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ZTC Telecommunications Plc

2008 Annual Report

ZTC Telecommunications Plc (ZTC Plc) is a public limited company whose shares are traded on AIM. The Group formerly designed, assembled and marketed mobile phone handsets under the "ZTC" brand name in China.

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Directors and Advisers

Directors:	Frank Lewis Mark Syropoulo Michael Liu	*Non-Executive Chairman* *Finance Director* *Executive Director*
Company Secretary:	Jeremy Gorman	
Registered Office:	14 New Street London EC2M 4HE	
Registered in England:	Company number - 03928553	
Nominated Advisor and Nominated Broker:	Fairfax IS PLC 46 Berkeley Square Mayfair London W1J 5AT	
Solicitors to the Company (English Law):	Pritchard Englefield 14 New Street London EC2M 4HE	
Accountants:	Whale Rock Limited 50 Gresham Street London EC2V 7AY	
Registered Auditors:	BDO Stoy Hayward LLP Emerald House East Street Epsom Surrey KT17 1HS	
Registrars:	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	

Chairman's Statement

Dear Shareholder,

On 13 October 2008 we informed shareholders that trading and credit conditions for small and medium-sized entities (SME's) in the People's Republic of China (PRC) had become increasingly difficult throughout the third quarter of 2008. This was due to deteriorating macro economic conditions outside the PRC, slowing economic growth and restrictive credit policies in China. As a consequence, our markets became increasingly competitive, disrupted and oversupplied.

Following this announcement, and as notified on 10 November 2008, the Directors became aware that Charles Huang, CEO, majority shareholder and a major creditor of the Company's subsidiary Zhong Tian and Yang Ruqiang, the General Manager of the Group's China Operating subsidiary, Shenzhen Zhongtian Communication Equipments Co Ltd ("Zhong Tian"), and Charles Huang's brother in law, had been absent from the Group's offices and factory in Longgang, Shenzhen, (China) and had been uncontactable since 5 November 2008.

The unexplained absence of key personnel in the highly charged economic environment of southern China, destabilised the Group's employees and creditors and, your Board believes, resulted in the unauthorised removal of some of Zhong Tian's assets from its factory site in Longgang, Shenzhen (China). The local authorities subsequently moved to take control of the situation and the People's Court of the Longgang district of Shenzhen (the "People's Court") sealed the factory and its buildings, sequestering all of the assets. Up to the date of this report, none of the Directors or employees of the Group have been able to gain access to the factory and its buildings which remain sealed.

As a result of the management control issues arising and in order to ensure that an orderly market in the Company's shares was maintained, the Directors requested a suspension of trading in the Existing Ordinary Shares on AIM, and such suspension was granted by the London Stock Exchange on 7 November 2008.

Further investigations by the Directors revealed that on, 14 November 2008, the local government paid compensation to, and dismissed, a majority of the employees of Zhong Tian. It is believed that the People's Court subsequently auctioned the Group's remaining inventory and equipment for RMB 1,220,765 (approximately £90,000) and this sum was, the Directors believe, credited against the Government payments to employees (although this has not been capable of verification by the Directors).

The Directors of Praise Ease ("PE"), the Company's wholly-owned Hong Kong holding company and the sole shareholder of Zhong Tian, appointed China legal counsel on 12 November 2008 and instructed them to conduct legal due diligence, interacting with the local relevant authorities and other stakeholders including employees, debtors and creditors, and to provide an opinion as to the prospects of any economic recovery. Following the official authorisations and requisite payments, China legal counsel commenced its investigations on 25 November 2008.

China legal counsel found that as of 19 December 2008, 29 creditor claims had been lodged against Zhong Tian, totalling approximately RMB21m (approximately £2.2m).

At the end of November 2008, it transpired that Tomorrow's Focus Limited (Tomorrow's Focus"), the company which then held 68,000,000 Ordinary Shares beneficially owned by Charles Huang, had, without the knowledge of the Company or the Directors and in contravention of the AIM Rules, entered into loan agreements with Maiden Undertaking Limited ("Maiden Undertaking"), a company beneficially owned by Mr Tong. Documentation produced to the Company showed that Maiden Undertaking had lent an aggregate amount of HK$27,390,000 (approximately £2,000,000) to Tomorrow's Focus, and that the repayment of the loans was secured against the Ordinary Shares held by Tomorrow's Focus (representing approximately 62.57% of the total issued share capital) and by personal guarantees given by Charles Huang in favour of Maiden Undertaking (the "Charges").

It further transpired during the preparations for putting the Proposals to Shareholders that Charles Huang on 14 April 2008 had transferred his holding of shares in Pan Europe Capital Limited, the legal entity which held 12,750,000 Existing Ordinary Shares amounting at that time to approximately 11.7% of the then issued Existing Ordinary Share capital, to Ms.Cheung Yiu Shan. The Company has been unable to contact Ms. Cheung Yiu Shan to establish the basis for the transfer of the shares in Pan Europe Capital Limited to her and whether that shareholding is for the benefit of Ms. Cheung Yiu Shan or another person, but, as yet, has had no response to its enquiries.

To date, the factory and all buildings remain under seal and all assets sequestered by the People's Court. All key management of the Subsidiaries have continued to take unexplained leave and all remaining employees have been dismissed. The whereabouts of Charles Huang and Mr Yang Ruqiang remain unknown.

While the Company's investigations continue, it is the Board's unanimous view that Zhong Tian is unlikely to be able to continue as a going concern. Following the alleged looting at the factory and the auction conducted by the People's Court, the quantity of remaining equipment and inventory is unknown and its value is likely to be negligible.

Further legal opinion indicates that, in order for the Company to gain access to the assets of Zhong Tian, it would have to replace Charles Huang as legal representative of Zhong Tian, a lengthy and expensive procedure, and then commence one of the following processes:

i) The settlement of existing claims and/or appointment of a liquidation team (any voluntary liquidation process could take up to two years and would incur considerable expense including the payment of uncalled capital, being approximately RMB 170m (£12.4m); or

ii) An involuntary winding up process initiated by the local relevant authority of Shenzhen, which the Directors believe, could also be very time consuming and the likely focus on tangible assets would mean that any proceeds are likely to be minimal.

After due investigations, taking into account the limited resources of the Company, the Directors have concluded that the Company's business in China will be unable to resume trading and, as such, the ability to realise any net assets for the benefit of Shareholders will be extremely difficult and not cost-effective. Given the potentially long recovery procedures and the Company's limited resources, the Directors have concluded that the Subsidiaries of the Company have negligible or no recoverable value. In addition, the disposal of Praise Ease is also a condition precedent of the party wishing to assist in the refinancing of the Company.

Following discussions between the Company and Maiden Undertaking, and on the basis that there had been a breach of the terms of the two loan agreements dated 16 May 2008 and 3 June 2008 by Tomorrow's Focus and Charles Huang, Maiden Undertaking is entitled, under the Charges, to retain the Charged Shares and register itself as owner of the Charged Shares or sell or dispose the Charged Shares in its absolute discretion. It was subsequently agreed that Maiden Undertaking would assert its rights under the Charges and assign the Charged Shares to Staybest Limited ("Staybest"), an associated company, and, subject to the passing of the resolutions at the forthcoming General Meeting (the "Proposals") (details of which are set out in the Circular to shareholders dated 27 March 2009 ("the Circular")), that Staybest and Wellhigh Limited ("Wellhigh") (a company introduced to ZTC plc by the principals of Maiden Undertaking) would support the Company by making the Investment to allow it to continue to operate and in due course, seek to acquire new businesses.

On the basis that the Board has no reason to believe that the Charges are not enforceable and against appropriate indemnities received from Staybest, the Directors, pursuant to the Investment Agreement, on 27 March 2009 agreed to register Staybest as the holder of the Charged Shares. As a result of the discussions with Maiden Undertaking and conditional upon the passing of the Resolutions and Admission, Staybest and Wellhigh have agreed to make the Investment which will provide the Company with sufficient working capital to operate for at least the next 12 months so that, following the passing of the Resolutions, the Company will be able to instruct Fairfax to apply to the London Stock Exchange for the suspension of dealings in the Company's shares on AIM to be lifted.

The Directors believe that Charles Huang's personal guarantee and the indebtedness of his company to Maiden Undertaking may have been the reason for his sudden disappearance. As at the date of this report, the Directors, having made reasonable enquiries, are not aware of any other circumstances which may relate to his disappearance.

Proposed Disposal of PE

PE must be disposed of as a condition of the refinancing arrangements. PE is the intermediate holding company of Zhong Tian, and since Zhong Tian is no longer considered a going concern, the directors have concluded to dispose of PE for a nominal sum subject to shareholder approval on 21 April 2009, on the terms that the Company will participate in any economic recovery of PE.

The Directors believe, based on legal advice, that ZTC plc is not liable for any of the liabilities within PE's subsidiary, Zhong Tian.

Operating Results – 2008

Turnover in the year ended 30 June 2008 showed an increase of £4,375,000 over the previous year (an increase of 19.7%, while gross margins remained steady at 20.8% (2007: 21.5%). Whilst business was generally buoyant in the first half trading conditions in the second half were difficult due to the Sichuan earthquake, severe winter conditions and flooding in southern China. Competition increased significantly post the year end and, following the holding of the Olympic Games in Beijing in August 2008, wholesale orders fell dramatically reflecting reduced consumer demand and economic activity.

In the event, while the operating profit for the year ended 30 June 2008, net of finance income and costs, amounted to £2,415,000 (2007: £2,016,000), the final audited loss before tax for the year of £16,581,000 reflects an impairment charge in respect of assets in the subsidiary of £18,996,000. Further details on this impairment charge are given on page 33.

Recent Board Changes

Dr Yi Xie, Non-executive director, resigned from the Board on 18 December 2008. Following Charles Huang's disappearance in November 2008 and his failure to reappear, the Board resolved to remove him as a director of the Company on 22 December 2008.

Basis of preparation of the 2008 Report and Financial Statements

Based on the best information available to the Directors, and taking into account the prospects for the Company following the implementation of the Proposals as set out in the Circular to shareholders, your Board has concluded that it is appropriate to prepare the accounts for the parent company on a going concern basis. This basis is considered appropriate on the basis that the company has secured new finance of £280,000 (which is subject to shareholder approval on 21 April 2009) which is an integral part of proposals to shareholders as set out in the Circular to shareholders. Clearly the ability of the company with limited resources to continue to trade as a going concern after the fund raising will be dependent upon the successful execution of the changed investment strategy which again is set out in the Circular to shareholders. Given the difficulty of establishing the legal ownership of any remaining assets in China, and the likely costs of achieving any recovery and of settling any liabilities of Zhong Tian, the Board does not believe that Zhong Tian is a going concern, and hence has prepared its accounts under a break up basis.

Due to the loss of all value of Zhong Tian, it is appropriate to write off the investment and inter-company debtors in the accounts of the ultimate parent company ZTC plc.

Further details of the impact of these assumptions are set out in the Directors' Report.

Outlook

Assuming the Proposals are implemented, the strategy of the Directors will be for the Company to invest in one or more companies established in the Asia Pacific region, but which have a significant focus on the People's Republic of China (the "PRC") (assets, customers or suppliers) and have the need for capital prior to them achieving a flotation on the public markets, either within or outside the PRC, or achieving a trade sale in due course. Such companies will be sourced largely through the contacts of the Directors, and any funding required by the Company to make such an investment will be raised prior thereto. While the Company is not currently able to identify the specific types of businesses which it might invest in, it is more likely than not that the sectors which will be targeted will be resources, technology and property – all areas where the Board has existing knowledge and contacts.

The Board believes that the Directors have relevant experience in identifying, assessing, and negotiating such acquisitions. The Directors believe that their broad collective experience in acquisitions, accounting, corporate and financial management together with their wide industry contacts will enable the Company to achieve its objectives.

Investment propositions will be considered when the Directors consider that enhanced values may be achieved. A particular consideration will be to identify investments where the Directors believe that their expertise and experience can be deployed to facilitate growth or unlock value. There is no limit to the number of projects in which the Company may invest.

The Directors will conduct initial due diligence appraisals of potential projects and where they believe further investigation is warranted they will appoint suitably qualified, and where appropriate independent persons to conduct further due diligence.

