

# China Evoline Plc

Annual Report and Accounts

30 June 2009

WEDNESDAY



\*LVH3EG82\*

LD3

30/12/2009

56

COMPANIES HOUSE

## China Evoline Plc

China Evoline 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, and is now an investing company seeking to identify a suitable acquisition with a focus on China, preferably in the natural resources or technology sectors.

Page	Contents
2	Directors and Advisers
3	Chairman’s Statement
6	Operating Review
8	Description of the Business and Investment Strategy
9	Directors’ Biographical Details
10	Directors’ Report
15	Corporate Governance Statement
17	Report of the Remuneration Committee
20	Statement of Directors’ Responsibilities
21	Report of the Independent Auditors
24	Consolidated Income Statement
25	Consolidated Statement of Changes in Equity
27	Consolidated Balance Sheet
28	Consolidated Cash Flow Statement
29	Notes to the Consolidated Financial Statements
48	Company Profit and Loss Account
48	Company Balance Sheet
49	Notes to the Company Financial Statements
54	Notice of Annual General Meeting
59	Form of Proxy

## China Evoline Plc

### Directors and Advisers

Directors	Frank Lewis Mark Syropoulo Michael Liu Xuedong (Louge) Lou Jian (Jeffrey) Xin Yumao Zheng	Non-executive Chairman Non-executive Director Non-executive Director Non-executive Director Non-executive Director Non-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 London W1J 5AT	
Solicitors to the Company (English Law):	Pritchard Englefield 14 New Street London EC2M 4HE	
Solicitors to the Company (Chinese Law):	Boss & Young 11th Floor China Merchants Tower 161 Lujiazui East Road Shanghai 200120 People's Republic of China	
Registered Auditors:	BDO LLP Emerald House Surrey KT17 1HS	
Registrars:	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	

## Chairman's Statement

### Dear Shareholder

This Report & Financial Statements covers the year ended 30 June 2009 – a period during which the business of the Company changed from an assembler and wholesaler of mobile telephones into an investing company seeking acquisition opportunities with a focus on China, particularly in the natural resources and technology sectors. The Company changed its name from ZTC Telecommunications plc to China Evoline plc on 21 April 2009.

### Operating Results – 2009

During the year, the Company's operation in China, Zhong Tian, continued to trade normally as an assembler and wholesaler of mobile telephones up until the date of the disappearance in November 2008 of Charles Huang, the former Chief Executive. However, due to the subsequent sealing of the Group's factory in Shenzhen, China, and the sequestering of the Group's assets by the People's Court in Longgang, China, the Directors have not had access to the financial information with regards to the trading of its subsidiaries since 31 August 2008, and no trading information since that date is available to be included within the financial statements. The audited financial statements therefore only represent normal trading activity for the first two months of the financial year ended 30 June 2009.

Further details of the events leading up to the fundamental change in business of the Company in April 2009 is set out in the Operating Review on page 6.

### Fundamental Change in Business

After due investigations following the disappearance of Charles Huang, and taking into account the limited resources of the Company, the Directors concluded that the Company's operation in China would be unable to resume trading and, as such, the ability to realise any net assets for the benefit of shareholders would be extremely difficult and not cost-effective. Given the potentially long recovery procedures and the Company's limited resources, the Directors concluded that the subsidiaries of the Company had negligible or no recoverable value.

Following approval by shareholders at the Annual General Meeting held on 21 April 2009, the investment in Praise Ease and its subsidiary, Zhong Tian, was sold for a nominal consideration.

### Introduction of new Investors – April 2009

At the end of November 2008, it transpired that Tomorrow's Focus Limited ("Tomorrow's Focus"), the company which then held 68 million Ordinary shares of 10p in the Company 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\$27.4 million (approximately £2 million) 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 that on 14 April 2008 Charles Huang transferred his holding of shares in Pan Europe Capital Limited, the legal entity which held 12,750,000 Ordinary shares of 10p in the Company amounting at that time to approximately 11.7% of the Company's then issued Ordinary share capital, to Ms. Cheung Yiu Shan. Following discussions between the Company and Maiden Undertaking, and on the basis that there had been a breach by Tomorrow's Focus and Charles Huang of the terms of the two loan agreements dated 16 May 2008 and 3 June 2008, it was agreed that Maiden Undertaking would assert its rights under the Charges and assign the charged Ordinary shares to Staybest Limited ("Staybest"), an associated company, and, subject to the passing of resolutions by shareholders at the Annual General Meeting held on 21 April 2009, that Staybest and Wellhigh Limited ("Wellhigh") (a company introduced to ZTC Telecommunications plc by the principals of Maiden Undertaking) would support the Company by making an investment in the Company of an aggregate amount of £280,000 consisting of the subscription by Staybest for 92,885 new Ordinary shares of 1p and the subscription by Wellhigh for £258,636.45 convertible unsecured loan notes 2011 (together, the "Investment"). The

## Chairman's Statement (continued)

purpose of the Investment was to allow the Company to continue to operate and in due course, seek to acquire new businesses.

On the basis that the Board had no reason to believe that the Charges were not enforceable and against appropriate indemnities received from Staybest, the Directors, pursuant to an Investment Agreement, on 27 March 2009 agreed to register Staybest as the holder of the Charged Shares.

Following approval by shareholders at the Annual General Meeting held on 21 April 2009, Staybest and Wellhigh subscribed an aggregate amount of £280,000 to provide the Company with sufficient working capital to operate for at least the following 12 months. Following the passing of the Resolutions, the suspension of dealings in the Company's shares on AIM was lifted.

### Potential investment targets

The Investment Strategy of the Company was approved by shareholders at the Annual General Meeting held on 21 April 2009 and is set out on page 8.

Since that date, your Directors have reviewed a number of potential projects for investment, primarily in the Resources and Technology sectors, in line with the Company's aims. All of the options reviewed thus far are not suitable for investment, either because they represent an unattractive investment horizon or for valuation reasons. We continue to conduct initial due diligence appraisals of potential projects. Where we believe further investigation is warranted the Board will appoint suitably qualified and, where appropriate, independent persons to conduct further detailed due diligence.

As at the date of these financial statements, the Directors are pursuing a number of potential investment opportunities which they believe will result in a successful acquisition being completed by October 2010.

### Board Changes

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. Dr Yi Xie, Non-executive director, resigned from the Board on 18 December 2008.

Following the Annual General Meeting on 21 April 2009, Mr. Yumao Zheng, Mr. Jian (aka Jeffery) Xin and Mr. Xuedong (aka Louge) Lou were appointed as Non-executive Directors. Their biographies are set out on page 9.

### Additional Finance

Since 30 June 2009, Staybest Limited (the "Lender") has agreed to make available to the Company an unsecured loan of £160,000 (the "Loan") in order to provide additional working capital. The Loan is irrevocably available for drawdown in two tranches, as to £80,000 within two weeks of the date of the Loan Letter and as to £80,000 during a two week period commencing six months after the date of the Loan Letter. The loan is repayable 16 months after the date of the Loan Letter, and bears interest at 2.5 per cent per annum which is payable on final repayment of the loan.

If at any time the Company makes an offer by way of rights of new Ordinary Shares to its existing shareholders, at a time when the Lender is the holder of Ordinary Shares of the Company, the Lender may require that all or any part of the principal amount of the Loan is to be applied in paying up the amount to be subscribed by the Lender for any Ordinary Shares for which the Lender accepts the offer made by the Company, at the subscription price and otherwise on the terms of that offer.

### Basis of preparation – going concern

Zhong Tian, the main trading entity in the Group was unable to continue trading during the year ended 30 June 2009. This was 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 was no

## China Evoline Plc

longer appropriate. The effect was so pervasive that a fundamental change in the basis of accounting to a break-up basis was adopted for Zhong Tian in the financial statements for the year ended 30 June 2008, and its asset values were written down accordingly, in accordance with IAS 10 paragraphs 14-16. Where necessary in order to value the assets and liabilities in Zhong Tian, the Directors 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 was not available. Further detail on the revaluation of the asset values in Zhong Tian at 30 June 2008 can be found in the comparative amounts set out in notes 2, 3 and 33 to these financial statements. In addition, in the parent company, the investment and intercompany receivables were written down to zero value at 30 June 2008 to reflect the non-recoverability of these assets. A total charge of £18,066,000 was reflected in the financial statements of the parent company for the year ended 30 June 2008 in respect of these write-downs.

Following approval by shareholders at the AGM on 21 April 2009, Praise Ease, together with its wholly owned subsidiary Zhong Tian, were disposed off for HKD1 on that date.

Subsequent to the year end, as set out in Note 29 Post Balance Sheet events, the majority shareholder has irrevocably committed to lend the Company an additional £160,000 (with the first tranche of £80,000 having been drawn upon subsequent to the year end). Having prepared the cash flow forecasts to December 2010 the Directors are of the opinion that this will provide the Company with sufficient working capital in order to finance the Company for 12 months irrespective of whether a new investment in a new acquisition is made by the Company.

A critical element to the change in strategy as set out in the Operating Review on page 6 is securing a substantial acquisition. In the event no substantial acquisition is made by 21 April 2010, being 12 months from 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.

In the event that the London Stock Exchange were to cancel the admission of the Company's shares, it is not certain that the majority shareholder will continue to provide financial support to the Company's ongoing activities, and it is likely that any other sources of financing would be further restricted. Therefore, although the Company has sufficient funds to continue for 12 months, it is uncertain that the Company will continue as a going concern after 12 months in the event of failing to complete an acquisition of a new investment or securing additional finance.

If the Company successfully identifies a suitable investment opportunity, the ability of the Company to continue as a going concern will depend on being able to raise the necessary finance in order to fund the appropriate due diligence and purchase price consideration, and being able to successfully integrate the target into the Group so as to generate cash in the future.

If the Company fails to secure a new investment opportunity and fails to secure any additional finance, the Company will be unable to continue as a going concern as it will have insufficient funds to trade after 12 months. The ability of the Company to continue as a going concern will therefore depend on further continued financial support of the majority shareholder.

Despite the above material uncertainties, the Directors consider that China Evoline plc is a going concern and the accounts of the parent entity have been prepared on a going concern basis. The Directors consider this appropriate based on the refinancing of the Company which was approved by shareholders on 21 April 2009, the additional loan finance secured subsequent to the balance sheet date and on the assumption that the investment strategy will be successfully implemented by October 2010. As at the date of these accounts the Directors are pursuing a number of potential investment opportunities which they believe will result in a successful acquisition being completed by October 2010.

The above conditions represent a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

## Operating Review

### Shenzhen Zhongtian Communication Equipments Co Ltd

During the period from March 2007 until November 2008, the Company operated, through its wholly owned subsidiary in China, Shenzhen Zhongtian Communication Equipments Co Ltd ("Zhong Tian") as an assembler and wholesaler of mobile telephones.

On 13 October 2008, we informed shareholders that trading and credit conditions for small and medium-sized entities 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, on 10 November 2008, the Directors announced that they had become aware that Charles Huang, then a major shareholder in the Company and CEO of Zhong Tian, and Yang Ruqiang, the General Manager of 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 for the previous 5 days.

This unexplained absence of key personnel in the highly charged economic environment of southern China during November 2008 destabilised the Group's employees and creditors. The Board believes that this resulted in the unauthorised removal of some of Zhong Tian's assets from its factory site in Longgang. The local authorities subsequently moved to take control of the situation and the local People's Court sealed the factory and its buildings, sequestering all of the assets. None of the Directors or employees of the Group were able to gain access to the factory and its buildings which remained 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 which 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. This has not been capable of verification by the Directors.

Following this expected sequestration of assets, alleged looting at the factory, and the continued absence of all key management of the subsidiaries, the Board took the unanimous view that the value of any remaining equipment and inventory was likely to be negligible and Zhong Tian was unlikely to be able to continue as a going concern.

