (CONTINUED)

## (b) Financial risks (Continued)

## (iii) Liquidity risks (Continued)

The following table summaries the maturity profile of the Group's non-derivative financial instruments at the balance sheet date based on contractual undiscounted payments, based on the earlier of the contractual date or when the Group is expected to receive or pay.

Group	Less than 1 year RMB	Within 2 to 5 years RMB	Total RMB
<b>Financial liabilities</b>			
<b>Non-interest bearing as at 31 December 2008</b>	<u>59,828,321</u>	-	<u>59,828,321</u>
Non-interest bearing	48,013,662	-	48,013,662
Bank borrowing, variable interest rate	<u>10,000,000</u>	-	<u>10,000,000</u>
<b>As at 31 December 2007</b>	<u>58,013,662</u>	-	<u>58,013,662</u>
<b>Financial assets</b>			
Non-interest bearing	52,519,039	-	52,519,039
Variable interest rate bearing	<u>15,937,754</u>	-	<u>15,937,754</u>
<b>As at 31 December 2008</b>	<u>68,456,793</u>	-	<u>68,456,793</u>
Non-interest bearing	38,661,448	-	38,661,448
Variable interest rate bearing	<u>10,420,538</u>	-	<u>10,420,538</u>
<b>As at 31 December 2007</b>	<u>49,081,986</u>	-	<u>49,081,986</u>

The Group's operations are financed mainly through equity, accumulated profits and bank borrowings. Adequate lines of credit are maintained to ensure the necessary liquidity is available when needed.

## (c) Capital risk management policies and objectives

The Group manages its capital to ensure that the Group is able to continue as a going concern and maintains an optimal capital structure so as to maximise shareholder value.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2008.

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

### 26. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISK MANAGEMENT (CONTINUED)

#### (c) Capital risk management policies and objectives (Continued)

The Group monitors capital using the net tangible asset value and current ratio of the Group. The Group's policy is to keep the net tangible asset value at not less than RMB 48,000,000, and to maintain a current ratio of more than 1. The net tangible asset values and current ratios of the Group as at balance sheet date are as follows:

	Group	
	2008	2007
Net tangible assets	RMB 78,029,151	RMB 60,877,627
Current ratio	<u>1.50</u>	<u>1.25</u>

As disclosed in Note 15 to the financial statements, all PRC subsidiaries of the Group are required by the Foreign Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve whose utilisation is subject to approval by the relevant PRC authorities.

The Group is in compliance with the externally imposed capital requirements for the financial years ended 31 December 2007 and 2008.

#### (d) Fair value of financial assets and financial liabilities

The carrying amounts of the Group's and the Company's financial assets and financial liabilities approximate their respective fair values as at balance sheet date due to the relatively short-term maturity of these financial instruments.

### 27. EVENTS AFTER BALANCE SHEET DATE

- (i) On 6 January 2009, Tianjin Yaan Technology Electronic Co., Ltd obtained short-term bank loan with an authorised limit of RMB 30million which is secured by the pledge of its building and leasehold improvements and land use rights. Net book value of the building and leasehold improvements and land use rights as at 31 December 2008 amounted RMB 17,018,742 and RMB 4,655,105 respectively. Interest rate of this bank loan is based on People's Bank of China's domestic interest rate.
- (ii) On 5 February 2009, the Group, through its wholly-owned subsidiary, Tianjin Yaan Technology Electronic Co., Ltd and its associated company, Shenzhen Launch Xinchuang Technology Co., Ltd entered into an agreement to invest in Beijing Brovic Technologies Co., Ltd ("Brovic") for 40% and 20% of Brovic's enlarged registered capital respectively, at an aggregate cash consideration of RMB 1,950,000. This acquisition will be completed six months from the date of agreement.
- (iii) On 20 March 2009, Tianjin Yaan Technology Electronic Co., Ltd obtained building approval from the local government and was granted a subsidy of RMB 2million from Tianjin Development & Reform Committee to proceed with its plans to build and develop a factory on its existing site at Tianjin High-Tech Industrial Park, No 8 Ziyuan Road, Huayuan High-Tech Industrial Park, Tianjin, PRC. The estimated total cost for this construction project is estimated at RMB 6.5million. The balance of approximately RMB 4.5million in respect of the development will be funded from internal sources. The construction of this new building on the approximately 600 square meters land is scheduled to commence in April 2009. Completion is expected to be in October 2009.