The Company, as currently proposed, is unlikely to have sufficient cash resources to expend in undertaking due diligence on any potential projects. In the event that a suitable project is identified, the Company would either seek to raise further funds in order to finance any due diligence and acquisition costs or seek to pass on the costs to a third party, possibly in return for a success-related fee payable in shares or in cash. Staybest and Wellhigh have indicated that they would be willing to participate in the funding of such costs.

The Directors intend to take an active role in assessing and management of any investment that the Company may make. Accordingly, the Company is likely to seek participation in the board of directors of any company which the Company acquires with a view to improving its performance and using of its assets in such ways as should result in an increase in the value of such a company. The Directors hope that the resulting benefit would provide a satisfactory return to the Company's Shareholders.

In the event no substantial acquisition is made within 12 months of the date of the 2009 AGM, in accordance with the AIM rules for Companies, trading in the Company's shares will be suspended and if no reverse transaction is achieved in the following 6 months, the London Stock Exchange will cancel the admission of the shares.

If for any reason the Company's shares are not re-admitted to trading on the Alternative Investment Market on the London Stock Exchange by 30 April 2009, the £280,000 new finance will become immediately repayable.

If the company fails to secure a new investment opportunity or additional new finance within the next 12 months, the company will be unable to continue as a going concern as it will have insufficient funds to trade.

Frank Lewis

Chairman

27 March 2009

Directors' Report

The Directors present their report on the affairs of the Company and the Group, together with the audited financial statements, for the year ended 30 June 2008.

Principal activities

On 21 March 2007, following the acquisition of the whole of the issued share capital of Praise Ease Limited ("Praise Ease" or "PE"), the Company was admitted to the Alternative Investment Market ("AIM") of the London Stock Exchange. Praise Ease is the holding company of Shenzhen Zhong Tian Communication Equipments Co. Ltd ("Zhong Tian") which is incorporated in China and which, during the year ended 30 June 2008, designed, assembled and marketed mobile phone handsets under the ZTC brand name in China. Zhong Tian is located in the Longgang District of Shenzhen, China, and was the principal operating company in the Group during the year.

Business review and future developments

Details of the Group's business and expected future developments are also set out in the Chairman's Statement on pages 3 to 6 and the Circular to shareholders.

Cessation of trading of subsidiary

As noted in the Chairman's Statement, Mr Chaohui (aka Charles) Huang, CEO, major creditor and majority shareholder of ZTC Plc and Mr Yang Rugiang, Zhong Tian's General Manager have been absent from the Zhong Tian and uncontactable since 5 November 2008. As a result of the uncertainty that this caused and the interruption to the running of the business, trading of shares in ZTC Plc was suspended as of 7 November 2008.

The main company in the Group that has been affected by this is Zhong Tian, the trading company of the Group. Due to the events noted in the Chairman's statement, and the fact that Zhong Tian has not traded since 5 November 2008, the Directors believe that the assets and liabilities of Zhong Tian should be valued on a break-up basis, that this is the only appropriate basis for valuing the assets and liabilities of Zhong Tian, and that this basis should be applied at the balance sheet date.

As the Directors have no access to any of Zhong Tian's financial information, the Directors have made the following write-downs, based on best estimates, of Zhong Tian's assets in preparing the year end financial statements:

	Going concern value at 30 June 2008 (£GBP)	*Amounts written off 30 June 2008 (£GBP)*	*Written down value at 30 June 2008 (£GBP)*
Property, Plant & Equipment	495,675	(405,647)	90,028
Inventories	1,255,021	(1,255,021)	–
Trade receivables	12,016,929	(10,121,523)	1,895,406
Prepayments	7,153,810	(6,160,508)	993,302
Other receivables	1,052,389	(1,052,389)	–
Cash & cash equivalents	1,616,760	–	1,616,760
Total	23,590,584	(18,995,088)	4,595,496

The consolidated position of the Group reflects these adjustments, with a total of £23,590,584 of assets held within Zhong Tian at 30 June 2008 being written down to their recoverable value. The liabilities of Zhong Tian have not been written down since these liabilities have not been legally extinguished and therefore continue to be recognised at their year end values. This is in accordance with IAS 39 paragraph 39.

Although the values above represent the directors' best estimate of recoverable amounts, the recoverability would have occurred within Zhong Tian, and ZTC plc would have received no financial benefit from their recovery.

As discussed in the Chairman's statement, directors' report and Circular to shareholders, as part of the re-financing of the Company, Zhong Tian and its immediate holding company, PE, are being disposed of for a nominal sum.

In the parent company, the investment and intercompany receivables have been written down to zero value to reflect the non-recoverability of these assets. A total charge of £18,066,000 has been reflected in the accounts of the parent company in respect of these write-downs.

Based on the best information available to the Directors, and taking into account the prospects for the Company following the implementation of the Proposals, your Board has concluded that it is appropriate to prepare the accounts for the parent company on a going concern basis, subject to fundamental uncertainty and accordingly continue to present these accounts on that basis. The board also believe that the accounts of the intermediate parent company, Praise Ease Limited should be prepared on the going concern basis however, the Board does not believe the subsidiary Zhong Tian is a going concern, and hence have prepared its accounts under a break up basis.

The Directors believe, based on legal advice, that ZTC Plc is not liable for any of the liabilities within Zhong Tian and also believe that, subject to completion of the proposed transaction, details of which are set out in the Circular to shareholders dated 27 March 2009, there is sufficient funding available to the Company to enable it to continue to meet its own liabilities (excluding that of other Group companies) for the foreseeable future. Clearly the future prospects of the company will be wholly dependent on the ability of the Board and the new major investor, to successfully implement the investment strategy as outlined in the Chairman's statement and the Circular to the shareholders.

Results and dividend

The results of the Group for the year ended 30 June 2008 are set out on page 20.

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

Directors

The present Directors of the Company, who served throughout the year, are as follows:

Frank Lewis
Mark Syropoulo
Michael Liu

On 18 December 2008, Dr Yi Xie tendered his resignation from his position as a Non-Executive Director of ZTC Plc.

On 22 December 2008, the Board resolved to remove Charles Huang as a director of the Company with immediate effect.

Directors' interests

The beneficial interests of the present Directors and their families at 30 June 2008 in the ordinary share capital of the Company were as follows:

	30 June 2008		*30 June 2007*	
	Ordinary shares	*Share options*	*Ordinary shares*	*Share options*
F Lewis	–	100,000	–	100,000
M Syropoulo	425,000	500,000	350,000	500,000
M Liu	3,400,000	500,000	2,800,000	500,000

The ordinary shares beneficially owned by Mr Syropoulo and Mr Liu are registered in the name of Higher Performance Team Limited.

A full list of share options outstanding during the year is set out below:

Share options

	At 1 July 2007	*Granted*	*Exercised/ Lapsed*	*At 30 June 2008*	*Exercise Price*	*Exercisable From*	*To*
F Lewis	100,000	–	–	100,000**	20p	21.03.08	20.03.17
C Huang	500,000	–	–	500,000***	20p	21.03.08	20.03.17
M Syropoulo	500,000	–	–	500,000**	20p	21.03.08	20.03.17
M Liu	500,000	–	–	500,000**	20p	21.03.08	20.03.17
Dr Y Xie	100,000	–	–	100,000***	20p	21.03.08	20.03.17
Ru qiang Yang	100,000	–	–	100,000*	20p	21.03.08	20.03.17
Qing min Qu	80,000	–	–	80,000*	20p	21.03.08	20.03.17
Jian yang Shu	100,000	–	–	100,000*	20p	21.03.08	20.03.17
Jian Wang	20,000	–	–	20,000*	20p	21.03.08	20.03.17
Fei zhou Yie	20,000	–	–	20,000*	20p	21.03.08	20.03.17
Guo hong Li	30,000	–	–	30,000*	20p	21.03.08	20.03.17
Guang jun Zhu	20,000	–	–	20,000*	20p	21.03.08	20.03.17
Xiu shan Guan	20,000	–	–	20,000*	20p	21.03.08	20.03.17
Guo ji Jiang	10,000	–	–	10,000*	20p	21.03.08	20.03.17
Shuang qiang Yuan	30,000	–	–	30,000*	20p	21.03.08	20.03.17
Jian Guo	30,000	–	–	30,000*	20p	21.03.08	20.03.17

The share options set out above were exercisable in three equal successive annual instalments commencing on and/or after the first anniversary of the date of grant.

No performance conditions were imposed on any of the above share options and no consideration was payable for their award.

Since 30 June 2008, the share options above marked ** have been surrendered for nil consideration. Those marked *** relate to the former Directors, Charles Huang and Dr Xie whose options, under the Rules of the Option Plan, lapse after they cease to hold office with the Group. In case of Charles Huang, these options will therefore lapse on 21 July 2009 and in case of Dr Xie, these have lapsed on 18 February 2009. Those marked * will lapse on 14 May 2009.

The market price of the Company's ordinary shares at 30 June 2008 was 8.25p; the range during the year was 6p to 17p.

Related party transactions

Details of related party transactions are given in Note 30 to the financial statements.

Financial Instruments and Treasury policy

During the year, the following were the policies adopted by the Board. The Chairman's statement provides an updated assessment of the current position of the company.

Details of the use of financial instruments by the Company and its subsidiaries are contained in Note 19 of the financial statements.

The Group's multi-national operations could expose it to certain financial risks.

The most significant financial risk occurs upon translation of the foreign operation's results into sterling upon consolidation. Almost 100% of foreign revenues and the bulk of operating costs are incurred in the local currency, the RMB. Group companies therefore do not engage in foreign exchange risk hedges.

Prudent liquidity risk management in the context of the Group implies maintaining sufficient cash balances or marketable securities in the necessary currencies to be able to pay creditors as and when they fall due. The bulk of the Group's balances are held in RMB, sterling and HK dollars.

Funds surplus to monthly requirements are normally kept on interest bearing financial instruments. Cash balances are deposited with banks carrying high credit ratings in their respective country jurisdictions.

Creditor payment policy

During the year, the following were the policies adopted by the Board. The Chairman's statement provides an updated assessment of the current position of the company.

The Company's policy is to agree payment terms with all suppliers when establishing the terms of each business transaction and to abide by the agreed terms of payment. Trade creditors of the Company at 30 June 2008 were equivalent to 76 days purchases based on the average daily amount invoiced by the suppliers during the year ended on that date.

Substantial shareholdings

At 23 March 2009 the Directors had been notified or were otherwise aware of the following registered holdings of 3% or more of the Company's issued share capital:

	Number of ordinary shares	*Percentage of issued ordinary share capital*
Tomorrow's Focus Limited	68,000,000	62.57%
Pan-Europe Capital Limited	12,750,000	11.73%
Albany Capital Limited	5,448,008	5.01%
Higher Performance Team Limited	4,250,000	3.91%

As noted above, during the year, Charles Huang was beneficially interested in the shares which were registered in the names of Tomorrow's Focus Limited and Pan-Europe Capital Limited.

Mr Syropoulo and Mr Liu are beneficially interested in 425,000 and 3,400,000 of the ordinary shares, respectively, which are registered in the name of Higher Performance Team Limited.

Share capital

On 13 February 2007, Praise Ease Limited was acquired by ZTC plc for an initial consideration of 70 million ordinary shares of 10p each ("Ordinary Shares"), issued at 20p per Ordinary Share.

The acquisition agreement provided for the issue of up to 15 million Ordinary Shares by way of deferred consideration to the previous shareholders of Praise Ease Limited, subject to the main operating subsidiary, Shenzhen Zhong Tian Communication Equipments Co Ltd ("Zhong Tian") achieving a post tax profit in excess of RMB 35 million in the 12 month period to 30 June 2007.

Zhong Tian achieved the agreed level of profitability for the year ended 30 June 2007, and accordingly an additional 15 million Ordinary Shares were issued to the vendors of Praise Ease Limited on 21 December 2007.

Further details of the changes in share capital during the year are set out in Note 20 to the financial statements.

Employees

During the year, the following were the policies adopted by the Board. The Chairman's statement provides an updated assessment of the current position of the company.