### Recoverable Value of the Company's Subsidiaries

The whereabouts of Charles Huang and Mr Yang Ruqiang remained unknown, and further legal opinion indicated that, in order for the Company to gain access to the assets of Zhong Tian, it would have to replace Mr Huang as legal representative of Zhong Tian, a lengthy and expensive procedure, and then commence one of the following processes:

- 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
- 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 concluded that the Company's business in China would be unable to resume trading and, as such, the ability to realise any net assets for the benefit of Shareholders would be extremely difficult and not cost-effective. Given the potentially long recovery procedures and the Company's limited resources, the Directors concluded that the subsidiaries of the Company had negligible or no recoverable value.

## China Evoline Plc

### Appointment of Legal Counsel

The Directors of Praise Ease ("PE"), the Company's then wholly-owned Hong Kong holding company and the sole shareholder of Zhong Tian, appointed China legal counsel on 12 November 2008 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.

### Creditor Claims and Loan Agreements with Maiden Undertaking Limited

China legal counsel determined 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"), which then held 68 million ordinary shares of 10p in the Company 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\$27.4 million (approximately £2 million) 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 that on 14 April 2008 Charles Huang transferred his holding of shares in Pan Europe Capital Limited, the legal entity which held 12,750,000 ordinary shares of 10p in the Company amounting at that time to approximately 11.7% of the Company's then issued Ordinary share capital, to Ms Cheung Yiu Shan.

Following discussions between the Company and Maiden Undertaking, and on the basis that there had been a breach by Tomorrow's Focus and Charles Huang of the terms of the two loan agreements dated 16 May 2008 and 3 June 2008, it was 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 resolutions by shareholders at the AGM held on 21 April 2009, that Staybest and Wellhigh Limited ("Wellhigh") (a company introduced by the principals of Maiden Undertaking) would support the Company by making an investment in the Company of an aggregate amount of £280,000 consisting of the subscription by Staybest for 92,885 new Ordinary shares of 1p and the subscription by Wellhigh for £258,636.45 convertible unsecured loan notes 2011 (together, the "Investment"). The purpose of the Investment was to allow the Company to continue to operate and in due course, seek to acquire new businesses.

On the basis that the Board had no reason to believe that the Charges were not enforceable and against appropriate indemnities received from Staybest, the Directors, pursuant to an Investment Agreement, on 27 March 2009 agreed to register Staybest as the holder of the Charged Shares. Following approval by shareholders at the Annual General Meeting held on 21 April 2009, Staybest and Wellhigh subscribed an aggregate amount of £280,000 to provide the Company with sufficient working capital to operate for at least the following 12 months. Following the passing of the Resolutions, the suspension of dealings in the Company's shares on AIM was 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 these accounts, the Directors, having made reasonable enquiries, are not aware of any other circumstances which may relate to his disappearance.

### Disposal of Praise Ease ("PE")

The disposal of PE was a condition precedent of the party wishing to assist in the refinancing of the Company in preparation for the removal of the suspension of trading of its shares, as described below.

PE was the intermediate holding company of Zhong Tian, and since Zhong Tian was no longer considered a going concern, following shareholder approval on 21 April 2009, PE was disposed of for a nominal sum, on the terms that the Company would participate in any economic recovery of PE. The Directors do not at present have any reason to believe there will be any future economic recovery from this source.

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



## Description of the Business

Since the approval by shareholders on 21 April 2009 of *inter alia* the investment by Staybest and Wellhigh, the investing strategy and the share capital reorganisation, the Company is now an investing company seeking to identify a suitable acquisition, preferably in the natural resources or technology sectors.

Cash expenditure is operated on a very restricted basis, and there are currently no employees other than the Board of Directors.

## Investment Strategy of the Company

The strategy of the Directors is for the Company to invest in one or more companies established in the Asia Pacific region, which have a significant focus on 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 in which it might invest, it is likely that the sectors which will be targeted will be resources, technology and property – all areas where the Directors have 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 may consider investing in a company which is geared when they believe such gearing is appropriate.

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. The Directors may consider borrowing in respect of such investments if such funding was available and deemed appropriate by the Directors at that time.

In the event that no substantial acquisition is made within 12 months of the date of the 2009 AGM, namely 21 April 2010, 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.

## Directors' Biographical Details

### Frank Lewis, Non-executive Chairman

Mr Lewis has over 25 years' experience in both listed and private companies. He has held a number of board positions as Chairman and Non-executive Director both in the UK and abroad with growing, midmarket companies, of which a number were AIM-listed. He is a Fellow of the Institute of Chartered Accountants of England and Wales and a member of the South African Institute of Chartered Accountants. Mr Lewis is Chairman of the Company's audit and remuneration committees.

### Mark Syropoulo BSc Hons., Non-executive Director

Mr Syropoulo has had thirty years' experience in stock broking, finance or executive positions primarily in the resources sector in Africa, Australia, USA, UK and Asia. From 1987 to 1993 he was managing director of London listed Anglo Pacific Resources plc which was an associate company of Anglovaal Ltd. Mark has had ten years' experience investing in Chinese publicly quoted equities and was a Non-executive Director of AIM listed Caledon Resources Plc, a China focused gold explorer, from 2005 to December 2006. He has completed Mandarin studies through University of California, Berkeley, and at the Beijing Language and Cultural University.

### Michael Liu, Non-executive Director

Mr Liu has over 20 years' experience in public company management, investment and finance, and international Mergers and Acquisitions. In the past 8 years, he has overseen several successful acquisitions and divestitures of mining assets including gold, coal and copper in China and overseas. He has been involved in a number of public companies listed in the UK and North America as a Director. He has an MA from UNB and MBA from UBC in Canada.

### Yumao Zheng, Non-executive Director

Mr Zheng holds a Bachelor's degree in electronic surveying and apparatus from the Institution of Telecommunication Engineering of Chengdu (now called University of Electronic Science and Technology of China) which was obtained in 1980. Mr Zheng is currently a senior economist and the general manager of Shenzhen Zhenhua Telecommunication Equipment Limited. Mr. Zheng has over 27 years' experience in the electronics industry and is experienced in corporate management, production and financial management and investment appraisals for electronic projects. Mr. Zheng has worked with the Zhenhua Group which is principally engaged in the electronics production business, since 1980.

### Jian (aka Jeffery) Xin, Non-executive Director

Mr Xin was educated as an electrical engineer at Tsinghua University, one of China's most renowned universities. Mr Xin also gained an MBA from the same institution. His career to date has been primarily focused on research and development in wireless communications. Mr. Xin is currently General Manager at Zhu Zhou Shi Jun Investments & Sponson Co. Limited, a guarantee company which is 40 per cent. state-owned.

In 2005 Mr. Xin founded Jiu Ding Tech Co. Ltd, a company specialising in Research and Development for cellphone design which partnered with the Cellon Group in Canada. In late 2007 Mr Xin sold the company to Nasdaq-listed Qiao Xing Universal Telephone Inc. From 2000 to 2005 Mr. Xin was Vice President at CEC Wireless R&D Centre Ltd (CECW), a company set up and funded by the government that had Microsoft, Philips, Motorola and Siemens as strategic partners. CECW was successful in introducing new wireless technologies to the Chinese market.

### Xuedong (aka Louge) Lou, Non-executive Director

Mr Lou holds a Bachelor's degree in Process Equipment Design from Zhejiang University, a university regarded highly in China. In his early career (1989-1993) Mr. Lou worked with state owned companies, mainly in plastics, where he held positions as an engineer and in management. In 1994 Mr Lou established his own business, Hangzhou Guangsha Plastic Product Co. Ltd. which manufactured plastic components for phones. He also founded in 1996 Hangzhou Tianyin Electronic Co. Ltd. which is primarily involved in the distribution of mobile phones. In addition, Mr Lou owns the mobile phone brand name GML. To date he estimates that his group has RMB200m in total assets. The group has 30 stores and approximately 1,200 employees and total registered capital of RMB30m. Mr Lou has substantial commercial experience, having built up these businesses in a challenging industry over the past ten years.

## 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 2009.

### Principal activities

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

Following approval by shareholders at the Annual General Meeting held on 21 April 2009, the investment in Praise Ease and its subsidiary, Zhong Tian, was sold for a nominal consideration.

The Company is now an investing company seeking to identify a suitable acquisition, preferably in the natural resources or technology sectors.

### Business review and future developments

The purpose of the review is to show how the Company assesses and manages risk and uncertainty and adopts appropriate policies and targets. Further details of the Group's business and expected future developments are also set out in the Chairman's Statement and the Operating Review set out on pages 3 to 5, and 6 to 7, respectively.

### Principal risks

The Directors believe the following to be the principal risks facing the Company. Information is included as to how the Directors seek to mitigate those risks.

- The future strategy of the Company depends on identifying a suitable investment opportunity. The AIM Rules state that if a reverse takeover has not been completed by 21 April 2010, being 12 months from the 2009 AGM, then the Company's shares will be suspended from trading on AIM. The Company will then be allowed six months to find a suitable investment and if it is not possible to identify such an investment opportunity within the required time period, the Company's admission to AIM will be cancelled.
- In the event that trading in the Company's shares were to be suspended from trading on AIM, or that the London Stock Exchange were to cancel the admission of the Company's shares to AIM, it is not certain that Staybest and Wellhigh would continue to provide financial support to the Company's ongoing activities, and it is likely that any other sources of financing would be further restricted. Such events may therefore have an impact on the Company's ability to continue as a going concern.
- In order to fund the Company's strategy in the longer term, and in particular to fund investments, it will be necessary for the Company to raise further funds by way of equity or debt investment or a combination of both. Whilst the Directors understand that Staybest and Wellhigh have long term access to substantial funds, the Company's investing strategy may be constrained to the extent that it is unable to raise further equity finance or that banks are not willing to provide the additional debt or other facilities required.
- Assuming a target is acquired by the Company, various factors will determine the success of the business acquired, including the market within which it operates.
- The value of the Company's Ordinary shares is dependent upon the Company's success in finding suitable projects in which to invest and, in due course, the success of the trading activities undertaken by the Company.
- The success of the Company, in common with other businesses of a similar size, will be dependent on the expertise and experience of the directors and senior management it manages to attract.

## China Evoline Plc

- AIM is not the Official List. It is a market designed primarily for emerging or smaller companies. The market in the Company's shares may therefore be relatively illiquid or subject to fluctuations. Consequently it may be difficult for shareholders to realise any investment in the Company.
- The price that shareholders and other investors may realise for their holding of Ordinary Shares, when they are able to do so, may be influenced by a large number of factors, some of which are or will be specific to the Company and some of which are extraneous. The market price for the Company's Ordinary Shares may therefore not reflect the underlying value of the Company's net assets. Shareholders and other investors in the Company may realise less than the original amount invested by them.

### Cessation of trading, and subsequent disposal of, subsidiary

As noted in the Chairman's Statement and the Operating Review, Mr Chaohui (aka Charles) Huang, CEO, major creditor and majority shareholder of China Evoline Plc and Mr Yang Rugiang, the Company's General Manager had 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 Telecommunications Plc was suspended as of 7 November 2008.

The main company in the Group that was affected by this was Shenzhen Zhong Tian Communication Equipments Co. Ltd ("Zhong Tian"), the main trading company of the Group. This company had not traded since 5 November 2008 and had a surplus of liabilities over assets when valued on a break-up basis. Due to the events noted above, the Directors believed that this was the only appropriate basis for valuing the assets and liabilities of Zhong Tian and that, when preparing the 2008 financial statements, this basis should be applied at the balance sheet date. The following write-downs of Zhong Tian's assets were therefore accounted for in the Company's financial statements at 30 June 2008:

	Going concern value at 30 June 2008 £	Amounts written off 30 June 2008 £	Written down value 30 June 2008 £
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
<b>TOTAL</b>	<b><u>23,590,584</u></b>	<b><u>(18,995,088)</u></b>	<b><u>4,595,496</u></b>

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

The liabilities of Zhong Tian were not written back at 30 June 2008 since these liabilities had not been legally extinguished and therefore continued to be recognised at their year end values. This was in accordance with IAS 39 paragraph 39.

The Directors believe that China Evoline Plc is not liable for any of the liabilities within Zhong Tian and also believe that there is sufficient funding available to continue to meet its own liabilities for the foreseeable future.

As referred to in the Chairman's Statement, following approval by Shareholders at the Annual General Meeting held on 21 April 2009, the investment in Praise Ease and its wholly owned subsidiary Zhong Tian, were sold for a nominal consideration.

### Results and dividend

The results of the Group for the year ended 30 June 2009 are set out on page 24. The Directors do not recommend the payment of a dividend for the year.

## China Evoline Plc

### Directors

The present Directors of the Company are as follows:

Frank Lewis  
 Mark Syropoulo  
 Michael Liu  
 Xuedong Lou (appointed 21 April 2009)  
 Jian Xin (appointed 21 April 2009)  
 Yumao Zheng (appointed 21 April 2009)

On 18 December 2008, Dr Yi Xie tendered his resignation from his position as a Non-Executive Director of the Company. 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 2009 in the ordinary share capital of the Company were as follows:

	30 June 2009		30 June 2008*	
	Ordinary Shares	Share Options	Ordinary Shares**	Share Options**
F Lewis	—	—	—	200
M Syropoulo	850	—	850	1,000
M Liu	6,800	—	6,800	1,000
Xuedong Lou	—	—	—	—
Jian Xin	—	—	—	—
Yumao Zheng	—	—	—	—

\* Or date of appointment, if later

\*\* The number of Ordinary shares has been restated following the share capital reorganisation on 21 April 2009.

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 2008	Granted	Exercised/ Lapsed	At 30 June 2009	Exercise Price	Exercisable	
						From	To
F Lewis	100,000	—	100,000	—	20p	21.03.08	20.03.17
C Huang	500,000	—	—	500,000	***	21.03.08	20.03.17
M Syropoulo	500,000	—	500,000	—	*	21.03.08	20.03.17
M Liu	500,000	—	500,000	—	*	21.03.08	20.03.17
Dr Yi Xie	100,000	—	100,000	—	***	21.03.08	20.03.17
Ru qiang Yang	100,000	—	100,000	—	**	21.03.08	20.03.17
Qing min Qu	80,000	—	80,000	—	**	21.03.08	20.03.17
Jian yang Shu	100,000	—	100,000	—	**	21.03.08	20.03.17
Jian Wang	20,000	—	20,000	—	**	21.03.08	20.03.17
Fei zhou Yie	20,000	—	20,000	—	**	21.03.08	20.03.17
Guo hong Li	30,000	—	30,000	—	**	21.03.08	20.03.17
Guang jun Zhu	20,000	—	20,000	—	**	21.03.08	20.03.17
Xiu shan Guan	20,000	—	20,000	—	**	21.03.08	20.03.17
Guo ji Jiang	10,000	—	10,000	—	**	21.03.08	20.03.17
Shuang qiang Yuan	30,000	—	30,000	—	**	21.03.08	20.03.17
Jian Guo	30,000	—	30,000	—	**	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

## China Evoline Plc

imposed on any of the above share options and no consideration was payable for their award. Following the share capital reorganisation on 21 April 2009, the number of shares subject to each option was divided by 500, and the exercise price was multiplied by 500.

The share options above marked \* were surrendered during the year ended 30 June 2009 for nil consideration. Share options marked \*\* relate to former employees who have left the Company, but who retained the right to exercise for a period of six months following departure. Accordingly, these options lapsed on 14 May 2009. Share options marked \*\*\* relate to C Huang, whose options expired on 21 July 2009, and to Dr Yi Xie, whose options expired on 18 February 2009.

The market price of the Company's ordinary shares of 1p at 30 June 2009 was 21.5p; the range (following the capital reorganisation on 21 April 2009) was 21p to 60p.

### Related party transactions

Details of related party transactions are given in Note 28 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.

Although the Group does not currently have multi-national operations, it is the Board's intention to acquire or develop such an operation, which could expose it to certain financial risks.

The most significant risk would be likely to occur upon translation of the foreign operation's results into sterling upon consolidation. It would be likely that almost 100% of foreign revenues and the bulk of operating costs would be incurred in a local currency. Group companies have not to date engaged in foreign exchange risk hedges, although the Board would keep this matter under close review.

Prudent liquidity risk management in the context of the Group would imply maintaining sufficient cash balances or marketable securities in the necessary currencies to be able to pay creditors as and when they fall due.

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

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 2009 were equivalent to 23 days' purchases based on the average daily amount invoiced by the suppliers during the year ended on that date.

### Substantial shareholdings

At 5 November 2009, the Directors had been notified of, 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
Staybest Limited	228,855	73.77%
Pan Europe Capital Limited	25,500	8.22%
Albany Capital plc	10,880	3.51%

### Share capital

Details of changes to the Company's share capital during the year are set out in the Operating Review and in Note 20 to the financial statements.

## **China Evoline Plc**

### **Employees**

The Company currently has no employees other than the Directors.

The Company believes that the commitment and ability of its employees will be key factors in achieving the Group's objectives. We will 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 believes in supporting and aiding employee welfare as well as personal and career development.

Our communications aim will be 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 (2008: 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.

### **Events after the Balance Sheet date**

Since 30 June 2009, Staybest Limited (the "Lender") has agreed to make available to the Company an unsecured loan of £160,000 (the "Loan") in order to provide additional working capital. The Loan is irrevocably available for drawdown in two tranches, as to £80,000 within two weeks of the date of the Loan Letter and as to £80,000 during a two week period commencing six months after the date of the Loan Letter. The loan is repayable 16 months after the date of the Loan Letter, and bears interest at 2.5 per cent per annum which is payable on final repayment of the loan.

If at any time the Company makes an offer by way of rights of new ordinary shares to its existing shareholders, at a time when the Lender is the holder of Ordinary Shares of the Company, the Lender may require that all or any part of the principal amount of the Loan is to be applied in paying up the amount to be subscribed by the Lender for any Ordinary Shares for which the Lender accepts the offer made by the Company, at the subscription price and otherwise on the terms of that offer.

### **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 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 in respect of their own holdings.

By order of the Board  
J P Gorman FCA  
Company Secretary  
30 November 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.

As explained below, neither the Audit Committee nor the Remuneration Committee has met in the year ended 30 June 2009.

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 period 1 July 2008 until the resignations of C.Huang and Dr. Yi Xie in December 2008, the Board comprised three Executive Directors (Charles Huang, Mark Syropoulo and Michael Liu) and two Non-executive Directors (Frank Lewis and Dr Yi Xie). On 21 April 2009, Xuedong Lou, Jian Xin and Yumao Zheng were appointed as additional Non-executive Directors, and Mark Syropoulo and Michael Liu remained as Directors but in a non-executive capacity.

The Board expects further appointments to be made to the Board following the completion of an acquisition.

The Board meets on average at least eight times per annum 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

During the year, the Audit Committee comprised Frank Lewis (Committee Chairman) and Dr Yi Xie (resigned 18 December 2008). The Board expects further appointments to be made to the Audit Committee following the successful completion of an acquisition.



## **China Evoline Plc**

Following the resignation of Dr Yi Xie, Frank Lewis became the only member of the Audit Committee, which did not meet during the year ended 30 June 2009.

Meetings of the Audit Committee are expected to be held on average twice a year.

The Committee will provide a forum for reporting by the Group's external auditors. It will also be 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**

During the year, the Remuneration Committee comprised Frank Lewis (Committee Chairman) and Dr Yi Xie (resigned 18 December 2008). Following the resignation of Dr Yi Xie, Frank Lewis became the only member of the Remuneration Committee, which did not meet during the year ended 30 June 2009. The Board expects further appointments to be made to the Remuneration Committee following the completion of an acquisition.

The Committee will be 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 will determine 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. There is a comprehensive budgeting system and monthly management accounts are prepared which compare actual results against the budget. They are reviewed and approved by the Board, and revised forecasts are 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 chairman of the Audit and Remuneration Committees normally attends the Annual General Meeting and will answer questions which may be relevant to his 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 Committee Chairman 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.

No committee member 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 2009 is shown below:

	2009 £	2008 £
Aggregate emoluments of Executive Directors	16,000	220,000
Pension contributions	–	–
Payments to Non-executive Directors	<u>54,516</u>	<u>47,750</u>
Total Directors' remuneration	<u>70,516</u>	<u>267,750</u>

The elements of remuneration received by each Director in respect of the year ended 30 June 2009 were as follows:

	Fees and salaries £	Other Benefits £	Pension £	Performance Related Bonus £	2009 Total £	2008 Total £
C Huang (i)	16,000	–	–	–	16,000	100,000
<b>Non-executive Directors</b>						
F Lewis	32,517	–	–	–	32,517	37,750
Dr Yi Xie (ii)	1,667	–	–	–	1,667	10,000
M Syropoulo (iii)	10,166	–	–	–	10,166	60,000
M Liu (iii)	10,166	–	–	–	10,166	60,000
Yumao Zheng (iv)	–	–	–	–	–	N/A
Jian Xin (iv)	–	–	–	–	–	N/A
Xuedong Lou (iv)	–	–	–	–	–	N/A
	<u>70,516</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>70,516</u>	<u>267,750</u>

(i) Appointed 21 March 2007; contract terminated 22 December 2008

(ii) Appointed 21 March 2007; contract terminated 18 December 2008

(iii) Executive Directors up to 21 April 2009

(iv) Appointed 21 April 2009

## **China Evoline Plc**

### **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.

### **Terms of Appointment**

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

Frank Lewis is engaged as a Non-executive Director under a Letter of Appointment dated 13 February 2007 which provides for remuneration of £30,000 p.a. and a notice period of three months. Due to the limited resources available to the Company, Frank Lewis agreed that with effect from the AGM held on 21 April 2009, his annual remuneration in respect of services to the Company would be reduced to £25,000 per annum until the first reverse takeover by the Company.

It is intended that the Non-executive Directors, Mark Syropoulo, Michael Liu, Xuedong Lou, Jian Xin and Yumao Zheng will each be paid a minimal annual remuneration of £5,000 per annum on 21 April 2010, being the anniversary of their appointment as Non-executive Directors, until the first reverse takeover by the Company, payable in Ordinary shares of 1p at a subscription price of 23 pence per Ordinary share, or in cash at their individual discretion and subject to the availability of cash in the Company at the time payment is to be made.

It is proposed that all Directors' remuneration will be reconsidered following the first reverse takeover of the Company.

### **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**

The following Executive Directors' Service Contracts subsisted during part of the year ended 30 June 2009.

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 was 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 was 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 was £60,000 per annum. Mr. Syropoulo was not entitled to any other benefits, save that he was eligible to acquire shares in the Company in accordance with the Option Plan and the Company would provide access to a stakeholder pension scheme. No salary has been paid to Mark Syropoulo since 31 August 2008, and he has waived all claims to arrears of salary.

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 was employed part-time as the International Development Director of the Company. The service agreement

## **China Evoline Plc**

was terminable by either party on 6 months' written notice and Mr. Liu's salary was £60,000 per annum. Mr. Liu was not entitled to any other benefits, save that he was eligible to acquire shares in the Company in accordance with the Option Plan and the Company would provide access to a stakeholder pension scheme. No salary has been paid to Michael Liu since 31 August 2008, and he has waived all claims to arrears of salary.

### **Directors' pension arrangements**

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

No contributions have been made in respect of any such scheme in the year ended 30 June 2009 or 2008.