The commitment and ability of our employees are key factors in achieving the Group's objectives. We seek to give equal opportunities in employment and ensure that all employees receive fair treatment irrespective of sex, religion, ethnic origin or disability including those who become disabled during their employment. The Group supports and aids employee welfare as well as personal and career development.

Our communications aim is to increase the understanding of the business through regular employee briefings at all levels.

Charitable and political donations

The Company made no charitable or political donations in the financial year (2007: Nil).

International Financial Reporting Standards

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards as endorsed by the European Union. The financial statements of the company's own accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Events after the Balance Sheet date

The events referred to in this Directors' Report and the Chairman's statement regarding the cessation of trading of Zhong Tian are disclosed further in note 2 and note 3 to the consolidated financial statements.

Disclosure of information to auditors

So far as each Director at the date of approval of this report is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

BDO Stoy Hayward LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Recommendation

The Board considers that the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and it is their unanimous recommendation that shareholders support these proposals as the Board intends to do so in respect of their own holdings.

By order of the Board

J P Gorman FCA
Company Secretary

27 March 2009

Corporate Governance Statement

During the year, the following were the policies adopted by the Board. The Chairman's statement provides an updated assessment of the current position of the company.

The Directors recognise the value of the principles of good governance, as set out in the Combined Code and the guidelines published by the Quoted Companies Alliance, and aim to comply with such corporate governance practice so far as is practicable and appropriate for a public company of its size and nature quoted on AIM.

Frank Lewis, the Non-executive Chairman, is a member of the Audit Committee. While this does not meet the requirements of the Combined Code on the basis that a company chairman is not regarded as independent, the Board considers that he is an appropriate person to be a member of this committee, as he meets the Combined Code's requirement that one committee member should have recent and relevant financial experience.

The Company has adopted a model code for Directors' dealings in securities of the Company which is appropriate for a Company quoted on AIM. The Directors will comply with Rule 21 of the AIM Rules relating to Directors' dealings and will take all reasonable steps to ensure compliance by the Company's "applicable employees" (as defined in the AIM Rules).

Board of Directors

During the year, the Board comprised three Executive and two Non-executive Directors. The Non-executive Directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment.

Since the resignations of Charles Huang and Dr Yi Xie in December 2008, and to the date of those accounts, the Board has comprised two Executive and one Non-executive Directors. Further appointments will be made to strengthen the Board on completion of the proposed transaction set out in the Circular to shareholders dated 27 March 2009.

The Board meets on average at least every month and is responsible, inter alia, for setting and monitoring group strategy, reviewing trading performance, ensuring adequate funding, examining development opportunities, formulating policy on key issues and reporting to shareholders. Decisions concerning the direction and control of the business are made by a majority of the Board and a formal schedule of matters specifically reserved for the decision of the Board is in place.

The Board is responsible for establishing and maintaining the Group's system of internal financial controls. Internal financial control systems are designed to meet the particular needs of the Group and the risks to which it is exposed, and by its very nature can only provide reasonable, but not absolute, assurance against material misstatement or loss.

An agreed procedure exists for Directors in the furtherance of their duties to take independent professional advice. Newly appointed Directors are made aware of their responsibilities through the Company Secretary.

Board appointments

The appointment of Directors is overseen by the full Board. There is no formal nominations committee, the appointment of new Directors being considered by the full Board.

Audit Committee

The Audit Committee is chaired by Frank Lewis and included Dr Yi Xie (resigned 18 December 2008). Meetings are expected to be held on average twice a year.

The Committee provides a forum for reporting by the Group's external auditors. It is also responsible for reviewing a number of other matters, including half-year and annual results before their submission to the Board and for monitoring the controls that are in force to ensure the integrity of information reported to shareholders. The Committee also advises the Board on the appointment of external auditors and on their remuneration for both audit and non-audit work, and will review the nature, scope and results of the audit with the external auditors.

Remuneration Committee

The Remuneration Committee is chaired by Frank Lewis and included Dr Yi Xie (resigned 18 December 2008). Meetings are expected to be held on average twice a year. The Committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for the Executive Directors, including performance related bonus schemes and compensation payments.

The Board determines compensation for Non-executive Directors.

Internal financial control and reporting

The Directors are responsible for establishing and maintaining the Group's system of internal controls and as such have put in place a framework of controls to ensure that the ongoing financial performance is measured in a timely and correct manner and that risks are identified as early as is practicably possible. During the year there was a comprehensive budgeting system and monthly management accounts were prepared which compare actual results against both the budget and the previous year. They were reviewed and approved by the Board, and revised forecasts were prepared on a regular basis.

Relations with shareholders

The Company reports to shareholders twice a year. The Company dispatches the notice of its Annual General Meeting, together with a description of the items of special business, at least 21 clear days before the meeting. Each substantially separate issue is the subject of a separate resolution and all shareholders have the opportunity to put questions to the Board at the Annual General Meeting. The chairmen of the Audit and Remuneration Committees normally attend the Annual General Meeting and will answer questions which may be relevant to their work. The Chairman advises the meeting of the details of proxy votes cast on each of the individual resolutions after they have been voted on in the meeting.

The Board intends to maintain a good and continuing understanding of the objectives and views of the shareholders.

Report of the Remuneration Committee

This report does not constitute a Directors' Remuneration Report in accordance with the Directors' Remuneration Report Regulations 2002 which do not apply to the Company as it is not fully listed.

The Company has applied the principles relating to Directors' remuneration as described below.

Remuneration Committee

During the year, the Remuneration Committee comprised Frank Lewis as Chairman of the committee and Dr Yi Xie (resigned 18 December 2008). The Remuneration Committee has formal terms of reference.

At the invitation of the committee chairman, Executive Directors may attend the proceedings.

None of the committee members has any personal financial interests (other than as shareholders) or conflicts of interest arising from cross-directorships. The committee has access to professional advice from inside and outside the Company.

The Remuneration Committee is responsible, inter alia, for determining the remuneration of the Executive Directors, and the grant of share options. No external remuneration advisers were appointed during the year.

Policy on Executive Directors' remuneration

Remuneration packages are designed to motivate and retain Executive Directors to ensure the continued development of the Company and to reward them for enhancing value to shareholders. The main elements of the remuneration package for Executive Directors are basic salary or fees, benefits, and share option incentives.

Directors' remuneration

The remuneration of the Directors for the year ended 30 June 2008 is shown below:

	2008 £	*2007* £
Aggregate emoluments of Executive Directors	220,000	129,725
Pension contributions	–	–
Payments to Non-executive Directors	47,750	50,021
Total Directors' remuneration	267,750	179,746

The elements of remuneration received by each Director in respect of the year ended 30 June 2008 were as follows:

	Fees and salaries £	*Other Benefits* £	*Pension* £	*Performance Related Bonus* £	*Total 2008* £	*Total 2007* £
Executive Directors						
C Huang (i)	100,000	–	–	–	100,000	24,999
M Syropoulo (i)	60,000	–	–	–	60,000	15,000
M Liu (i)	60,000	–	–	–	60,000	15,000
E Vandyk (ii)	–	–	–	–	–	37,226
A Pereira (ii)	–	–	–	–	–	37,500
Non-executive Directors						
F Lewis (i)	37,750	–	–	–	37,750	12,795
Dr Yi Xie (i)	10,000	–	–	–	10,000	2,500
O Vaughan (ii)	–	–	–	–	–	34,726
	267,750	–	–	–	267,750	179,746

(i) Appointed 21 March 2007
(ii) Resigned 21 March 2007

Share incentives

The ZTC Telecommunications Plc Unapproved Share Option Plan (the "Option Plan") was established to incentivise and remunerate key employees and senior management, including the Directors, as the Board of the Company considers appropriate.

The exercise of a share option may be conditional upon the achievement of objective performance criteria determined by the Board of the Company.

The options granted to Directors and employees over the Company's ordinary shares of 10p and outstanding during the year are set out in the Director's Report.

Current terms of appointment

The terms of appointment currently in place for Directors are as follows:

Directors	*Salary or fees per annum*	*Pension contribution* %	*Other benefits p.a* £	*Date of contract*	*Notice period*
Executive					
M Syropoulo	60,000	–	–	13 February 2007	6 months
M Liu	60,000	–	–	13 February 2007	6 months
Non-executive					
F Lewis	30,000	–	–	13 February 2007	3 months

Additional fees can be charged by the Non-executive Directors where this is pre-approved by the Board.

*Payments to the Executive Directors ceased with effect 1 September 2008.

Outside appointments

Executive Directors who are not full-time are permitted to accept appointments outside the Company and to retain payments from those sources.

Executive Directors' service contracts

A service agreement dated 13 February 2007 took effect on the date of the Company's admission to AIM on 21 March 2007 between (1) the Company and (2) Charles Huang pursuant to which Mr Huang was employed full-time as the Chief Executive Officer of the Company. The service agreement was terminable by either party on 12 months' written notice and Mr. Huang's salary was £100,000 per annum. Mr Huang was not entitled to any other benefits, save that he is eligible to acquire shares in the Company in accordance with the Option Plan and the Company would provide access to a stakeholder pension scheme. This contract was terminated with effect 22 December 2008.

A service agreement dated 13 February 2007 took effect on the date of the Company's admission to AIM on 21 March 2007 between (1) the Company and (2) Mark Syropoulo pursuant to which Mr Syropoulo is employed part-time as the Finance Director of the Company. The service agreement is terminable by either party on 6 months' written notice and Mr Syropoulo's salary is £60,000 per annum. Mr Syropoulo is not entitled to any other benefits, save that he is eligible to acquire shares in the Company in accordance with the Option Plan and the Company will provide access to a stakeholder pension scheme.

A service agreement dated 13 February 2007 took effect on the date of the Company's admission to AIM on 21 March 2007 between (1) the Company and (2) Michael Liu pursuant to which Mr Liu is employed part-time as the International Development Director of the Company. The service agreement is terminable by either party on 6 months' written notice and Mr Liu's salary is £60,000 per annum. Mr Liu is not entitled to any other benefits, save that he is eligible to acquire shares in the Company in accordance with the Option Plan and the Company will provide access to a stakeholder pension scheme.

Both Mr Syropoulo and Mr Liu have agreed to remain as directors but in a non-executive capacity.

Directors' pension arrangements

Under their service contracts Mr Syropoulo and Mr Liu have access to a stakeholder pension scheme.

No contributions have been made in respect of any such scheme in the year ended 30 June 2008 or 2007.

Non-executive Directors

The remuneration of Non-executive Directors is determined by the Board, and is based upon fees paid to Non-executive Directors of similar companies.

Non-executive Directors are appointed under letters of appointment setting out specific periods of notice, and do not have a contract of service, nor are they eligible for any pension arrangements.

Details of Directors' remuneration

This report should be read in conjunction with note 11b to the financial statements which constitutes part of this report. Details of Directors' interests in ordinary shares and share options are set out in the Directors' Report.

By order of the Board

Frank Lewis
Remuneration Committee Chairman

27 March 2009

Statement of Directors' Responsibilities

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market, and have chosen to prepare the parent company accounts in accordance with UK Generally Accepted Accounting Practice.

Group Financial Statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Parent Company Financial Statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

Website

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Report of the Independent Auditors

Independent auditor's report to the shareholders of ZTC Telecommunications Plc

We have audited the financial statements of ZTC Telecommunications Plc for the year ended 30 June 2008 which comprise the consolidated income statement, the consolidated statement of changes in equity, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union, and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. The other information comprises only Directors and Advisors, the Chairman's Statement, the Directors' Report, the Corporate Governance Statement, the Report of the Remuneration Committee and the Statement of Directors' Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error, however, the information available to us was limited.

As noted in further detail in the Chairman's Statement and the notes to the financial statements, the disappearance of Charles Huang in early November and the subsequent serious disruptions to the trading operations in China, resulted in the Group losing control of certain assets held in the trading subsidiary company Shenzehn Zhong Tian Communications Equipments Co. Limited. After consideration, and taking legal advice on the options available to recover control of the subsidiary company, the ultimate conclusion by the Directors was that in the circumstances they had no option but to prepare the financial statements of this subsidiary company using the break-up basis of accounting. However, due to the fact that the directors no longer had access to the assets or accounting records of this subsidiary, the evidence available to us in respect to the ownership and existence of these assets and the impairments made against them was limited. In particular, we have been unable to obtain sufficient appropriate audit evidence concerning the write down of assets with an original going concern value of £23,590,584 by £18,995,088 to £4,595,496 included within the consolidated balance sheet and further detailed in note 3 to the financial statements.