### **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

30 November 2009

## Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have elected to prepare the parent company accounts in accordance with UK Generally Accepted Accounting Practice. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company'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 company'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 China Evoline Plc

We have audited the financial statements of China Evoline plc for the year ended 30 June 2009 which comprise the Consolidated Income Statement and the Company Profit and Loss Account, the Consolidated Statement of Changes in Equity, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Qualified opinion on financial statements arising from limitation in audit scope

With respect to the consolidated opening balances, the audit evidence available to us was limited because the directors no longer had access to the assets or accounting records of the subsidiary Shenzhen Zhong Tian Communication Equipments Co. Limited, and therefore the evidence available to us in respect to the ownership and existence of these assets and the impairments made against them in the prior year financial statements was limited. In particular, we were 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 as at 30 June 2008. Therefore we were unable to obtain satisfactory and appropriate evidence that the consolidated opening balances for the year ended 30 June 2009 do not contain material misstatements that materially affect the financial statements. Any misstatement of these opening balances would affect the current year group income statement.

With respect to the current year group income statement, owing to the circumstances set out above, we have been unable to obtain satisfactory and appropriate evidence that the profit on disposal of Praise Ease does not contain misstatements that materially affect the current year's financial statements.

In addition, owing to the fact that the directors continued to have no access to the accounting records of the subsidiary Shenzhen Zhong Tian Communication Equipments Co. Limited during this financial period, the evidence available to us in respect of the trading activity included within the consolidated income statement was limited. Therefore we were unable to obtain satisfactory and appropriate evidence that the consolidated income statement for the current year does not contain material misstatements.

## **China Evoline Plc**

Except for the financial effect on the group income statement 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 and trading activity of the subsidiary Shenzhen Zhong Tian Communication Equipments Co. Limited during the current financial year, in our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2009 and of the group's and the parent company's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the group and parent company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Emphasis of matter – going concern**

In forming our opinion on the financial statements of China Evoline 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.

Subsequent to the year end, as set out in Note 29 Post Balance Sheet events, the majority shareholder has irrevocably committed to lend the company an additional £160,000 (with the first tranche of £80,000 having been drawn upon subsequent to the year end). Having prepared the cash flow forecasts to December 2010 the directors are of the opinion that this will provide the company with sufficient working capital in order to finance the company for 12 months irrespective of whether a new investment in a new acquisition is made by the company.

A critical element to the change in strategy as set out in the Operating Review on page 6 is securing a substantial acquisition. In the event no substantial acquisition is made by 21 April 2010, being 12 months from 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.

In the event that the London Stock Exchange were to cancel the admission of the Company's shares, it is not certain that the majority shareholder will continue to provide financial support to the Company's ongoing activities, and it is likely that any other sources of financing would be further restricted. Therefore, although the company has sufficient funds to continue for 12 months, it is uncertain that the company will be able to continue as a going concern after 12 months in the event of failing to make an acquisition in a new investment or secure further additional finance.

Additionally, if the Company successfully identifies a suitable investment opportunity, the ability of the Company to continue as a going concern will depend on being able to raise the necessary finance in order to fund the appropriate due diligence and purchase price consideration, and being able to successfully integrate the target into the Group so as to generate cash in the future.

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.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

In respect solely of the limitation of scope referred to above:

## China Evoline Plc

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made.

Kevin Cook (senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
Epsom,  
United Kingdom



30 November 2009

BDO LLP is a limited liability partnership registered in England and Wales  
(with registered number OC305127).



**China Evoline Plc**

**Consolidated Income Statement  
for the year ended 30 June 2009**

	Note	2009 £'000	2008 £'000
<b>Continuing Activities</b>			
Other administrative expenses		(526)	(631)
<b>Operating loss</b>		<b>(526)</b>	<b>(631)</b>
Finance income	6	5	38
Finance costs	7	(4)	(1)
<b>Loss before tax</b>		<b>(525)</b>	<b>(594)</b>
Tax		-	(11)
<b>Loss from continuing activities</b>		<b>(525)</b>	<b>(594)</b>
<b>Discontinued activities</b>			
Revenue	4	1,667	26,532
Cost of sales		(1,321)	(20,990)
<b>Gross Profit</b>		<b>346</b>	<b>5,542</b>
Other operating income	5	-	445
Other administrative expenses		(120)	(833)
Distribution costs		(84)	(1,828)
Other operating expenses		(2)	(219)
<b>Operating profit/(loss)</b>		<b>140</b>	<b>3,107</b>
Finance income	6	-	32
Pre-tax gain on disposal of discontinued operation		10,944	-
Finance costs	7	(35)	(130)
Impairment of assets in subsidiary	3	-	(18,996)
<b>Profit/(loss) before tax</b>		<b>11,049</b>	<b>(15,987)</b>
Tax	9	(8)	(251)
<b>Profit/(loss) from discontinued activities</b>		<b>11,041</b>	<b>(16,238)</b>
<b>Profit/(loss) for the year</b>		<b>10,516</b>	<b>(16,832)</b>
<b>Attributable to:</b>			
Owners of the parent			
Loss for the year from continuing operations		(525)	(594)
Profit/(loss) for the year from discontinued operations		11,041	(16,238)
Profit/(loss) for the year attributable to owners of the parent		10,516	(16,832)
<b>Earnings per share</b>	10		
From continuing and discontinued operations			
Basic earnings/(loss) per share		£44.67	(£82.84)
Diluted earnings/(loss) per share		£7.16	(£82.84)
From continuing operations			
Basic earnings/(loss) per share		(£2.23)	(£2.92)
Diluted earnings/(loss) per share		(£0.36)	(£2.92)

The notes on pages 29 to 53 form part of these financial statements

# China Evoline Plc

## Consolidated Statement of Changes in Equity

	Share capital	Reverse acquisition reserve	Share premium reserve	Merger reserve	Translation reserve	General reserve	Capital contribution reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2007	9,368	(12,583)	6,377	766	(96)	427	-	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 consideration shares (see note 20)	1,500	(1,987)	487	-	-	-	-	-	-
Issue of share capital by subsidiary(see note 24)	-	-	-	-	-	-	448	-	448
Transfer of loss from general reserve	-	-	-	-	-	(427)	-	427	-
Recognition of share based payments	-	-	-	-	-	-	-	172	172
At 1 July 2008	10,868	(14,570)	6,864	766	492	-	448	(12,738)	(7,870)

	Share capital	Reverse acquisition reserve	Share premium reserve	Merger reserve	Option premium on convertible loan	Translation reserve	Capital contribution reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2008	10,868	(14,570)	6,864	766	-	492	448	(12,738)	(7,870)
Foreign currency translation	-	-	-	-	-	56	-	-	56
Net income recognised directly in equity	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	-	10,516	10,516
Total recognised income and expense for the period	10,868	(14,570)	6,864	766	-	548	448	(2,222)	2,702
Issue of share capital (see note 20)	2	-	21	-	-	-	-	-	23
Arising on issue of convertible loan	-	-	-	-	26	-	-	-	26
Disposal of subsidiary	-	14,570	-	(766)	-	(548)	(448)	(15,765)	(2,957)
At 30 June 2009	10,870	-	6,885	-	26	-	-	(17,987)	(206)

## Consolidated Statement of Changes in Equity

### Share capital account

Share capital records the nominal value of shares in issue.

### Reverse acquisition reserve (*see note below*)

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 (*see note below*)

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

### Merger reserve (*see note below*)

The merger reserve arose as a result of the acquisition by the Group's former 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.

### Option premium on convertible loan

Amount of proceeds on issue of convertible loan relating to the equity component (i.e., option to convert the loan into share capital).

### 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. This reserve has been transferred to the income statement as part of the gain received on the disposal of the Company's subsidiaries.

### Capital contribution reserve (*see note below*)

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.

### Note:

The reverse acquisition reserve, the merger reserve, the non-distributable reserve and the capital contribution reserve have been transferred to retained earnings following the disposal of the company's subsidiaries during the year ended 30 June 2009.

The notes on pages 29 to 53 form part of these financial statements.

# China Evoline Plc

## Consolidated Balance Sheet

	Note	2009 £'000	2008 £'000
<b>Non-current assets</b>			
Property, plant and equipment	12	-	90
<b>Total non-current assets</b>		<u>-</u>	<u>90</u>
<b>Current assets</b>			
Inventories	13	-	-
Trade and other receivables	14	15	2,919
Cash and cash equivalents	15	127	1,962
<b>Total current assets</b>		<u>142</u>	<u>4,881</u>
<b>Total assets</b>		<u>142</u>	<u>4,971</u>
<b>Current liabilities</b>			
Trade and other payables	16	(112)	(6,977)
Interest bearing liabilities	17	-	(2,877)
Current tax liabilities		-	(2,987)
<b>Total current liabilities</b>		<u>(112)</u>	<u>(12,841)</u>
<b>Non-current liabilities</b>			
Interest bearing liabilities	18	(236)	-
<b>Total non-current liabilities</b>		<u>(236)</u>	<u>-</u>
<b>Total liabilities</b>		<u>(348)</u>	<u>(12,841)</u>
<b>Net liabilities</b>		<u>(206)</u>	<u>(7,870)</u>
<b>Equity</b>			
Share capital	20	10,870	10,868
Reverse acquisition reserve		-	(14,570)
Share premium reserve	21	6,885	6,864
Merger reserve		-	766
Capital contribution reserve	24	-	448
Translation reserve	22	-	492
Option premium on convertible loan		26	-
Retained earnings	25	(17,987)	(12,738)
<b>Total equity</b>		<u>(206)</u>	<u>(7,870)</u>

These financial statements were approved by the Board of Directors and authorised for issue on 30 November 2009

Signed on behalf of the Board of Directors



The notes on pages 29 to 53 form part of these financial statements.

**China Evoline Plc**

**Consolidated Cash Flow Statement**

	Note	2009 £'000	2008 £'000
<b>Cash flows from operations</b>			
Net cash inflow/(outflow) from operations	26	(2,086)	(734)
Tax refunded		-	1
<b>Net cash inflow/(outflow) from operating activities</b>		<u>(2,086)</u>	<u>(733)</u>
<b>Investing activities</b>			
Interest received		5	37
Purchase of property, plant and equipment		-	(26)
<b>Net cash generated investing activities</b>		<u>5</u>	<u>11</u>
<b>Financing activities</b>			
Issue of share capital		23	-
Interest paid		(36)	-
Issue of convertible loan		259	-
<b>Net increase in cash from financing activities</b>		<u>246</u>	<u>-</u>
Net (decrease)/increase in cash and cash equivalents		(1,835)	(722)
Cash and cash equivalents at beginning of year		1,962	2,499
Exchange gains on cash and cash equivalents		-	185
<b>Cash and cash equivalents at end of year</b>	15	<u>127</u>	<u>1,962</u>

The notes on pages 29 to 53 form part of these financial statements.

## Notes to the 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 2006 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.

#### ***Basis of preparation – going concern***

Zhong Tian, the main trading entity in the Group was unable to continue trading during the year ended 30 June 2009. This was 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 was no longer appropriate. The effect was so pervasive that a fundamental change in the basis of accounting to a break-up basis was adopted for Zhong Tian in the financial statements for the year ended 30 June 2008, and its asset values were written down accordingly, in accordance with IAS 10 paragraphs 14-16. Where necessary in order to value the assets and liabilities in Zhong Tian, the Directors 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 was not available. Further detail on the revaluation of the asset values in Zhong Tian at 30 June 2008 can be found in the comparative amounts set out in notes 2, 3 and 33 to these financial statements. In addition, in the parent company, the investment and intercompany receivables were written down to zero value at 30 June 2008 to reflect the non-recoverability of these assets. A total charge of £18,066,000 was reflected in the financial statements of the parent company for the year ended 30 June 2008 in respect of these write-downs.

Following approval by shareholders at the AGM on 21 April 2009, Praise Ease, together with its wholly owned subsidiary Zhong Tian, were disposed off for HKD1 on that date.