Any adjustments to these figures would have a corresponding adjustment to the consolidated loss and consolidated net assets for the year ended 30 June 2008. Further information regarding the circumstances contributing to these limitations of audit evidence is contained within the Chairman's Statement, Directors' Report and notes 1 and 31 to the financial statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from limitation in audit scope

Except for the financial effect on the group financial statements of such adjustments, if any, that might have been determined to be necessary had we been able to satisfy ourselves as to the break-up values to assets, in our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30 June 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30 June 2008; and
- the group and parent company financial statements have been properly prepared in accordance with the Companies Act 1985.

In respect solely of the limitation on our work relating to the ownership and existence of group assets and related impairments:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper accounting records have been maintained.

In our opinion the information given in the directors' report is consistent with the financial statements.

Emphasis of matter – going concern

In forming our opinion on the financial statements of ZTC Plc, which is qualified as above, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The company has secured new finance of £280,000 (subject to shareholder approval on 21 April 2009) to fund working capital requirements until the company sources a new investment opportunity. As described in note 1 this funding in also contingent upon shareholder approval for the sale of the subsidiary company "Praise Ease" and if the company fails to resume trading of its shares on the Alternative Investment Market of the London Stock Exchange by 30 April 2009 then this funding becomes immediately repayable in full.

The Directors expect shareholder approval to be granted for both the sale of the subsidiary company and the refinancing package and hence the subsequent reinstatement of its Shares on the Alternative Investment Market. However, should any of these approvals not be granted, or the shares not be re-admitted for trading purposes, then the company would be unable to continue as a going concern.

In addition, if the company fails to secure a new investment opportunity or additional new finance within the next 12 months, the company will be unable to continue as a going concern as it will have insufficient funds to trade.

These conditions along with the matters disclosed in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements of the parent company do not include the adjustments that would result if the company was unable to continue as a going concern.

BDO Stoy Hayward LLP

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors

Epsom, Surrey

27 March 2009

Consolidated Income Statement

	Note	2008 £'000	2007 £'000
Revenue	4	26,532	22,157
Cost of sales		(20,990)	(17,384)
Gross profit		5,542	4,773
Other operating income	5	445	435
IPO expenses		–	(280)
Impairment of assets in subsidiary		(18,996)	-
Other administrative expenses		(1,464)	(1,151)
Total administrative expenses		(20,460)	(1,431)
Distribution costs		(1,828)	(1,368)
Other operating expenses		(219)	(373)
Operating (loss)/profit		(16,520)	2,036
Finance income	6	70	19
Finance costs	7	(131)	(39)
(Loss)/profit before tax		(16,581)	2,016
Tax	9	(251)	(128)
(Loss)/profit for the year attributable to equity holders of the parent		(16,832)	1,888
Basic (loss)/earnings per share	10	(16.6p)	2.4p
Diluted (loss)/earnings per share	10	(16.6p)	2.3p

The notes on pages 26 to 56 form part of these financial statements

Consolidated Statement of Changes in Equity

	Share capital £'000	Reverse acquisition reserve £'000	Share premium reserve £'000	General reserve £'000	Merger reserve £'000	Translation reserve £'000	Capital contribution reserve £'000	Retained earnings £'000	Total equity £'000
At 1 July 2006	1	-	-	178	766	(42)	-	1,596	2,499
Foreign currency translation	-	-	-	-	-	(54)	-	-	(54)
Net expense recognised directly in equity	-	-	-	-	-	(54)	-	-	(54)
Profit for the year	-	-	-	-	-	-	-	1,888	1,888
Total recognised income and expense for the year	-	-	-	-	-	(54)	-	1,888	1,834
Transfer of profit to general reserve	-	-	-	249	-	-	-	(249)	-
Share premium recognised on reverse acquisition	-	-	151	-	-	-	-	-	151
Issue of share capital, (net of issue expenses)	9,367	-	6,226	-	-	-	-	-	15,593
Acquisition of subsidiary	-	(12,583)	-	-	-	-	-	-	(12,583)
Share based payment charge	-	-	-	-	-	-	-	260	260
At 1 July 2007	9,368	(12,583)	6,377	427	766	(96)	-	3,495	7,754

The notes on pages 26 to 56 form part of these financial statements

Consolidated Statement of Changes in Equity

	Share capital £'000	*Reverse acquisition reserve £'000*	*Share premium reserve £'000*	*General reserve £'000*	*Merger reserve £'000*	*Translation reserve £'000*	*Capital contribution reserve £'000*	*Retained earnings £'000*	*Total equity £'000*
At 1 July 2007	9,368	(12,583)	6,377	427	766	(96)	–	3,495	7,754
Foreign currency translation	–	–	–	–	–	588	–	–	588
Net income recognised directly in equity	–	–	–	–	–	588	–	–	588
Loss for the year	–	–	–	–	–	–	–	(16,832)	(16,832)
Total recognised income and expense for the period	–	–	–	–	–	588	–	(16,832)	(16,244)
Issue of deferred shares (See note 21)	1,500	(1,987)	487	–	–	–	–	–	–
Issue of share capital by subsidiary (See note 25)	–	–	–	–	–	–	448	–	448
Transfer to of loss from general reserve	–	–	–	(427)	–	–	–	427	–
Recognition of share based payments	–	–	–	–	–	–	–	172	172
At 30 June 2008	10,868	(14,570)	6,864	–	766	492	448	(12,738)	(7,870)

The notes on pages 26 to 56 form part of these financial statements

Consolidated Statement of Changes in Equity

Share capital account

Share capital records the nominal value of shares in issue.

Reverse acquisition reserve

A reverse acquisition reserve is established to take account of acquisitions that are deemed to be reverse acquisitions under International Financial Reporting Standards.

Share premium reserve

Share premium records the receipts from issue of share capital above the nominal value of the shares. Share premium is stated net of direct issue costs.

General reserve

In accordance with the "Law of China on Joint Ventures Using Chinese and Foreign Investment", 10% of the retained earnings has been transferred as ZTC's general reserve fund.

Merger reserve

The merger reserve arose as a result of the acquisition by the group's subsidiary undertaking, Praise Ease Limited of Shenzhen Zhong Tian Communication Equipments Co. Ltd, which was acquired through a transaction under common control and accounted for using the pooling of interests method.

Translation reserve

Translation gains and losses arising on the retranslation of net assets of subsidiaries whose presentational currency is not sterling are recognised directly in equity in the Translation reserve.

Capital contribution reserve

Contributions provided to entities by shareholders that are not intended by either party to be repaid are accounted for as capital contributions.

Retained earnings

Retained earnings records the cumulative profits less losses recognised in the income statement, net of any distributions and share-based payments made.

The notes on pages 26 to 56 form part of these financial statements

Consolidated Balance Sheet

	Note	2008 £'000	2007 £'000
Non-current assets			
Property, plant and equipment	12	90	571
Deferred tax asset	13	–	1
Total non-current assets		90	572
Current assets			
Inventories	14	–	889
Trade and other receivables	15	2,919	10,898
Cash and cash equivalents	16	1,962	2,499
Total current assets		4,881	14,286
Total assets		4,971	14,858
Current liabilities			
Trade and other payables	17	(6,977)	(4,525)
Interest bearing liabilities	18	(2,877)	(1,688)
Current tax liabilities		(2,987)	(891)
Total current liabilities		(12,841)	(7,104)
Total liabilities		(12,841)	(7,104)
Net (liabilities)/assets		(7,870)	7,754
Equity			
Share capital	20	10,868	9,368
Reverse acquisition reserve		(14,570)	(12,583)
Share premium reserve	21	6,864	6,377
General reserve	24	–	427
Merger reserve		766	766
Capital contribution reserve	25	448	-
Translation reserve	22	492	(96)
Retained earnings	26	(12,738)	3,495
Total equity attributable to equity holders of the parent		(7,870)	7,754

These financial statements were approved by the Board of Directors and authorised for issue on 27 March 2009.

Signed on behalf of the Board of Directors

Frank Lewis
Director

The notes on pages 26 to 56 form part of these financial statements

Consolidated Cash Flow Statement

	Note	2008 £'000	2007 £'000
Cash flows from operations			
Net cash outflow from operations	27	(734)	(1,399)
Interest paid		–	–
Tax refunded		1	–
Net cash outflows from operating activities		(733)	(1,399)
Investing activities			
Interest received		37	19
Purchase of property, plant and equipment		(26)	(23)
Acquisition of parent through reverse acquisition, net cash used		–	(226)
Net cash generated from/(used in) investing activities		11	(230)
Financing activities			
Issue of shares prior to acquisition		–	763
Issue of share capital		–	1,605
Interest paid		–	(39)
Net increase in cash from financing activities		–	2,329
Net (decrease)/increase in cash and cash equivalents		(722)	700
Cash and cash equivalents at beginning of year		2,499	1,772
Exchange gains on cash and cash equivalents		185	27
Cash and cash equivalents at end of year	16	1,962	2,499

The notes on pages 26 to 56 form part of these financial statements

Notes to the Consolidated Financial Statements

1. ACCOUNTING POLICIES

Basis of accounting

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the European Union and in accordance with the Companies Act 1985 for companies reporting under International Financial Reporting Standards (IFRS). Therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared under the historical cost convention. ZTC Plc is considered by the Directors to be a going concern (subject to the significant uncertainties as set out below) and the accounts of the parent entity have been prepared on a going concern basis. The directors consider this appropriate based on the successful refinancing of the company (which is subject to shareholder approval on 21 April 2009) and on the assumption that the revised investment strategy will be successfully implemented which needs to be executed within 12 months of the approval of these accounts. Details of the £280,000 refinancing and change in strategy (which are both subject to shareholder approval at the AGM on 21 April 2009) are set out in the Circular to shareholders dated 27 March 2009.

The Directors expect shareholder approval to be granted for all of the proposals set out in the Circular to shareholders and hence the subsequent reinstatement of it shares on the Alternative Investment Market however, should any of these approvals not be granted, or the shares not to be re-admitted for trading purposes, then the company would be unable to continue as a going concern.

If the company fails to resume trading of its shares on the Alternative Investment Market of the London Stock Exchange by 30 April 2009 then this £280,000 becomes immediately repayable in full. In addition, if the company fails to secure a new investment opportunity or additional new finance within the next 12 months, the company will be unable to continue as a going concern as it will have insufficient funds to trade.

A critical element to the change in strategy is securing a substantial acquisition. In the event no substantial acquisition is made within 12 months of the date of the 2009 AGM, in accordance with the AIM rules for Companies, trading in the Company's shares will be suspended and if no reverse transaction is achieved in the following 6 months, the London Stock Exchange will cancel the admission of the shares.

Zhong Tian, the main trading entity in the Group is unable to continue trading. This is due to the major shareholder and Chief Executive Officer of ZTC plc leaving the company and the factory and offices being closed off, with no access being given to employees or the directors. Given the extraordinary circumstances, the going concern assumption for Zhong Tian is no longer appropriate.The effect is so pervasive that a fundamental change in the basis of accounting to a break-up basis has been adopted for Zhong Tian and its asset values have been written down accordingly, which is in accordance with IAS 10 paragraphs 14-16. Where necessary in order to value the assets and liabilities in Zhong Tian, the Directors have used estimates based upon amounts recovered and expected to be recovered after the balance sheet date as a precise valuation of those assets and liabilities is not available. Further detail on the revaluation of the asset values in Zhong Tian can be found in notes 2, 3 and 31 to these financial statements. In addition, in the parent company, the investment and intercompany receivables have been written down to zero value to reflect the non-recoverability of these assets. A total charge of £18,066,000 has been reflected in the accounts of the parent company in respect of these write-downs.

The principal accounting policies adopted are set out below. During the year, the following were the policies adopted by the Board. The Chairman's statement provides an updated assessment of the financial position of the company.

Standards and Interpretations effective in the current period

In the current year, the Group has adopted IFRS 7 'Financial Instruments: Disclosures' which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 'Presentation of Financial Statements'.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 19). There has been no effect on the results, cash flows or financial position of the Group or the Company.

Five interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies'; IFRIC 8 'Scope of IFRS 2'; IFRIC 9 'Reassessment of Embedded Derivatives'; IFRIC 10 'Interim Reporting and Impairment'; and IFRIC 11 'IFRS 2 Group and Treasury Share Transactions'.

The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

Standards issued but not yet effective

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee have issued the following standards and interpretations to be applied to financial statements with periods commencing on or after the following dates:

International Accounting Standards

IAS 1	Amendment – Presentation of Financial statements (effective for periods beginning on or after 1 January 2009)
IFRS 8	Operating Segments (effective for periods beginning on or after 1 January 2009)
IAS 23	Amendment – Borrowing costs (effective for periods beginning on or after 1 January 2009)
IAS 32/IAS 1	Amendment – Puttable Financial Instruments and Obligations Arising on Liquidation: Presentation (effective for periods beginning on or after 1 January 2009)
IFRS 2	Amendment – Share-based payments (effective for periods beginning on or after 1 January 2009)
IFRS 3*	Business Combinations amendment and complementary amendments to IAS 27 Consolidated and Separate Financial Statements (effective for periods beginning on or after 1 July 2009)
IAS 39*	Amendment – Financial Instruments: Recognition and measurement: Eligible Hedged Items (effective for periods beginning on or after 1 July 2009)
IAS 27*	Amendment – Consolidated and Separate Financial Statements (effective for periods beginning on or after 1 July 2008)
IAS 39/IFRS 7	Amendment – Reclassification of Financial Instruments (effective for periods beginning on or after 1 July 2008)
IAS 39/IFRS 7*	Amendment – Reclassification of Financial Instruments (Effective date and transition) (effective for periods beginning on or after 1 July 2008)
IFRS 1/IAS 27	Amendment – Cost of an Investment in a subsidiary, jointly-controlled entity or associate (effective for periods beginning on or after 1 January 2009)
IAS 39/IFRIC 9*	Amendment – Embedded Derivatives (effective for periods beginning on or after 30 June 2009)

IFRS 7*	Amendment – Financial Instruments (effective for periods beginning on or after 1 January 2009)
IFRS 1*	Revision – First Time Adoption of international Financial Reporting Standards (effective for periods beginning on or after 1 January 2009)
Improvements to IFRSs	Amendment – clarification of the requirements of IFRSs and elimination of inconsistencies between Standards (effective for periods beginning on or after 1 January 2009)

International Financial Reporting Interpretations Committee (IFRIC) Effective Date

IFRIC 12*	Service Concession Arrangements (effective for periods beginning on or after 1 January 2008)
IFRIC 13*	Customer Loyalty Programmes (effective for periods beginning on or after 1 July 2008)
IFRIC 14*	IAS 19 – The limit on a Defined Benefit Asset Minimum Funding Requirements and their interaction (effective for periods beginning on or after 1 January 2008)
IFRIC 15*	Agreements for the Construction of Real Estate (effective for periods beginning on or after 1 January 2009)
IFRIC 16*	Hedges of a Net Investment in a Foreign Operation (effective for periods beginning on or after 1 January 2009)
IFRIC 11 IFRS 2	Group and Treasury Share Transactions (effective for periods beginning on or after 1 March 2007)
IFRIC 17*	Distributions on Non-cash Assets to Owners (effective for periods beginning on or after 1 July 2009)
IFRIC 18*	Transfer of Assets from Customers (effective for periods beginning on or after 1 July 2009)

*These standards and interpretations are not endorsed by the EU at present.

The adoption of IFRS 8 Operating Segments will require the identification of operating segments based on internal reports that are used by the chief operating decision makers in order to allocate resources to the segment and assess its performance. This may lead to an increase in the level of disclosure required in relation to the Group's operating segments.

With the exception of IFRS 8 Operating Segments, the directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group when the relevant standards and interpretations come into effect. The directors do not anticipate the early adoption of any of the above standards.

The Group has not adopted any of these items early. The Group intends to adopt these items in the first accounting period beginning after the effective date.

Basis of consolidation

These accounts for ZTC Telecommunications incorporate the consolidated financial statements of ZTC plc, Praise Ease and Shenzhen Zhong Tian Communications Equipment Co., Ltd ("Zhong Tian") for the year ended 30 June 2008. Under IFRS comparative figures for the year ended 30 June 2007 have also been included. Praise Ease and Zhong Tian were acquired by ZTC in March 2007 and, due to the relative size of the acquisition, was required to be accounted for under the "Reverse Acquisition" method.

Control is achieved where the Company has the power to govern the financial and operational policies of an entity so as to gain benefit from its activities.

The Company's controlling interest in its indirectly held, wholly owned subsidiary, Zhong Tian was acquired through a transaction under common control, as defined in IFRS 3, Business Combinations. The directors noted at the time of the acquisition that transactions under common control were outside the scope of IFRS 3 and that there is no guidance elsewhere in IFRS covering such transactions. This remains the case, the International Accounting Standards Board having commenced their project on transactions under common control in December 2007.

IAS contain guidance where a transaction falls outside the scope of IFRS. This guidance is covered in Paragraphs 10-12 of IAS 8, Accounting policies, Changes in Accounting Estimates and Errors. This requires, *inter alia*, that where IFRS does not contain guidance on a particular issue, the Directors may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards. In this regard it is noted that the United States Financial Accounting Standards Board (FASB) has issued an accounting standard covering Business Combinations (FAS 141), that is similar in a number of respects to IFRS 3. Further there is currently a major project being run jointly by the IASB and the FASB to converge IFRS and US GAAP. The assets and liabilities of the acquiree were initially recognised at their previous carrying values.

In contrast to IFRS 3, FAS 141 does include, as an appendix, limited accounting guidance for transactions under common control, which as with IFRS 3, are outside the scope of that accounting standard. The guidance contained in FAS 141 indicates that a form of accounting that is similar to pooling of interests accounting, which was previously set out in Accounting Principles Board (APB) opinion 16, may be used when accounting for transactions under common control.

Having considered the requirements of IAS 8 and the guidance included within FAS 141, it is considered appropriate to use a form of accounting which is similar to pooling of interests when dealing with the transaction in which the Group acquired its controlling interest in Shenzhen Zhong Tian Communication Equipments Co. Ltd.

Reverse acquisition accounting

The acquisition of Praise Ease Limited by ZTC Telecommunications Plc on 21 March 2007 was accounted for under the principles of reverse acquisition accounting. Although the consolidated financial statements have been prepared in the name of the legal parent, ZTC Telecommunications Plc, they are in substance a continuation of the consolidated financial statements of the legal subsidiary, Praise Ease Limited. The following accounting treatment was applied in respect of the reverse acquisition:

- The assets and liabilities of the legal subsidiary, Praise Ease Limited are recognised and measured in the consolidated financial statements at the pre-combination carrying amounts, without restatement to fair value;

- The retained earnings and other equity balances recognised in the consolidated financial statements reflect the retained earnings and other equity balances of Praise Ease Limited immediately before the business combination and the results of the period from 1 July 2006 to the date of the business combination are those of Praise Ease Limited. However, the equity structure appearing in the consolidated financial statements reflects the equity structure of the legal parent, ZTC Telecommunications Plc, including the equity instruments issued in order to effect the business combination; and

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received or receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods and services are recognised when goods are delivered and title has passed.

Group property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and are depreciated over their estimated useful lives on the following annual bases:

Leasehold improvements	4.5% (straight line)
Office equipment	33.3% (straight line)
Motor vehicles	11.25% (straight line)
Machinery	18% (straight line)
Fixtures, fittings and equipment	18% (straight line)

Where any items of property, plant and equipment are deemed to be impaired, they are written down to their recoverable value.

Operating profit

Operating profit is stated before finance income and finance costs.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Where any items of property, plant and equipment are deemed to be impaired, they are written down to their recoverable value.

Trade receivables

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired. Any impairment allowances made represent the difference between the asset's carrying amount and the present value of the estimated future cash flows from that asset. Any impairment losses are realised immediately in the income statement.

Other financial liabilities

Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

Borrowings

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Leases

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

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net 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 never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

The separate financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the company and the presentational currency for the consolidated financial statements.

The Directors have determined the currency of the primary economic environment in which the Group operates to be Renminbi ("RMB"). Sales and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in RMB. The presentation currency of the Group is pounds sterling and therefore on consolidation the financial information of the subsidiaries has been translated from RMB to pounds sterling at the following rates:

	Period end rate (RMB per £1)	*Average rate (RMB per £1)*
30 June 2008	13.7121	14.6189
30 June 2007	15.5716	15.6235

Transactions in currencies other than the functional currency are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on the retranslation are included in the income statement.

Share based payments

The Group issues equity settled share based payments to certain employees. Equity settled share based payments are measured at fair value at the date of the grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects on non-transferability, exercise restrictions and behavioural considerations.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

Critical judgements in applying the Group's accounting policies and key sources of estimation and uncertainty

Valuation of remaining assets in Zhong Tian

The Directors have sought advice and used the limited information available to them regarding the recoverability of assets in Zhong Tian as previously noted in the Chairman's statement. In attributing a value to each class of asset, the Directors have in some cases used their judgement as to how much will be received. The primary basis for the valuations is through assessing cash received after the balance sheet date in respect of sales of assets after Charles Huang had left the business. Where no cash has been received in respect of the assets, these assets are deemed to have zero value, with the exception of cash and cash equivalents, which are deemed to maintain their full book value. A precise valuation of those assets and liabilities is not available. Of the cash held at the balance sheet date, £1.2m of this is restricted in its use and was used to repay the outstanding loan notes. Where assets have been written down, this is detailed in note 3.

Provisions

In the process of applying the Group's accounting policies, which are described in note 1 above, judgement was applied by the Directors in estimating the provision for doubtful trade receivables and obsolete stock.

Share based payments

Management have made numerous judgements regarding the calculation of the share based payments expense in the accounts, including, the expected volatility of the Company's shares, the share price to be used in the calculation and the most appropriate risk free rate to use. In making these judgements, management considered the share price volatility of a number of the Company's competitors and current interest rates. The actual figures used in the calculation are shown in note 23.

No other material judgements have been made by management that could have a significant effect on the amounts recognised in the financial statements.

3. WRITE DOWN OF ASSETS IN SUBSIDIARY

As noted in the Chairman's Statement and note 31, Mr Chaohui (aka Charles) Huang, CEO, major creditor and majority shareholder of ZTC Plc and Mr Yang Rugiang, the Company's General Manager have been absent from the Company and uncontactable since 5 November 2008. As a result of the uncertainty that this caused and the interruption to the running of the business, trading of shares in ZTC Plc was suspended as of 7 November 2008.

The main company in the Group that has been affected by this is Shenzhen Zhong Tian Communication Equipments Co. Ltd ("Zhong Tian"), the main trading company of the Group. This company has not traded since 5th November 2008 and has a surplus of liabilities over assets when valued on a break-up basis. Due to the events noted above, the Directors believe the break-up basis is the only appropriate basis for valuing the assets and liabilities of Zhong Tian and that this basis should be applied at the balance sheet date which is in accordance with IAS 10 paragraphs 14-16. The following write-downs of Zhong Tian's assets have therefore been accounted for:

	Going concern value at 30 June 2008 £'000	*Amounts written off 30 June 2008 £'000*	*Written down value at 30 June 2008 £'000*
Property, Plant & Equipment	495,675	(405,647)	90,028
Inventories	1,255,021	(1,255,021)	-
Trade receivables	12,016,929	(10,121,523)	1,895,406
Prepayments	7,153,810	(6,160,508)	993,302
Other receivables	1,052,389	(1,052,389)	-
Cash & cash equivalents	1,616,760	-	1,616,760
TOTAL	23,590,584	(18,995,088)	4,595,496

The consolidated position of the Group reflects these adjustments, with a total of £23,590,584 of assets held within Zhong Tian at 30 June 2008 being written down to the Directors' best estimate of their recoverable value.

The liabilities of Zhong Tian have not been written down since these liabilities have not been legally extinguished and therefore continue to be recognised at their year end values. This is in accordance with IAS 39 paragraph 39.