Subsequent to the year end, as set out in Note 29 Post Balance Sheet events, the majority shareholder has irrevocably committed to lend the Company an additional £160,000 (with the first tranche of £80,000 having been drawn upon subsequent to the year end). Having prepared the cash flow forecasts to December 2010 the Directors are of the opinion that this will provide the Company with sufficient working capital in order to finance the Company for 12 months irrespective of whether a new investment in a new acquisition is made by the Company.

A critical element to the change in strategy as set out in the Operating Review on page 6 is securing a substantial acquisition. In the event no substantial acquisition is made by 21 April 2010, being 12 months from 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.

In the event that the London Stock Exchange were to cancel the admission of the Company's shares, it is not certain that the majority shareholder will continue to provide financial support to the Company's ongoing activities, and it is likely that any other sources of financing would be further restricted. Therefore, although the Company has sufficient funds to continue for 12 months, it is uncertain that the Company will continue as a going concern after 12 months in the event of failing to complete an acquisition of a new investment or securing additional finance.

If the Company successfully identifies a suitable investment opportunity, the ability of the Company to continue as a going concern will depend on being able to raise the necessary finance in order to fund the appropriate due diligence and purchase price consideration, and being able to successfully integrate the target into the Group so as to generate cash in the future.

If the Company fails to secure a new investment opportunity and fails to secure any additional finance, the Company will be unable to continue as a going concern as it will have insufficient funds to trade after 12 months. The ability of the Company to continue as a going concern will therefore depend on further continued financial support of the majority shareholder.

Despite the above material uncertainties, the Directors consider that China Evoline plc is a going concern and the accounts of the parent entity have been prepared on a going concern basis. The Directors consider this appropriate based on the refinancing of the Company which was approved by shareholders on 21 April 2009, the additional loan finance secured subsequent to the balance sheet date and on the assumption that the revised investment strategy will be successfully implemented by October 2010. As at the date of these accounts the Directors are

## Notes to the Financial Statements (Continued)

pursuing a number of potential investment opportunities which they believe will result in a successful acquisition being completed by October 2010.

The above conditions represent a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

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 2009)
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 Amendment – clarification of the requirements of IFRSs and elimination of inconsistencies between to IFRSs Standards (effective for periods beginning on or after 1 January 2009)

## China Evoline Plc

### International Financial Reporting Interpretations Committee (IFRIC) Effective Date

IFRS 2*	Amendment – Group cash settled share-based payment transactions (effective for periods beginning on or after 1 January 2010)
IFRS1*	Amendment – Additional exemptions for First time Adopters (effective for periods beginning on or after 1 January 2010)
IFRS32*	Amendment – Classification of Rights Issues (effective for periods beginning on or after 1 February 2010)
IAS 24*	Revision – Related Party Disclosures (effective for periods beginning on or after 1 January 2010)
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 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.

### **Basis of consolidation**

These accounts for China Evoline incorporate the consolidated financial statements of China Evoline plc, Praise Ease ("Praise Ease") and Shenzhen Zhong Tian Communication Equipments Co., Ltd ("Zhong Tian") for the year ended 30 June 2009. Following approval by shareholders at the AGM on 21 April 2009, Praise Ease, together with its wholly owned subsidiary Zhong Tian, were disposed off for HKD1 on that date.

Praise Ease and Zhong Tian were acquired by ZTC in March 2007 and, due to the relative size of the acquisition, the Praise Ease 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 acquisition of Zhong Tian was effected using merger accounting.

### **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.



## Notes to the Financial Statements (Continued)

### **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.

## China Evoline Plc

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 Company operates to be pounds sterling.

During the period of ownership of Praise Ease and its subsidiary, Zhong Tian, the Directors determined the currency of the primary economic environment in which these companies operated to be Renminbi ("RMB"). Sales and major costs of providing goods and services including major operating expenses were primarily influenced by fluctuations in RMB. The presentation currency of the Group is pounds sterling and therefore 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 2009	11.3302	11.8236
30 June 2008	13.7121	14.6189

### **Convertible debt**

The fair value received on issue of the group's convertible debt are allocated into their liability and equity components and presented separately in the balance sheet.

The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that did not include an option to convert.

The difference between the net fair value of the convertible debt and the amount allocated to the debt component is credited direct to equity and is not subsequently remeasured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate.

Transaction costs that relate to the issue of the instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of fair value.

### **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, and consolidation of, Zhong Tian**

In preparing the financial statements for the year ended 30 June 2008, the Directors 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 in some cases used their judgement as to how much would be received. The primary basis for the valuations was 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 had been received in respect of the assets, these assets were deemed to have zero value, with the exception of cash and cash equivalents, which were deemed to maintain their full book value. A precise valuation of those assets and liabilities was not available. Of the cash held at 30 June 2008, £1.2m of this was restricted in its use and was used to repay the outstanding loan notes. All adjustments arising from the valuations at 30 June 2008 were accounted for in the financial statements for the year ended 30 June 2008.

In preparing the financial statements for the year ended 30 June 2009, and as explained in the Chairman's Statement on page 3, due to the sealing of the Group's factory in Shenzhen, China, and the sequestering of the Group's assets by the People's Court in Longgang, China, the Directors have not had access to the financial information with regards to the trading of its subsidiaries since 31 August 2008, and no trading information since that date is available to be included within the financial statements. The information contained within these consolidated

## Notes to the Financial Statements (Continued)

financial statements has therefore been based on the unaudited management information for the first two months of the financial year ended 30 June 2009. No other information is available for the period 1 September 2008 up to and including 21 April 2009, being the date of disposal of the subsidiaries.

The Directors have assumed that, following the sealing of the Group's factory, the assets were disposed of for their written down value and the proceeds were utilised in the partial repayment of creditors. The cash balance was treated as irrecoverable as the parent company no longer had access to these funds. The creditors remaining unpaid at that date have all been written back as part of the gain on disposal of discontinued operation and included in the Consolidated Income Statement for the year ended 30 June 2009.

### Provisions

In preparing the financial statements for the year ended 30 June 2008, and 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. DISCONTINUED OPERATIONS

After due investigations, and taking into account the limited resources of the Company, the Directors concluded that the Company's operation in China would be unable to resume trading and, as such, the ability to realise any net assets for the benefit of shareholders would be extremely difficult and not cost-effective. Given the potentially long recovery procedures and the Company's limited resources, the Directors concluded that the subsidiaries of the Company had negligible or no recoverable value.

Following approval by shareholders at the Annual General Meeting held on 21 April 2009, the investment in Praise Ease and its subsidiary, Zhong Tian, was sold for a nominal consideration.

The post-tax loss on discontinued operations was determined as follows:

	£'000
Consideration received	-
Net assets disposed (excluding cash):	
Trade and other payables	7,401
Other financial liabilities	2,995
Translation reserve	548
	<u>10,944</u>
Pre-tax gain on disposal of discontinued operation	
The net cash inflow comprised:	
Cash received	-
Bank overdraft disposed of	-
	<u>10,944</u>

The cash flow statement includes the following amounts relating to discontinued operations:

	2009	2008
	£'000	£'000
Operating activities	1,296	(575)
Investing activities	-	(27)
Financing activities	(2,913)	1,134
Net cash from/(used in) discontinued operations	<u>(1,617)</u>	<u>532</u>

## China Evoline Plc

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group during the year operated 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 (discontinued operations)		Unallocated (continuing operations)		Total	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Revenue	1,667	26,532	-	-	1,667	26,532
Segment result	140	(16,334)	(526)	(631)	(386)	(16,965)
Other operating income					-	445
Finance income					5	70
Finance costs					(39)	(131)
Loss before tax					(420)	(16,581)
Tax					(8)	(251)
Loss after tax					(428)	(16,832)
Other information						
Capital expenditure	-	26	-	-	-	26
Depreciation	-	155	-	-	-	155
Balance sheet						
Segment assets	-	4,590	142	381	142	4,971
Total assets					142	4,971
Segment liabilities	-	(9,423)	(348)	(431)	(348)	(9,854)
Current tax liabilities					-	(2,987)
Total liabilities					(348)	(12,841)

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

### 5. OTHER OPERATING INCOME

	2009 £'000	2008 £'000
Sales of components	-	215
Processing	-	45
Provision of value added services	-	105
Other	-	80
	<u>-</u>	<u>445</u>

### 6. FINANCE INCOME

	2009 £'000	2008 £'000
Bank interest receivable	<u>5</u>	<u>70</u>

### 7. FINANCE COSTS

	2009 £'000	2008 £'000
Interest charge on interest bearing liabilities	<u>39</u>	<u>131</u>
Total finance costs	<u>39</u>	<u>131</u>

## Notes to the Financial Statements (Continued)

## 8. LOSS FOR THE FINANCIAL YEAR

	2009 £'000	2008 £'000
Loss for the financial year is arrived at after charging:		
Depreciation on owned assets	-	155
Auditors' remuneration for audit services (including VAT)	17	90
Operating lease payments	-	88
Impairment of assets in Zhong Tian to "break-up" basis	-	18,996
	<u>-</u>	<u>19,229</u>

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

	2009 £'000	2008 £'000
Fees payable to the auditors for the audit of the Company's annual accounts	15	53
Fees payable to the auditors for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	-	37
Other taxation services	6	8
Other services supplied pursuant to legislation	37	7
Other services	2	2
	<u>45</u>	<u>54</u>

## 9. TAX

	2009 £'000	2008 £'000
Current tax		
Tax on overseas subsidiaries:		
- UK corporation tax payable	-	-
- Overseas tax payable	8	251
Total current tax	8	251
Deferred tax	-	-
Total tax expense	<u>8</u>	<u>251</u>

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

	2009 £'000	2008 £'000
Profit/(loss) before tax	10,524	(16,837)
Tax at the UK corporation tax rate of 28% (year ended 30 June 2008: 30%)	2,947	(5,051)
Tax losses carried forward	111	162
Disallowable expenditure	36	78
Asset impairments not claimed as tax reduction	-	5,699
Allowance for lower overseas taxation rates	(22)	(638)
Gain on disposal of subsidiaries not subject to tax	(3,064)	-
Other adjustments	-	1
Total tax expense	<u>8</u>	<u>251</u>

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

## China Evoline Plc

### **China Evoline Plc**

The Company is subject to the United Kingdom corporation tax regime. Gross tax losses of approximately £1,068,000 (2008: £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**

This former subsidiary company was subject to the corporation tax regime in Hong Kong. As the company made a loss during the year ended 30 June 2008, no taxation was payable.

### **Shenzhen Zhong Tian Communication Equipments Co. Ltd ("ZTC")**

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

ZTC was former a subsidiary of Praise Ease Limited and was located in Shenzhen, a special economic zone, which made 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 was implemented from 1 January 2008, and the standard tax rate decreased to 25%. As a wholly owned foreign entity, the Company then benefited from a 5 year transitional period under which the previous tax holiday was covered.

The company benefited 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 was due to be confirmed by the local tax bureau at the end of year.

Current tax expenses of ZTC for the financial years 2008 and 2009 represented PRC EIT calculated at the approved income tax rate 15% on the assessable income.

## **10. EARNINGS PER SHARE**

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

Earning	Continuing operations 2009 £'000	Discontinuing operations 2009 £'000	Total 2009 £'000	Continuing operations 2008 £'000	Discontinuing operations 2008 £'000	Total 2008 £'000
(Loss)/earnings for the purpose of basic and diluted earnings per share	(525)	11,041	10,516	(594)	(16,238)	(16,832)
<b>Number of shares</b>	<b>Thousands</b>	<b>Thousands</b>	<b>Thousands</b>	<b>Thousands</b>	<b>Thousands</b>	<b>Thousands</b>
Weighted average number of ordinary shares for the purpose of basic earnings per share	235	235	235	203	203	203
Effect of dilutive potential ordinary shares:						
Convertible Loan Note	1,125	-	1,125	-	-	-
Directors' remuneration	108	-	108	-	-	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,468	235	1,468	203	203	203

The denominators for the purposes of calculating both basic and diluted earnings per share in 2008 have been adjusted for the share consolidation that took place in 2009.

## Notes to the Financial Statements (Continued)

## 11a. STAFF COSTS

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

	2009 Number	2008 Number
Manufacturing	293	293
Sales	31	31
Administration	129	130
	<u>453</u>	<u>454</u>

The costs incurred in respect of these employees were:

	2009 £'000	2008 £'000
Wages and salaries	195	749
Share based payments (see note 23)	-	172
Social security costs	20	101
	<u>215</u>	<u>1,022</u>

## 11b. DIRECTORS' REMUNERATION

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

	2009 £'000	2008 £'000
Directors' emoluments	71	268
Share based payments	<u>-</u>	<u>72</u>

The highest paid director received remuneration of £32,517 (2008: £100,000). Further details of Directors' remuneration are set out in the Report of the Remuneration Committee on page 17.

## 12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvement £'000	Office equipment £'000	Machinery £'000	Motor vehicles £'000	Fixtures fittings and equipment £'000	Total £'000
At 1 July 2007	9	17	668	109	41	844
Additions	-	-	11	6	9	26
Exchange difference	1	-	77	13	5	96
Revaluation of assets to break-up basis	(10)	(17)	(666)	(128)	(55)	(876)
At 1 July 2008	-	-	90	-	-	90
Disposals	-	-	(90)	-	-	(90)
At 30 June 2009	-	-	-	-	-	-
Depreciation						
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
Revaluation of assets to break-up basis	(6)	(5)	(402)	(32)	(25)	(470)
At 1 July 2008 and at 30 June 2009	-	-	-	-	-	-
Net book value						
At 30 June 2008	-	-	90	-	-	90
At 30 June 2009	-	-	-	-	-	-

## China Evoline Plc

### 13. INVENTORIES

	2009 £'000	2008 £'000
Raw materials	-	1,164
Finished goods	-	5
Work in progress	-	88
Provision	-	(2)
Revaluation of assets to break-up value (note 3)	-	(1,255)
	<u>-</u>	<u>-</u>

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

### 14. TRADE AND OTHER RECEIVABLES

	2009 £'000	2008 £'000
Due within one year:		
Amounts receivable for the sale of goods	-	12,017
Other receivables	-	1,053
Prepayments and accrued income	15	7,184
Revaluation of assets to break-up value	-	(17,335)
	<u>15</u>	<u>2,919</u>

#### *Trade receivables*

Following the disposal of Praise Ease and its operating subsidiary, Zhong Tian, there are no trade receivables at 30 June 2009. Total net trade receivables (net of allowances) held by the Group at 30 June 2009 amounted to £nil (2008: £2,919,000)

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

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

### 15. CASH AND CASH EQUIVALENTS

	2009 £'000	2008 £'000
Cash and cash equivalents per balance sheet	127	1,962
Cash and cash equivalents per cash flow statement	<u>127</u>	<u>1,962</u>

All of the Group's cash and cash equivalents at 30 June 2009 are at floating interest rates.

The Group's cash and cash equivalents at 30 June 2009 are held in the relevant underlying currencies. Notable holdings not held in sterling are £nil (2008: £4,627) held in \$HK and £nil (2008: £1,469,502) held in Chinese RMB. An amount of £127,000 (2008: £345,739) is held in the UK with National Westminster Bank plc.

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

### 16. TRADE AND OTHER PAYABLES

	2009 £'000	2008 £'000
Trade payables	33	4,377
Other payables	-	1,169
Accruals and deferred income	79	1,431
	<u>112</u>	<u>6,977</u>

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 23 days (2008: 76 days).

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



## Notes to the Financial Statements (Continued)

## 17. CURRENT INTEREST BEARING LIABILITIES

	2009 £'000	2008 £'000
Amounts owed to related parties	-	1,743
Other interest bearing liabilities	-	1,134
Cash and cash equivalents per cash flow statement	-	2,877

## 18. NON CURRENT INTEREST BEARING LIABILITIES

Amounts owed to related parties at 30 June 2008 represented amounts owing to a Director of China Evoline Plc and a relative of the same Director, and were interest bearing and were repayable within one year.

Other interest bearing liabilities at 30 June 2008 related 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 were linked to a pledged deposit certificate with Bank of China upon which a fixed interest rate of 3.87% was earned. This amount was included in cash and cash equivalents and was to be used to repay the import finance liabilities as they fell due.

	2009 £'000	2008 £'000
Convertible Loan Note	236	-
	236	-

**Convertible Loan Note – Related Party**

Under the terms of the Investment Agreement, Wellhigh has advanced to the Company the principal amount of £258,636 and the Company has issued to Wellhigh a Convertible Loan Note. The Convertible Loan Note will carry interest at a rate of 2.5 per cent. per annum (only payable if the Convertible Loan Note is not converted), is unsecured and will be repayable 24 months after 21 April 2009, being the date of issue, unless prior to that time the Company successfully concludes a reverse takeover in accordance with the AIM Rules, in which case the Convertible Loan Note will be subject to compulsory conversion into an aggregate amount of 1,124,506 New Ordinary Shares at the exercise price of 23 pence per share.

In addition, the Convertible Loan Note holder shall have the right to convert any amount of the convertible principal amount of the Convertible Loan Note at any time within two years from the date of issue of the Convertible Loan Note into the relevant number of New Ordinary Shares and at the exercise price set out above.

The value of the liability component and the equity conversion component of the Convertible Loan has been determined at the date the instrument was issued. The fair value of the liability component, included in non-current borrowings, at inception was calculated using a market interest rate for an equivalent instrument without conversion option. The discount rate applied was 8%. The residual amount is as follows:

	2009 £'000	2008 £'000
Face value of the convertible loan note issued on 21 April 2009	259	-
Less: Equity component	(26)	-
Liability component on initial recognition	233	-
Interest expense	3	-
Liability component at 30 June 2009	236	-

## 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
- convertible loan note

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 25.

### **Foreign currency risk**

Foreign currency risk may arise in future in relation to the consolidation process, as the Group's main trading entity may be based in China and presents its accounts in a currency other than sterling. The Company does not engage in foreign exchange risk hedges.

In the year ended 30 June 2008, foreign currency risk arose 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 were minimal and hence the risk was not considered to be significant.

Of the trade and other receivables balance, £2,888,708 was denominated in Chinese RMB. A 1% increase in the value of Chinese RMB against pounds sterling would have increased the value of trade and other receivables by £28,887.

Of the trade and other payables balance, £6,546,252 was denominated in Chinese RMB. A 1% increase in the value of Chinese RMB against pounds sterling would have increased 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 through continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities. Cash requirements are anticipated via the budgetary process.

The Group maintains good relationships with Staybest Limited and Wellhigh Limited, its principal investors. As set out in Note 18, during the year ended 30 June 2009, Wellhigh Limited subscribed for £258,636 Convertible Loan Notes in order to provide the Company with additional working capital. Since 30 June 2009, Staybest Limited has agreed to make available to the Company an additional unsecured loan of £160,000 (see Note 29).

## Notes to the Financial Statements (Continued)

### 19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

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

Maturity of financial liabilities

At 30 June 2009

	Repayable on demand £'000s	Due within 30 days £'000s	Due 30 – 90 days £'000s	Due after 90 days £'000s
Accruals	-	8	21	50
Trade and other payables	-	13	-	20
Interest bearing liabilities	-	-	-	259
<b>Total financial liabilities</b>	<b>-</b>	<b>21</b>	<b>21</b>	<b>329</b>

The weighted average interest charged on interest bearing liabilities is 2.5% (2008: 4.85%).

Financial instruments by class and by category

	Loans and Receivables	
	30 June 2009	30 June 2008
	£	£
<b>Current financial assets</b>		
Trade and other receivables	15	1,895
Cash and cash equivalents	127	1,962
<b>Total current financial assets</b>	<b>142</b>	<b>3,857</b>

The above financial assets analysis at 30 June 2008 excluded prepayments of £1,024,000 as these did not meet the definition of financial assets.

	Financial liabilities measured at amortised cost	
	30 June 2009	30 June 2008
	£	£
<b>Current financial assets</b>		
Accruals	79	93
Trade & other payables	33	6,884
Interest bearing liabilities	259	2,877
<b>Total current financial liabilities</b>	<b>371</b>	<b>9,854</b>

#### Credit risk

During the year ended 30 June 2009, until the disposal of Praise Ease Limited and its subsidiary ZTC, the Group was 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. It is the Group's policy to 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 15.

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

#### Interest risk

A 1% increase in LIBOR rates over the period would not have lead to a material increase in the amount of interest receivable on the Group's bank deposits.

## China Evoline Plc

There is no risk arising from fluctuations in interest rates in respect of non-current interest bearing liabilities, where the interest payable is fixed for the duration of the loan.

### 20. SHARE CAPITAL

	2009 £'000	2008 £'000
<b>Authorised:</b>		
3,359,620 Ordinary shares of 1p	34	-
359,620 Deferred shares of £49.99	17,977	-
200,000,000 ordinary shares of 10p each	-	20,000
	<u>18,011</u>	<u>20,000</u>
<b>Allotted, called up and fully paid:</b>		
310,265 Ordinary shares of 1p	3	-
217,380 Deferred shares of £49.99	10,867	-
108,682,515 ordinary shares of 10p each	-	10,868
	<u>10,870</u>	<u>10,868</u>

#### **Share Capital Reorganisation**

On 31 March 2009, Higher Performance Team Limited, a company beneficially owned by Michael Liu 80 per cent. Mark Syropoulo 10 per cent. and James Guo 10 per cent., subscribed for 4,990 Ordinary Shares of 10p and Frank Lewis subscribed for 2,494 Ordinary Shares of 10p in order to ensure that the number of Ordinary Shares of 10p in issue prior to the Share Capital Reorganisation was divisible by a factor of 10,000. Higher Performance Team Limited and Frank Lewis agreed to subscribe for those shares at a subscription price of 10 pence per Ordinary Share, despite the fact that they would be "lost" following the consolidation which was approved by shareholders on 21 April 2009.

On 21 April 2009, shareholders approved the following resolutions:

- i) To consolidate every 10,000 issued and unissued Existing Ordinary Shares into 1 ordinary share of £1,000 (each a "Consolidated Ordinary Share") so that holders of Existing Ordinary Shares will then hold one ordinary share of £1,000 for every 10,000 Existing Ordinary Shares (the "Consolidation"). Any holding of less than 1 Consolidated Ordinary Share was, following the Consolidation, aggregated and sold in the market for the benefit of the Company in accordance with the Articles of Association.
- ii) To initially increase the authorised share capital of the Company from £17,980,850 to £17,981,000 by the creation of 1,500 Existing Ordinary Shares.
- iii) To sub-divide and convert every issued and unissued Consolidated Ordinary Share into 20 ordinary shares of £50.00 each.
- iv) To sub-divide and convert every ordinary share of £50.00 each (both issued and unissued) following the Consolidation and the above sub-division be sub-divided and converted into 1 ordinary share of 1 pence and 1 deferred share of £49.99 each, credited as fully paid up

Accordingly, as a result, for each ordinary share of £50.00 held by Shareholders following the Consolidation and First Sub-Division, they will, following the Second Sub-Division, hold 1 ordinary share of 1 pence and 1 deferred share of £49.99 in the capital of the Company.

Under the terms of the Investment Agreement, Staybest subscribed on 21 April 2009 for 92,885 Ordinary shares of 1 pence at an issue price of 23 pence per share.

#### **Rights of Ordinary shareholders**

The Ordinary Shares of 1 pence created by the above resolutions have the same rights as those currently accruing to the Company's ordinary shares of 10 pence under the previous Articles of Association, including those relating to voting dividends and return of capital and the way in which Shareholders buy or sell ordinary shares will not be affected by the approval of the Share Capital Reorganisation.