The Directors believe, based on legal opinions, that ZTC Plc is not liable for any of the liabilities within Zhong Tian and also believe that there is sufficient funding, arising from the re-financing as set out in the Chairman's statement, available to continue to meet its own liabilities (excluding that of other Group companies) for the foreseeable future.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group currently operates in only one geographical market, China. This is the basis on which the Group records its primary segment information. Unallocated operating expenses, assets and liabilities, relate to the general management, financing and administration of the Group.

	China		*Unallocated*		*Total*	
	2008	*2007*	*2008*	*2007*	*2008*	*2007*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Revenue	26,532	22,157	–	–	26,532	22,157
Segment result	(16,177)	1,838	(788)	(237)	(16,965)	1,601
Other operating income					445	435
Finance income					70	19
Finance costs					(131)	(39)
(Loss)/profit before tax					(16,581)	2,016
Tax					(251)	(128)
(Loss)/profit for the year					(16,832)	1,888
Other information						
Capital expenditure	26	23	–	–	26	23
Depreciation	155	143	–	–	155	143
Balance sheet						
Segment assets	4,590	11,479	381	3,378	4,971	14,857
Deferred tax asset	–	–	–	1	–	1
Total assets					4971	14,858
Segment liabilities	(9,423)	(6,104)	(431)	(109)	(9,854)	(6,213)
Current tax liabilities					(2,987)	(891)
Deferred tax liabilities					–	–
Total liabilities					(12,841)	(7,104)

The Group had only one business segment, which is the manufacture and retail of mobile phone handsets.

5. OTHER OPERATING INCOME

	2008	*2007*
	£'000	*£'000*
Sales of components	215	343
Processing	45	74
Provision of value added services	105	17
Other	80	1
	445	435

6. FINANCE INCOME

	2008 £'000	2007 £'000
Bank interest receivable	70	19

7. FINANCE COSTS

	2008 £'000	2007 £'000
Interest charge on interest bearing liabilities	131	39
Total finance costs	131	39

8. LOSS FOR THE FINANCIAL YEAR

	Note	2008 £'000	2007 £'000
Profit for the financial year is arrived at after charging:			
Depreciation on owned assets		155	143
Auditors' remuneration for audit services		90	73
Write down of inventories recognised as an expense		–	5
Operating lease payments		88	97
Impairment of assets in Zhong Tian to "break-up" basis	3	18,996	–

Amounts payable to BDO Stoy Hayward LLP and its related entities, in respect of both audit and non-audit services are set out below:

	2008 £'000	2007 £'000
Fees payable to the auditors for the audit of the Company's annual accounts	53	43
Fees payable to the auditors for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	37	30
Other taxation services	8	5
Corporate finance transactions	–	185
Other services supplied pursuant to legislation	7	
Other services	2	13
	54	233

9. TAX

	2008 £'000	2007 £'000
Current tax		
Tax on overseas subsidiaries:		
– UK corporation tax payable	–	–
– Overseas tax payable	251	127
Total current tax	251	127
Deferred tax	–	1
Total tax expense	251	128

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

	2008 £'000	2007 £'000
(Loss)/profit before tax	(16,837)	2,016
Tax at the UK corporation tax rate of 30% (year ended 30 June 2007: 30%)	(5,051)	605
Tax losses carried forward	162	288
Disallowable expenditure	78	(149)
Asset impairments not claimed as a tax deduction	5,699	–
Overseas tax exemption and concessions	–	(265)
Allowance for lower overseas taxation rates	(638)	(400)
Other adjustments	1	49
Total tax expense	251	128

The Company and its subsidiary undertakings are subject to taxation on the following bases and at the following rates;

ZTC Telecommunications Plc

The Company is subject to the United Kingdom corporation tax regime. Gross tax losses of approximately £671,000 are available to carry forward against future profits within the company. No deferred tax asset has been recognised in respect of these tax losses owing to uncertainty as to potential future recoverability.

Praise Ease Limited

The company is subject to the corporation tax regime in Hong Kong. As the company made a loss during the year, no taxation is payable.

Shenzhen Zhong Tian Communication Equipments Co. Ltd

According to the former relevant PRC tax rules and regulations, the standard Enterprise Income Tax (EIT) is 33%.

ZTC is located in Shenzhen, a special economic zone, which makes it eligible to enjoy a favorable income tax rate of 15 per cent. At the end of 2005, the company became a wholly foreign company and was entitled to another income tax preference policy "2 years exemption and 3 years 50% discount from the first profit making year". Thus, the company was exempted from income tax for the statutory financial year 2005 and 2006; and has been paying a reduced income tax rate of 7.5% for the statutory financial years 2007 to 2009.

New PRC tax law has been implemented from 1 January 2008. The standard tax rate has decreased to 25%. As a wholly owned foreign entity, the Company now benefits from a 5 year transitional period under which the previous tax holiday is covered.

The company benefits from 50% discount of income tax in year 2008 and 2009. The company declared income tax with 7.5% tax rate in the first half 2008. The tax rate will be confirmed by the local tax bureau at the end of year.

Current tax expenses of ZTC for the financial years 2007 and 2008 represent PRC EIT calculated at the approved income tax rate 15% on the assessable income.

Details of deferred tax assets are included in note 13.

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data:

	2008	*2007*
	£'000	*£'000*
Earnings		
(Loss)/earnings for the purpose of basic and diluted earnings per share	(16,832)	1,888
Number of shares	*Thousands*	*Thousands*
Weighted average number of ordinary shares for the purpose of basic earnings per share	101,592	77,937
Effect of dilutive potential ordinary shares:		
Share options/warrants	–	4,192
Weighted average number of ordinary shares for the purpose of diluted earnings per share	101,592	82,129

The denominators for the purposes of calculating both basic and diluted earnings per share in 2007 have been adjusted for the share division that took place in 2007.

11a. STAFF COSTS

The average monthly number of employees, (including executive directors) during the year was:

	2008	*2007*
	Number	*Number*
Manufacturing	293	285
Sales	31	39
Administration	130	98
	454	422

The costs incurred in respect of these employees were:

	2008	*2007*
	£'000	*£'000*
Wages and salaries	749	539
Share based payments (see note 23)	172	71
Social security costs	101	86
	1,022	696

11b. DIRECTORS' REMUNERATION

The following amounts were paid to the directors, who are the key management personnel, during the year:

	2008 *£'000*	*2007* *£'000*
Short-term employment benefits – directors' emoluments	268	180
Share based payments	72	49

The highest paid director received remuneration of £100,000 (2007: £37,500). Further details of Directors' remuneration are set out in the Report of the Remuneration Committee on pages 14 to 16.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements *£'000*	*Office equipment* *£'000*	*Machinery* *£'000*	*Motor vehicles* *£'000*	*Fixtures, fittings and equipment* *£'000*	*Total* *£'000*
Cost						
At 1 July 2006	9	–	685	105	34	833
Additions	–	17	7	8	8	40
Exchange difference	–	–	(24)	(4)	(1)	(29)
At 1 July 2007	9	17	668	109	41	844
Additions	–	–	11	6	9	26
Exchange difference	1	–	77	13	5	96
Impairment of assets to break-up basis (note 3)	(10)	(17)	(666)	(128)	(55)	(876)
At 30 June 2008	–	–	90	–	–	90
Depreciation						
At 1 July 2006	1	–	124	5	6	136
Charge for the year	2	–	121	12	8	143
Exchange difference	–	–	(5)	(1)	–	(6)
At 1 July 2007	3	–	240	16	14	273
Charge for the year	2	5	126	13	9	155
Exchange difference	1	–	36	3	2	42
Impairment of assets to break-up basis (note 3)	(6)	(5)	(402)	(32)	(25)	(470)
At 30 June 2008	–	–	–	–	–	–
Net book value						
At 30 June 2007	6	17	428	93	27	571
At 30 June 2008	–	–	90	–	–	90

13. DEFERRED TAX ASSETS

	£'000
Group	
At 1July 2006 and 2007	1
Credit to income statement	(1)
30 June 2008	-

14. INVENTORIES

	2008 going concern value £'000	*Impairment of subsidiary (Note 3) £'000*	*2008 total £'000*	*2007 £'000*
Raw materials	1,164	(1,164)	-	463
Finished goods	5	(5)	-	426
Work in progress	88	(88)	-	-
Provision	(2)	2	-	-
	1,255	(1,255)	-	889

The Directors consider that the replacement value of inventories is not materially different to their carrying value.

15. TRADE AND OTHER RECEIVABLES

	2008 going concern value £'000	*Impairment of subsidiary (Note 3) £'000*	*2008 total £'000*	*2007 £'000*
Due within one year:				
Trade receivables	12,017	(10,122)	1,895	4,273
Other receivables	1,053	(1,053)	-	853
Prepayments and accrued income	7,184	(6,160)	1,024	5,772
	20,254	(17,335)	2,919	10,898

Trade receivables

Total net trade receivables (net of allowances) held by the Group at 30 June 2008 amounted to £2,919,000 (2007: £4,273,000)

The average credit period taken on sales of goods is 112 days. No interest is charged on the outstanding balances. All customers are evaluated for credit rating and credit limit. Normally, deposits are required, and deliveries are suspended for debtors over 120 days.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

16. CASH AND CASH EQUIVALENTS

	2008 £'000	2007 £'000
Cash and cash equivalents per balance sheet	1,962	2,499
Cash and cash equivalents per cash flow statement	1,962	2,499

All of the group's cash and cash equivalents at 30 June 2008 are at floating interest rates.

The Group's cash and cash equivalents at 30 June 2008 are held in the relevant underlying currencies, notable holdings not held in sterling are £4,627 (2007: £5,297) held in $HK and £1,469,502 (2007: £968,796) held in Chinese RMB.

Of the amounts held in Chinese RMB, significant concentrations were held with the following counterparties:

An amount of £345,739 is held in the UK with National Westminster Bank plc.

The table below indicates the major deposits held in Chinese RMB.

		At 30 June 2008	
Counterparty name	*Country*	*RMB*	*GBP equivalent*
Bank of China-Short term deposits	China	16,306,755	£1,189,224
Guangdong Development Bank	China	3,843,197	£280,278

The directors consider that the carrying amount of cash and cash equivalents approximates their fair value.

All of the funds held with Bank of China can only be used to repay the loan notes in issue and are not free and accessible to be used for any other purpose. These funds were, the directors believe, used to repay the loan notes subsequent to the year end. Between the date of the year end and up to early November at the point of the disappearance of Charles Huang, the remaining cash in Chinese bank accounts was used to settle liabilities in the normal course of business. All funds held in Chinese bank accounts have since the disappearance of Charles, the directors believe, been sequestered by the Chinese authorities.

17. TRADE AND OTHER PAYABLES

	2008 £'000	2007 £'000
Trade payables	4,377	2,637
Income tax payable	–	127
Other payables	1,169	292
Accruals and deferred income	1,431	1,469
	6,977	4,525

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 76 days (2007: 55 days).

The directors consider that the carrying value of trade and other payables approximates to their fair value.

18. INTEREST BEARING LIABILITES

	2008 £'000	2007 £'000
Amounts owed to related parties	1,743	1,688
Other interest bearing liabilities	1,134	-
	2,877	1,688

Amounts owing to a Director of ZTC Plc and a relative of the same Director bear interest and are repayable within one year.

Other interest bearing liabilities relate to import financing agreements with an interest rate linked to Libor. A 1% increase in Libor rates over the period would have lead to an £11,338 increase in the interest charge in relation to these liabilities.

The amounts owed under the import financing agreements are linked to a pledged deposit certificate with Bank of China upon which a fixed interest rate of 3.87% is earned. This amount is included in cash and cash equivalents and is to be used to repay the import finance liabilities as they fall due.

19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- trade receivables
- cash at bank
- trade and other payables
- interest bearing liabilities

The Group is exposed to the following risks relating to the financial instruments noted above – foreign currency risk, credit risk and liquidity risk. The policy for managing these risks is outlined below;

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 20 to 26.

Foreign currency risk

Foreign currency risk arises on sales to overseas markets (by the Group's subsidiary undertaking, Shenzhen Zhong Tian Communication Equipments Co. Limited), namely Hong Kong, the transactions being denominated in $HK. Sales to these markets are minimal and hence the risk is not considered to be significant.