#### **Rights of Deferred shareholders**

The deferred shares of £49.99 each have no rights as to dividends, voting or capital. The deferred shares are not listed or quoted on any recognised investment exchange and it is the Company's intent in due course to make arrangements for the cancellation of the deferred shares.

# Notes to the Financial Statements (Continued)

## 20. SHARE CAPITAL (Continued)

### *Issue of deferred consideration shares – year ended 30 June 2008*

As part of the acquisition of Praise Ease by China Evoline 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 15,000,000 ordinary shares of 10 pence were 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 were exercisable at the market value at the date of grant, being 20p per ordinary share of 10 pence and were exercisable between 1 and 10 years from the date of grant.

Following the share capital reorganisation on 21 April 2009, the number of shares subject to each option was divided by 500, and the exercise price was multiplied by 500. At 30 June 2009, there remained outstanding an option over 1,000 Ordinary shares of 1 pence, exercisable at £100 per share; this option lapsed on 21 July 2009. All remaining share options lapsed, or were surrendered, during the year ended 30 June 2009.

Further information on share options outstanding is provided in the Directors' Report on page 10.

### *Employee Warrants*

A total of 3,125,000 employee warrants over the Company's Ordinary shares of 10 pence were outstanding at 30 June 2008. These employee warrants were exercisable immediately, at the market price at the date of grant, being 20 pence. During the year ended 30 June 2009, holders of warrants over 2,812,500 Ordinary shares of 10 pence waived their rights to exercise.

Following the share capital reorganisation on 21 April 2009, the number of shares subject to each warrant was divided by 500, and the exercise price was multiplied by 500. Accordingly, at 30 June 2009 there remained outstanding employee warrants over 625 ordinary shares of 10 pence exercisable at £100 per share, at any time up until 31 March 2010,

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.

### *Blue Oar Securities plc ("Blue Oar")*

On 13 February 2007, the Company granted Blue Oar a warrant to subscribe for 2,810,475 Ordinary shares of 10 pence. This warrant was waived by Blue Oar on 18 March 2009.

## 21. SHARE PREMIUM RESERVE

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Opening balance	6,864	6,377	6,864	6,377
Issue of Ordinary shares	21	-	21	-
Issue of deferred consideration shares	-	487	-	487
Closing balance	<u>6,885</u>	<u>6,864</u>	<u>6,885</u>	<u>6,864</u>

As part of the acquisition of Praise Ease by China Evoline, 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.

## China Evoline Plc

### 22. TRANSLATION RESERVE

	2009 £'000	2008 £'000
1 July 2008	492	(96)
Exchange differences arising on translation of overseas operations	-	588
Adjustment on disposal of subsidiary	(492)	-
30 June 2009	<u>-</u>	<u>492</u>

### 23. SHARE BASED PAYMENTS

As outlined in note 20, options and warrants over the Company's ordinary share capital were outstanding to various employees during the year ended 30 June 2009. During the year ended 30 June 2009 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 1 July 2007	5,285,000	0.20p
Granted during year	-	0.20p
Expired during year	(3,125,000)	0.20p
Outstanding and exercisable at 1 July 2008	2,160,000	0.20p
Waived by Directors	(1,100,000)	0.20p
Balance outstanding	<u>1,060,000</u>	<u>0.20p</u>
Balance outstanding following the share capital reorganisation	2,120	100.00
Granted during year	-	-
Expired during the year	(1,120)	100.00
Outstanding at 30 June 2009	<u>1,000</u>	<u>100.00</u>
Exercisable at 30 June 2009	<u>1,000</u>	<u>100.00</u>

Following the share capital reorganisation on 21 April 2009, the number of shares subject to each option was divided by 500, and the exercise price was multiplied by 500. At 30 June 2009, there remained outstanding an option over 1,000 Ordinary shares of 1 pence, exercisable at £100 per share; this option lapsed on 21 July 2009. All remaining share options lapsed, or were surrendered, during the year ended 30 June 2009.

Share based payment charges in the year ended 30 June 2008 were calculated using the Black-Scholes model to calculate the fair value of the share options and warrants. The inputs into the Black-Scholes model were as follows:

	2009	2008
Weighted average share price	N/A	20p
Weighted average exercise price	N/A	20p
Expected volatility	N/A	33.4%
Expected life	N/A	6 years
Risk free rate	N/A	5.5%
Expected dividends	N/A	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 2007 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 were exercisable until 14 May 2009, (save in respect of 1,000 options held by C Huang which had to be exercised by 31 July 2009) and the latest date that the warrants had 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 £nil (2008: £172,000), all of which related to employees including executive directors.

## Notes to the Financial Statements (Continued)

## 24. CAPITAL CONTRIBUTION RESERVE

	2009	2008
	£'000	£'000
1 July 2008	448	-
Arising on write-off of loan (see note below)	-	448
Adjustment on disposal of subsidiary	(448)	-
30 June 2009	<u>-</u>	<u>448</u>

During the year ended 30 June 2008, C 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 the Company. A capital contribution reserve was established to reflect this.

## 25. RETAINED EARNINGS

	2009	2008
	£'000	£'000
1 July 2008	(12,738)	3,495
Profit/(loss) for the year	10,516	(16,832)
Recognition of share-based payments	-	172
Disposal of subsidiary	(15,765)	-
Transfer (to)/from general reserve	-	427
30 June 2009	<u>(17,987)</u>	<u>(12,738)</u>

## 26. NOTES TO THE CASH FLOW STATEMENT

	2009	2008
	£'000	£'000
Loss for the year from continuing activities	(525)	(594)
Profit/(loss) for the year from discontinued activities	11,041	(16,238)
Adjustments for:		
Depreciation of property, plant and equipment	-	155
Share based payment expense	-	172
Finance income	(5)	(70)
Finance costs	39	131
Tax	8	251
Disposal of property, plant and equipment	90	-
Disposal of subsidiary	(10,944)	-
Disposal of subsidiary – inter company loan	(2,405)	-
Foreign exchange movements	53	-
Disposal of interest bearing liabilities	(2,877)	-
Revaluation of assets to break-up values	-	18,996
Net cash flow from operating activities before changes in working capital	<u>(5,525)</u>	<u>2,803</u>
Changes in working capital:		
Increase in inventories	-	(366)
Decrease/(increase) in trade and other receivables	2,903	(9,358)
(Decrease)/increase in trade and other payables	536	6,187
Net cash inflow/(outflow) from operations	<u>(2,086)</u>	<u>(734)</u>

## China Evoline Plc

### 27. 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:

	2009 £'000	2008 £'000
Within one year	-	79
In the second to fifth years	-	78
After five years	-	43
	<u>-</u>	<u>200</u>

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

### 28. 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.

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

On 31 March 2009, Higher Performance Team Limited, a company beneficially owned by Michael Liu 80 per cent. Mark Syropoulo 10 per cent. And James Guo 10 per cent., subscribed for 4,990 Ordinary Shares of 10p and Frank Lewis subscribed for 2,494 Ordinary Shares of 10p in order to ensure that the number of Ordinary Shares of 10p in issue prior to the Share Capital Reorganisation was divisible by a factor of 10,000. Higher Performance Team Limited and Frank Lewis agreed to subscribe for those shares at a subscription price of 10 pence per Ordinary Share, despite the fact that they would be "lost" following the consolidation which was approved by shareholders on 21 April 2009.

An amount of £nil (30 June 2008: £1,487,209) was owed to C Huang (a former Director of China Evoline plc) at 30 June 2008, being the balance of funds loaned to China Evoline plc by C Huang.

A rental expense of circa £nil (year ended 30 June 2008: £67,813) was incurred and payable to a relative of Charles Huang. A balance of £nil (30 June 2008: £255,694) was outstanding in respect of rental payments to C Huang's relative at 30 June 2009.

### 29. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

#### **Additional Finance**

Since 30 June 2009, Staybest Limited (the "Lender") has agreed to make available to the Company an unsecured loan of £160,000 (the "Loan") in order to provide additional working capital. The Loan is irrevocably available for drawdown in two tranches, as to £80,000 within two weeks of the date of the Loan Letter and as to £80,000 during a two week period commencing six months after the date of the Loan Letter. The loan is repayable 16 months after the date of the Loan Letter, and bears interest at 2.5 per cent per annum which is payable on final repayment of the loan.

If at any time the Company makes an offer by way of rights of new Ordinary shares to its existing shareholders, at a time when the Lender is the holder of Ordinary Shares of the Company, the Lender may require that all or any part of the principal amount of the Loan is to be applied in paying up the amount to be subscribed by the Lender for any Ordinary shares for which the Lender accepts the offer made by the Company, at the subscription price and otherwise on the terms of that offer.



## Notes to the Financial Statements (Continued)

**COMPANY PROFIT & LOSS ACCOUNT**

	Note	2009 £'000	2008 £'000
Other administrative expenses (2008: including £18,066,000 of exceptional items – Note 1)		(526)	(18,697)
Operating loss	31	(526)	(18,697)
Finance Income		5	38
Finance costs		(4)	(1)
Loss before tax		(525)	(18,660)
Tax		-	-
Loss for the financial year		(525)	(18,660)

**COMPANY BALANCE SHEET**

	Note	2009 £'000	2008 £'000
Fixed assets			
Investments	33	-	-
Total fixed assets		-	-
Current assets			
Debtors	34	15	30
Cash at bank and in hand	35	127	345
Total current assets		142	375
Current liabilities			
Creditors: amounts falling due within one year	36	(112)	(105)
Total current liabilities		(112)	(105)
Net current assets		30	270
Creditors: amounts falling due after more than one year	37	(236)	-
Net assets		(206)	270
Represented by:			
Share capital	20	10,870	10,868
Share premium reserve	38	6,885	6,864
Undistributable reserve		2,019	2,019
Option premium on convertible loan	37	26	-
Retained profit and loss reserve		(20,006)	(19,481)
Equity shareholders' funds		(206)	270

30. 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.

***Basis of preparation – going concern***

Zhong Tian, the main trading entity in the Group was unable to continue trading during the year ended 30 June 2009. This was 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 was no longer appropriate. The effect was so pervasive that a fundamental change in the basis of accounting to a break-up basis was adopted for Zhong Tian in the financial statements for the year ended 30 June 2008, and its asset values were written down accordingly, in accordance with IAS 10 paragraphs 14-16. Where necessary in order to value the assets and liabilities in Zhong Tian, the Directors 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 was not available. Further detail on the revaluation of the asset values in Zhong Tian at 30 June 2008 can be found in the comparative amounts set out in notes 2, 3 and 33 to these financial statements. In addition, in the parent company, the investment and intercompany receivables were written down to zero value at 30 June 2008 to reflect the non-recoverability of these assets. A total charge of £18,066,000 was reflected in the financial statements of the parent company for the year ended 30 June 2008 in respect of these write-downs.

Following approval by shareholders at the AGM on 21 April 2009, Praise Ease, together with its wholly owned subsidiary Zhong Tian, were disposed off for HKD1 on that date.

Subsequent to the year end, as set out in Note 29 Post Balance Sheet events, the majority shareholder has irrevocably committed to lend the Company an additional £160,000 (with the first tranche of £80,000 having been drawn upon subsequent to the year end). Having prepared the cash flow forecasts to December 2010 the Directors are of the opinion that this will provide the Company with sufficient working capital in order to finance the Company for 12 months irrespective of whether a new investment in a new acquisition is made by the Company.

A critical element to the change in strategy as set out in the Operating Review on page 6 is securing a substantial acquisition. In the event no substantial acquisition is made by 21 April 2010, being 12 months from 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.

In the event that the London Stock Exchange were to cancel the admission of the Company's shares, it is not certain that the majority shareholder will continue to provide financial support to the Company's ongoing activities, and it is likely that any other sources of financing would be further restricted. Therefore, although the Company has sufficient funds to continue for 12 months, it is uncertain that the Company will continue as a going concern after 12 months in the event of failing to complete an acquisition of a new investment or securing additional finance.