Foreign currency risk also arises in relation to the consolidation process, as the Group's main trading entity is based in China and presents its accounts in Chinese RMB. Almost 100% of foreign revenues and the bulk of operating costs are incurred in the local currency, the RMB. Group companies therefore do not engage in foreign exchange risk hedges.

Of the trade and other receivables balance, £2,888,708 is denominated in Chinese RMB. A 1% increase in the value of Chinese RMB against pounds sterling would increase the value of trade and other receivables by £288.87.

Of the trade and other payables balance, £6,546,252 of it is denominated in Chinese RMB. A 1% increase in the value of Chinese RMB against pounds sterling would increase the value of trade and other payables by £65,463.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group maintains good relationships with its banks and its cash requirements are anticipated via the budgetary process.

The following table shows the maturity profile of the Group's financial liabilities.

Maturity of financial liabilities

	Repayable on demand £'000	*Due within 30 days £'000*	*Due 30 – 90 days £'000*	*Due after 90 days £'000*
At 30 June 2008				
Accruals	–	93	-	–
Trade and other payables	4,617	1,557	484	226
Interest bearing liabilities	223	–	1,020	1,634
Total financial liabilities	4,840	1,650	1,504	1,860

The weighted average interest charged on interest bearing liabilities is 4.85% (2007: 3.7%).

Financial instruments by class and by category

	Loans and Receivables	
	30 June 2008	*30 June 2007*
	£	£
Current financial assets		
Trade and other receivables	1,895	5,126
Cash and cash equivalents	1,962	2,499
Total current financial assets	3,857	7,625

The above financial assets analysis excludes prepayments of £1,024,000 (2007 – £5,772,000) as these do not meet the definition of financial assets.

Financial instruments by class and by category (continued)

	Financial liabilities measured at amortised cost	
	30 June 2008	*30 June 2007*
	£	£
Current financial liabilities		
Accruals	93	109
Trade & other payables	6,884	4,416
Interest bearing liabilities	2,877	1,688
Total current financial liabilities	9,854	6,213
Total financial liabilities	9,854	6,213

Credit risk

The Group is mainly exposed to credit risk from credit sales. It is the Group's policy, implemented by management, to assess the credit risk of the new customers before entering contracts. The Group closely monitors the creditability of its existing customers and will require an advance payment if necessary. The Group will terminate business with customers with a poor credit history. Management considers the above measures to be sufficient to control the credit risk exposure.

The Group has a significant concentration of credit risk with exposure spread over a few national distributors who account for a material proportion of sales.

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with an original maturity of three months or less. The Group holds all cash and cash equivalents at banks and other credit institutions with high credit ratings. An analysis of the large concentrations of cash balances by counterparty and currency is included in note 16.

The Group does not enter into complex derivative contracts to manage credit risk.

The Group's maximum exposure to credit risk is the balance of current financial assets classified as loans and receivables.

Interest risk

The risk arising from fluctuations in interest rates has been considered in note 18.

20. SHARE CAPITAL

	2008	*2007*
	£'000	*£'000*
Authorised:		
200,000,000 ordinary shares of 10p each	20,000	20,000
	20,000	20,000
Allotted, called up and fully paid:		
108,682,515ordinary shares of 10p each	10,868	9,368
	10,868	9,368

Issue of deferred shares

As part of the acquisition of Praise Ease by ZTC plc in 2007, up to 15 million ordinary shares were potentially issuable if the company achieved an agreed level of profitability. During the year ended 30 June 2008, the agreed level of profitability was reached and the shares issued at a premium of 3.25p per share.

Share Options

A total of 2,160,000 options over the ordinary share capital of the Company were granted to a number of employees on 21 March 2007. All options are exercisable at the market value at the date of grant, being 20p per ordinary share and are exercisable between 1 and 10 years from the date of grant. None of the aforementioned options have been exercised or have lapsed during the year ended 30 June 2008. 1,100,000 of the options will lapse prior to the signing of the accounts, 460,000 will lapse on 14 May 2009 and the remaining 500,000 will lapse on 21 July 2009.

Employee Warrants

A total of 3,125,500 employee warrants over the ordinary share capital of the Company were outstanding at year end. These employee warrants were exercisable immediately and at any time up until 31 March 2010. All employee warrants are exercisable at the market value at the date of grant, being 20p per ordinary share. All of the aforementioned warrants were granted in the year ended 20 June 2007 and the relevant charge taken through the income statement in that year.

2,812,500 of the employee warrants have been waived since 30 June 2008.

Non-employee warrants

A total of 8,912,500 non-employee warrants were outstanding at the start of the year. All of these warrants lapsed on 29 November 2007.

21. SHARE PREMIUM RESERVE

	2008 *£'000*	*2007* *£'000*
Opening balance	6,377	–
Share premium recognised on reverse acquisition	–	151
Issue of share capital	–	7,000
Issue of deferred shares	487	–
Expenses connected to issue of share capital	–	(774)
Closing balance	6,864	6,377

As part of the acquisition of Praise Ease by ZTC plc, up to 15 million ordinary shares were potentially issuable if the company achieved an agreed level of profitability. During the year ended 30 June 2008, the agreed level of profitability was reached and the shares issued at a premium of 3.25p per share resulting in share premium of £ 487,000.

22. TRANSLATION RESERVE

	2008 *£'000*	*2007* *£'000*
1 July 2007	(96)	(42)
Exchange differences arising on translation of overseas operations	588	(54)
30 June 2008	492	(96)

23. SHARE BASED PAYMENTS

As outlined in notes 20 options and warrants over the Company's ordinary share capital were granted to various employees during the year ended 30 June 2007. During the year ended 30 June 2008 the Company granted no options or warrants.

Details of the share options and warrants outstanding during the year are as follows.

	Number of share options and warrants	*Weighted average exercise price £*
Outstanding at beginning of year	5,285,000	0.20
Granted during year	–	0.20
Expired during the year	(3,125,000)	0.20
Outstanding at end of year	2,160,000	0.20
Exercisable at end of year	2,160,000	0.20

At 30 June 2008, the Company had 2,160,000 options outstanding, all exercisable at year end at an exercise price of 20p per ordinary share. 1,100,000 of the options will lapse prior to the signing of the accounts, 460,000 will lapse on 14 May 2009 and the remaining 500,000 will lapse on 21 July 2009 as outlined in note 20.

Share based payment charges have been calculated using the Black-Scholes model to calculate the fair value of the share options and warrants. The inputs into the Black Scholes model are as follows;

	2008	*2007*
Weighted average share price	20p	20p
Exercise price	20p	20p
Expected volatility	33.4%	33.4%
Expected life	6 years	6 years
Risk free rate	5.5%	5.5%
Expected dividends	0%	0%

The expected volatility percentage was calculated by reference to the share price of the company over a twenty four week period from the listing of the company to the end of August and the share price of a close competitor company for a two year period up until August 2007. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

All outstanding options are exercisable until 14 May 2009 (save in respect of 500,000 options held by Charles Huang which have to be exercised by 31 July 2009) and the latest date that the warrants have to be exercised is 31 March 2010.

The group recognised total expenses related to equity settled share based payment transactions in the form of options and warrants of £172,000 (2007: £260,390). Of this total, £172,000 related to employees including executive directors, (2007: £70,759). The remaining amount in the year ended 30 June 2007 relates to the fair value of share options issued as consideration in the acquisition by the group's subsidiary undertaking, Praise Ease Limited of Shenzhen Zhong Tian Communication Equipments Co. Ltd.

24. GENERAL RESERVE

In accordance with the "Law of China on Joint Ventures Using Chinese and Foreign Investment", 10% of the retained earnings has been transferred as ZTC's general reserve fund, after offsetting accumulated losses from prior years, and before profit distributions to the investors. After the annual tax review for CY2008, the general reserve will be adjusted according to the accumulated profits determined by the tax bureau.

25. CAPITAL CONTRIBUTION RESERVE

During the year, Charles Huang agreed to write-off a loan of £448,000 to Praise Ease under the agreement that Praise Ease would issue additional shares at par to ZTC plc. A capital contribution reserve was established to reflect this.

26. RETAINED EARNINGS

	2008	*2007*
	£'000	*£'000*
1 July 2007	3,495	1,596
(Loss)/profit for the year	(16,832)	1,888
Recognition of share-based payments	172	260
Transfer from/(to) general reserve	427	(249)
30 June 2008	(12,738)	3,495

27. NOTES TO THE CASH FLOW STATEMENT

	2008	*2007*
	£'000	*£'000*
(Loss)/profit for the year	(16,832)	1,888
Adjustments for:		
Depreciation of property, plant and equipment	155	143
Share based payment expense	172	260
IPO expense	–	280
Finance income	(70)	(19)
Finance costs	131	39
Tax	251	128
Impairment of assets to break-up value	18,996	-
Operating profit before changes in working capital	2,803	2,719
Changes in working capital:		
Increase in inventories	(366)	(656)
Increase in trade and other receivables	(9,358)	(7,533)
Increase in trade and other payables	6,187	4,071
Net cash outflow from operations	(734)	(1,399)

28. OPERATING LEASE ARRANGEMENTS

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2008	*2007*
	£'000	*£'000*
Within one year	79	84
In the second to fifth years	78	133
After five years	43	47
	200	264

The operating leases relate primarily to the lease of the factory and also of office premises.

29. ACQUISITION OF SUBSIDIARY

On 21 March 2007 the group acquired 100% of the issued share capital of Praise Ease Limited for initial consideration of £14 million satisfied by the issue of 70,000,000 new ordinary shares of 10p each at 20p per share and contingent consideration of a maximum of 15,000,000 additional ordinary shares of 10p, based upon the post-tax profits of Zhong Tian for the year ended 30 June 2007. Subsequent to meeting the conditions for payment of the contingent consideration, 15,000,000 10p ordinary shares were issued during the year on 21 December 2007 for a consideration of 20p per share.

Praise Ease Limited is the parent company of a group of companies involved in the manufacture and distribution of mobile phones. The transaction has been accounted for by the reverse acquisition method of accounting.

In the consolidated group accounts it has been accounted for as a reverse acquisition in accordance with IFRS 3 Appendix B. The legal subsidiary is identified as the acquirer, and the fair value of the consideration given is £3.96m. The legal parent is identified as the subsidiary. The fair value of the assets acquired is £3.96m. Therefore no goodwill has arisen.

There were no new acquisitions in the year ended 30 June 2008.

30. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note as the company has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related Party Disclosures" not to disclose transactions with members of the group headed by ZTC plc.

During the year, the Group entered into the following transactions with related parties:

An amount of £1,487,209 (30 June 2007: £1,519,345) was owed to Charles Huang (a Director of ZTC plc) at 30 June 2008, being the balance of funds loaned to ZTC plc by Charles Huang.

A rental expense of circa £67,813 (year ended 30 June 2007: £65,630) was incurred and payable to a relative of Charles Huang. A balance of £255,694 (30 June 2007: £164,588) was outstanding in respect of rental payments to Charles Huang's relative at 30 June 2008.

31. EVENTS OCCURING AFTER THE BALANCE SHEET DATE

The events detailed in the Chairman's Statement, the Directors Report and in note 3 to the consolidated financial statements have led to the revaluation of assets in the trading subsidiary, Zhong Tian.

Cessation of trading of subsidiary

As noted in the Chairman's Statement, Mr Chaohui (aka Charles) Huang, CEO, major creditor and majority shareholder of ZTC Plc and Mr Yang Rugiang, the Company's General Manager have been absent from the Company and uncontactable since 5 November 2008. As a result of the uncertainty that this caused and the interruption to the running of the business, trading of shares in ZTC Plc was suspended as of 7 November 2008.

The main company in the Group that has been affected by this is Shenzhen Zhong Tian Communication Equipments Co. Ltd ("Zhong Tian"), the main trading company of the Group. Due to the events noted above, and the fact that Zhong Tian has not traded since 5 November 2008, the Directors believe that the assets and liabilities of Zhong Tian should be valued on a break-up basis, that this is the only appropriate basis for valuing the assets and liabilities of Zhong Tian, and that this basis should be applied at the balance sheet date.

As the Directors have no access to any of Zhong Tian's financial information, the Directors have made the following write-downs, based on best estimates, of Zhong Tian's assets in preparing the year end financial statements:

	Going concern value at 30 June 2008 (£GBP)	*Amounts written off 30 June 2008 (£GBP)*	*Written down value at 30 June 2008 (£GBP)*
Property, Plant & Equipment	495,675	(405,647)	90,028
Inventories	1,255,021	(1,255,021)	-
Trade receivables	12,016,929	(10,121,523)	1,895,406
Prepayments	7,153,810	(6,160,508)	993,302
Other receivables	1,052,389	(1,052,389)	-
Cash & cash equivalents	1,616,760	–	1,616,760
Total	23,590,584	(18,995,088)	4,595,496

The consolidated position of the Group reflects these adjustments, with a total of £23,590,584 of assets held within Zhong Tian at 30 June 2008 being written down to their recoverable value.

In the parent company, the investment and intercompany receivables have been written down to zero value to reflect the non-recoverability of these assets. A total charge of £18,066,000 has been reflected in the accounts of the parent company in respect of these write-downs.

Based on the best information available to the Directors, and taking into account the prospects for the Company following the implementation of the Proposals, (subject to shareholder approval on 21 April 2009), your Board has concluded that it is appropriate to prepare the accounts for the parent company on a going concern basis, subject to fundamental uncertainty and accordingly continue to present these accounts on that basis. The board also believes that the subsidiary, Praise Ease Limited remains a going concern. Subject to shareholder approval at the AGM, ZTC plc will sell its entire shareholding in Praise Ease Limited. As a condition of the sale, the loan due by Praise Ease Limited to ZTC plc will be repaid over a period of three years using 50% of the proceeds that are recoverable from Zhong Tian. After three years, the remainder of the loan will be written off. As this loan is the only liability of Praise Ease Limited, the directors believe that the going concern basis is appropriate. The Board however do not believe that the subsidiary, Zhong Tian is a going concern, hence this company's accounts have been prepared under a break up basis.

The Directors believe, based on legal advice, that ZTC Plc is not liable for any of the liabilities within Zhong Tian and also believe that, subject to completion of the proposed transaction, details of which are set out in the Circular to shareholders dated 29 March 2009, there is sufficient funding available to the Company to enable it to continue to meet its own liabilities (excluding that of other Group companies) for the foreseeable future. Clearly the future prospects of the company will be wholly dependent on the ability of the Board and the new major investor to successfully implement the investment strategy as outlined in the Chairman's statement and the Circular to the shareholders.

Major potential share transactions

Details of the proposed share capital reorganisation together with share subscription and convertible loan notes are set out in the Circular to shareholders.

Company Balance Sheet

	Note	2008 £'000	2007 £'000
Fixed assets			
Investments	33	–	15,987
Total fixed assets		–	15,987
Current assets			
Debtors	34	30	1,853
Cash at bank and in hand	35	345	1,525
Total current assets		375	3,378
Current liabilities			
Creditors: amounts falling due within one year	36	(105)	(435)
Total current liabilities		(105)	(435)
Net current assets		270	2,943
Net assets		270	18,930
Represented by:			
Share capital	19	10,868	9,368
Shares to be issued		–	1,987
Share premium reserve	37	6,864	6,377
Non distributable reserve		2,019	2,019
Retained profit and loss reserve		(19,481)	(821)
Equity shareholders' funds		270	18,930

These financial statements were approved by the Board of Directors and authorised for issue on 27 March 2009

Signed on behalf of the Board of Directors

Frank Lewis

Director

Notes to the Company Balance Sheet

32. COMPANY ACCOUNTING POLICIES

Basis of preparation

The Company financial statements have been prepared in accordance with currently applicable Accounting Standards in the United Kingdom, which have been applied consistently, and under the historical cost convention. The accounts have been drawn up on a going concern basis.

The directors consider this appropriate based on the successful refinancing of the company (which is subject to shareholder approval on 21 April 2009) and on the assumption that the revised investment strategy will be successfully implemented which needs to be executed within 12 months of the approval of these accounts. Details of the £280,000 refinancing and change in strategy (which are both subject to shareholder approval at the AGM on 21 April 2009) are set out in the Circular to shareholders dated 27 March 2009.

The Directors expect shareholder approval to be granted for all of the proposals set out in the Circular to shareholders and hence the subsequent reinstatement of it shares on the Alternative Investment Market however, should any of these approvals not be granted, or the shares not to be re-admitted for trading purposes, then the company would be unable to continue as a going concern.

If the company fails to resume trading of its shares on the Alternative Investment Market of the London Stock Exchange by 30 April 2009 then this £280,000 becomes immediately repayable in full. In addition, if the company fails to secure a new investment opportunity or additional new finance within the next 12 months, the company will be unable to continue as a going concern as it will have insufficient funds to trade.

A critical element to the change in strategy is securing a substantial acquisition. In the event no substantial acquisition is made within 12 months of the date of the 2009 AGM, in accordance with the AIM rules for Companies, trading in the Company's shares will be suspended and if no reverse transaction is achieved in the following 6 months, the London Stock Exchange will cancel the admission of the shares.

The Company has taken advantage of the exemption under section 230 of the Companies Act 1985 and has not presented its income statement in these financial statements. The Group profit for the year includes a loss after tax of £18,660,000 (2007:£437,000) which is dealt with in the accounts of the Company.

Fixed asset investments

Investments held as fixed assets are stated at cost less provision for any impairment to their carrying value.

The carrying value of the company's investment in its subsidiary, Zhong Tian, has been reduced by £15,987,000 to £nil. This reduction arises from this subsidiary company ceasing to be a going concern. The individual financial statements of Zhong Tian have been prepared on a break-up basis in accordance with FRS 21 (see note 3). The directors consider that it is appropriate for the same basis of accounting to be followed in accounting for the parent company's investment in its subsidiary in the parent's individual financial statements. While FRS 21 does not contain specific guidance, the requirements set out in paragraph 14-16 of that standard have been applied by analogy.

Financial instruments

The Company's financial instruments comprise cash, debtors and creditors that arise from its operations. Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate. Income and expenditure arising in the financial statements are recognised on the accruals basis and credited or charged to the profit and loss account in the financial period to which they relate.

The net intercompany receivables have been written down to zero value to reflect the non-recoverability of these assets. A total charge of £2,079,000 has been reflected in the accounts of the parent company in respect of these write-downs.

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken to the profit and loss account as they arise.

Share-based payments

The Company issues equity settled share based payments to certain employees. Equity settled share based payments are measured at fair value at the date of the grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects on non-transferability, exercise restrictions and behavioural considerations.

33. STAFF COSTS

The only employees during the year were executive and non-executive directors:

	2008 *Number*	*2007* *Number*
Administration	3	3

The costs incurred in respect of these employees were:

	2008 *£'000*	*2007* *£'000*
Wages and salaries	273	177
Share based payments see note 23	172	71
Social security costs	–	–
	445	248

34. FIXED ASSET INVESTMENTS

	Investment in subsidiary undertakings £'000
At 1 July 2007	15,987
Write-off of investment in subsidiaries	(15,987)
At 30 June 2008	-

The Company owns 100% of the voting rights and the ordinary share capital of the following undertakings, the results and balance sheets of which are included in these consolidated accounts:

Name of undertaking	*Place of Incorporation*	*% ownership*	*Principal activity*
Praise Ease Limited	Hong Kong	100%	Holding company
Shenzhen Zhong Tian Communication Equipments Co. Ltd	China	100%*	Design, distribution and assembly of mobile phones

*This company is owned indirectly by ZTC Telecommunications Plc

35. DEBTORS

	2008 £'000	*2007 £'000*
Due within one year:		
Amounts owing from group companies	–	1,837
Prepayments and accrued income	30	16
	30	1,853

Amounts owing from group companies relates to funding provided to Praise Ease Ltd. The funding is denominated in pounds sterling and therefore no foreign exchange exposure exists.

36. CASH AT BANK AND IN HAND

	2008 £'000	*2007 £'000*
Cash and cash equivalents per balance sheet	345	1,525
Cash and cash equivalents per cash flow statement	345	1,525

All balances are denominated in pounds sterling and are held with reputable banks in the United Kingdom.

37. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 £'000	2007 £'000
Trade creditors	13	–
Accruals and deferred income	92	109
Due to connected persons	–	326
	105	435

Creditors principally comprise amounts outstanding relating to the running costs of the parent company ZTC Plc.

38. SHARE CAPITAL

	2008 £'000	2007 £'000
Authorised:		
200,000,000 ordinary shares of 10p each	20,000	20,000
	20,000	20,000
Allotted, called up and fully paid:		
108,682,515 ordinary shares of 10p each	10,868	9,368
	10,868	9,368

Issue of deferred shares

As part of the acquisition of Praise Ease by ZTC plc in 2007, up to 15 million ordinary shares were potentially issuable if the company achieved an agreed level of profitability. During the year ended 30 June 2008, the agreed level of profitability was reached and the shares issued at a premium of 3.25p per share.

Share Options

A total of 2,160,000 options over the ordinary share capital of the Company were granted to a number of employees on 21 March 2007. All options are exercisable at the market value at the date of grant, being 20p per ordinary share and are exercisable between 1 and 10 years from the date of grant. None of the aforementioned options have been exercised or have lapsed during the year ended 30 June 2008. 1,100,000 of the options will lapse prior to the signing of the accounts, 460,000 will lapse on 14 May 2009 and the remaining 500,000 will lapse on 21 July 2009.

Employee Warrants

A total of 3,125,000 employee warrants over the ordinary share capital of the Company were outstanding at year end. These employee warrants were exercisable immediately and at any time up until 31 March 2010. All employee warrants are exercisable at the market value at the date of grant, being 20p per ordinary share. All of the aforementioned warrants were granted in the year ended 20 June 2007 and the relevant charge taken through the income statement in that year.

2,812,500 of the employee warrants have been waived since 30 June 2008.

Non-employee warrants

A total of 8,912,500 non-employee warrants were outstanding at the start of the year. All of these warrants lapsed on 29 November 2007.

39. SHARE PREMIUM RESERVE

	2008 £'000	2007 £'000
Opening balance	6,377	151
Share premium recognised on reverse acquisition	–	
Issue of share capital	–	7,000
Issue of deferred shares	487	-
Expenses connected to issue of share capital	–	(774)
Closing balance	6,864	6,377

As part of the acquisition of Praise Ease by ZTC plc, up to 15 million ordinary shares were potentially issuable if the company achieved an agreed level of profitability. During the year ended 30 June 2008, the agreed level of profitability was reached and the shares issued at a premium of 3.25p per share resulting in share premium of £487,000.

40. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2008 £'000	2007 £'000
Issue of shares	–	8,103
Issue of deferred shares	1,500	–
Movement in shares to be issued	(1,987)	1,987
Increase in share premium	487	6,226
Increase in undistributable reserve	–	2,019
Loss for the financial year	(18,660)	(561)
Net addition in shareholders' funds	(18,660)	17,774
Opening shareholders' funds	18,930	1,156
Closing shareholders' funds	270	18,930

41. POST BALANCE SHEET EVENTS

The events detailed in the Chairman's Statement, the Directors Report and in note 3 to the consolidated financial statements have led to the revaluation of assets in the trading subsidiary, Zhong Tian. For the purposes of these financial statements, the Directors have considered ZTC Plc to be a going concern and have therefore prepared the company financial statements of ZTC Plc on a going concern basis. The investments in Praise Ease and Zhong Tian have been written down to their carrying value in the books of ZTC Plc.

	Going concern value at 30 June 2008 (£GBP)	*Amounts written off 30 June 2008 (£GBP)*	*Written down value at 30 June 2008 (£GBP)*
Fixed asset investments	15,987,000	(15,987,000)	–
Debtors	2,109,442	(2,079,051)	30,391
TOTAL	18,096,442	(18,066,051)	30,391

Major share transactions

Details of the proposed share capital reorganisation together with share subscription and convertible loan notes are set out in the Circular to shareholders.

42. CONTINGENT LIABILITIES

The directors believe, based on legal advice, that ZTC plc is not liable for any of the liabilities within Zhong Tian.