If the Company successfully identifies a suitable investment opportunity, the ability of the Company to continue as a going concern will depend on being able to raise the necessary finance in order to fund the appropriate due diligence and purchase price consideration, and being able to successfully integrate the target into the Group so as to generate cash in the future.

If the Company fails to secure a new investment opportunity and fails to secure any additional finance, the Company will be unable to continue as a going concern as it will have insufficient funds to trade after 12 months. The ability of the Company to continue as a going concern will therefore depend on further continued financial support of the majority shareholder.

Despite the above material uncertainties, the Directors consider that China Evoline plc is a going concern and the accounts of the parent entity have been prepared on a going concern basis. The Directors consider this appropriate based on the refinancing of the Company which was approved by shareholders on 21 April 2009, the additional loan finance secured subsequent to the balance sheet date and on the assumption that the revised investment strategy will be successfully implemented by October 2010. As at the date of these accounts the Directors are pursuing a number of potential investment opportunities which they believe will result in a successful acquisition being completed by October 2010.

The above conditions represent a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

## Notes to the Financial Statements (Continued)

as at 30 June 2009

### 30. COMPANY ACCOUNTING POLICIES (Continued)

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.

#### **Fixed asset investments**

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

A provision of £15,987,000 was made in the Company's financial statements for the year ended 30 June 2008 to reduce the carrying value of the Company's investment in its subsidiaries. Praise Ease and Zhong Tian at 30 June 2008 to nil. This arose from the subsidiaries companies ceasing to be going concerns in the year ended 30 June 2008. The individual financial statements of the subsidiaries were prepared on a break-up basis in accordance with FRS 21 (see note 3). The directors considered that it was 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 were applied by analogy.

#### **Financial liability and equity**

Financial liabilities are measured initially at the amount of the net proceeds.

Financial liabilities and equity are classified according to the substance of the financial instruments contractual obligations, rather than the financial instruments legal form.

#### **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.

#### **Convertible debt**

The proceeds received on issue of the group's convertible debt are allocated into their liability and equity components and presented separately in the balance sheet.

The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that did not include an option to convert.

The difference between the net proceeds of the convertible debt and the amount allocated to the debt component is credited direct to equity and is not subsequently remeasured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate.

Transaction costs that relate to the issue of the instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds.

#### **Share-based payments**

The cost of equity-settled transactions with suppliers of goods and services is measured by reference to the fair value of the good or service received, unless that fair value cannot be estimated reliably. The fair value of the good or service received is recognised as an expense as the Company receives the good or service.

The cost of equity-settled transactions with employees, and transactions with suppliers where fair value cannot be estimated reliably, is measured by reference to the fair value of the equity instrument. The fair value of equity-settled transactions with employees is recognised as an expense over the vesting period. The fair value of the equity instrument is determined at the date of grant, taking into account market based vesting conditions. The fair value is determined using an option pricing model.

The share-based payments expense has been included in the administrative expenses line of the consolidated profit and loss account for the year ended 30 June 2008. There was no such expense in the year ended 30 June 2009.

## China Evoline Plc

### 31. OPERATING LOSS

	2009 £'000	2008 £'000
The operating loss for the financial year is arrived at after charging		
Auditor's remuneration for audit services (including VAT)	15	53
Auditor's remuneration for non-audit services (including VAT)	45	10
	<u>60</u>	<u>63</u>

### 32. STAFF COSTS

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

	2009 Number	2008 Number
Administration	<u>4</u>	<u>3</u>

The costs incurred in respect of these employees were:

	2009 £'000	2008 £'000
Wages and salaries	70	273
Share based payments (see note 23)	-	172
Social security costs	3	-
	<u>73</u>	<u>445</u>

### 33. FIXED ASSET INVESTMENTS

#### Investment in subsidiary undertaking

	£'000
At 1 July 2007	15,987
Write-off of investment in subsidiaries	<u>(15,987)</u>
At 30 June 2008 and 2009	<u>-</u>

At 30 June 2008, the Company owned 100 per cent of the voting rights and the ordinary share capital of the following undertakings, the results and balance sheets of which were included in the consolidated accounts made up to that date. These subsidiaries were disposed of in the year ended 30 June 2009.

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 was owned indirectly by China Evoline plc.  
These subsidiaries were disposed of for HKD1 on 21 April 2009.

### 34. DEBTORS

	2009 £'000	2008 £'000
Due within one year:		
Prepayments and accrued income	15	30
	<u>15</u>	<u>30</u>

The directors consider that the carrying amount of prepayments and accrued income approximates their fair value.

# Notes to the Financial Statements (Continued)

as at 30 June 2009

## 35. CASH AT BANK AND IN HAND

	2009 £'000	2008 £'000
Cash and cash equivalents per balance sheet	127	345
Cash and cash equivalents per cash flow statement	<u>127</u>	<u>345</u>

All balances are denominated in pounds sterling and are held with reputable banks in the United Kingdom. The directors consider that the carrying amount of cash and cash equivalents approximates their fair value.

## 36. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2009 £'000	2008 £'000
Trade creditors	33	13
Accruals and deferred income	79	92
	<u>112</u>	<u>105</u>

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

## 37. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2009 £'000	2008 £'000
Other creditors – Convertible Loan	236	-
	<u>236</u>	<u>-</u>

The value of the liability component and the equity conversion component of the Convertible Loan has been determined at the date the instrument was issued. The fair value of the liability component, included in non-current borrowings, at inception was calculated using a market interest rate for an equivalent instrument without conversion option. The discount rate applied was 8%. The residual amount is as follows:

	2009 £'000	2008 £'000
Face value of the convertible loan note issued on 21 April 2009	259	-
Less: Equity component	(26)	-
Liability component on initial recognition	<u>233</u>	<u>-</u>
Interest expense	3	-
Liability component at 30 June 2009	<u>236</u>	<u>-</u>

## 38. SHARE PREMIUM RESERVE

	2009 £'000	2008 £'000
Opening balance	6,864	6,377
Issue of share capital	21	-
Issue of deferred consideration shares	-	487
Closing balance	<u>6,885</u>	<u>6,864</u>

As part of the acquisition of Praise Ease by China Evoline, 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.

39. POST BALANCE SHEET EVENTS

***Additional Finance***

Since 30 June 2009, Staybest Limited (the "Lender") has agreed to make available to the Company an unsecured loan of £160,000 (the "Loan") in order to provide additional working capital. The Loan is irrevocably available for drawdown in two tranches, as to £80,000 within two weeks of the date of the Loan Letter and as to £80,000 during a two week period commencing six months after the date of the Loan Letter. The loan is repayable 16 months after the date of the Loan Letter, and bears interest at 2.5 per cent per annum which is payable on final repayment of the loan.

If at any time the Company makes an offer by way of rights of new Ordinary shares to its existing shareholders, at a time when the Lender is the holder of Ordinary Shares of the Company, the Lender may require that all or any part of the principal amount of the Loan is to be applied in paying up the amount to be subscribed by the Lender for any Ordinary Shares for which the Lender accepts the offer made by the Company, at the subscription price and otherwise on the terms of that offer.

## Notice of Annual General Meeting

NOTICE is hereby given that the ANNUAL GENERAL MEETING of the Company will be held at the offices of Pritchard Englefield, 14 New Street, London EC2M 4HE on 23 December 2009 at 10.00 am for the purpose of considering the following:

### ORDINARY BUSINESS

1. To receive and adopt the Directors' report and accounts for the year ended 30 June 2009, and the auditors' report on the accounts.
2. To elect Mark Syropoulo (Non-executive Director) who retires pursuant to Article 101 of the Company's Articles of Association, as a Non-executive Director of the Company.
3. To elect Yumao Zheng (Non-executive Director) who retires pursuant to Article 107 of the Company's Articles of Association, as a Non-executive Director of the Company.
4. To elect Jian (aka Jeffery) Xin (Non-executive Director) who retires pursuant to Article 107 of the Company's Articles of Association, as a Non-executive Director of the Company.
5. To elect Xuedong (aka Louge) Lou (Non-executive Director) who retires pursuant to Article 107 of the Company's Articles of Association, as a Non-executive Director of the Company.
6. To re-appoint BDO LLP as auditors of the Company.
7. To authorise the Directors to agree the remuneration of BDO LLP as auditors of the Company.

### SPECIAL BUSINESS

As special business to consider and, if thought fit, to pass the following resolutions of which Resolution 8 will be proposed as an ordinary resolution and Resolutions 9 and 10 will be proposed as special resolutions.

### ORDINARY RESOLUTION

8.
  - (a) THAT the directors of the Company be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £29,027.67 provided that such authority shall expire at the conclusion of the next annual general meeting of the Company after the date of the passing of this resolution but, in each case, so that the Company may make offers and enter into agreements before this authority expires which would, or might, require shares to be allotted, or rights to subscribe for or convert any securities into shares to be granted after the expiry of this authority and the directors of the Company may allot shares and grant rights to subscribe for or convert any securities into shares in pursuance of any such offer or agreement as if the authority conferred hereby had not expired.
  - (b) THAT, subject to paragraph (c), all existing authorities given to the directors pursuant to section 80 of the Companies Act 1985 (the "1985 Act") be revoked by this resolution; and
  - (c) THAT paragraph (b) shall be without prejudice to the continuing authority of the directors to allot relevant securities (as that term is defined in the 1985 Act) pursuant to an offer or agreement made by the Company before the expiry of the authority pursuant to which such offer or agreement was made.

### SPECIAL RESOLUTIONS

9. THAT, subject to the passing of Resolution 8 in the Notice, the directors of the Company be generally empowered pursuant to section 570 of the Act to allot equity securities (within the meaning of section 560 of the Act) for cash, pursuant to the authority conferred by Resolution 8 in the Notice, as if section 561(1) of the Act did not apply to such allotment. This power:

- (a) expires (unless previously renewed, varied or revoked by the Company in general meeting) at the

## China Evoline Plc

conclusion of the next annual general meeting of the Company after the date of the passing of this resolution, but so that the Company may make offers and enter into agreements before this power expires which would, or might, require equity securities to be allotted after this power expires and the directors of the Company may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and

(b) shall be limited to:

- (i) the allotment of equity securities in connection with an offer of equity securities to ordinary shareholders in proportion (as nearly as may be practicable) to their existing shareholding, and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and
- (ii) the allotment of equity securities for cash otherwise than pursuant to paragraph (i) up to an aggregate nominal amount of £2,413.66.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 560(3) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority conferred by Resolution 8" were omitted.

10. THAT the Company be and is hereby generally and unconditionally authorised, in accordance with section 701 of the Act, to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares of 1 pence each in the capital of the Company ("Ordinary Shares") provided that:
- (a) the maximum number of Ordinary Shares hereby authorised to be purchased is 46,500;
  - (b) the minimum price which may be paid for each Ordinary Share is 1 pence (exclusive of expenses and advance corporation tax (if any) payable by the Company);
  - (c) the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent. of the average of the middle market quotations for an Ordinary Share derived from the AIM Appendix of the Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased (exclusive of expenses and advance corporation tax (if any) payable by the Company); and
  - (d) the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company or 18 months from the date of the passing of this resolution, whichever is earlier; and
  - (e) a contract to purchase shares under this authority may be made prior to the expiry of this authority, and concluded in whole or part after the expiry of this authority.

By order of the Board  
J P Gorman FCA  
Company Secretary  
REGISTERED OFFICE  
14 New Street  
London EC2M 4HE  
  
30 November 2009

### Notes:

1. As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a general meeting of the Company. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.



## China Evoline Plc

2. A proxy need not be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy are set out below and in the notes to the proxy form.
3. To be valid, a form of proxy must be signed by a member or his/her attorney duly authorised in writing and a form of proxy the power of attorney or other written authority, if any, under which it is signed, or an office or notarially certified copy in accordance with the Powers of Attorney Act 1971 of such power and written authority must be delivered to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than at 10.00 a.m. on 21 December 2009 (or 48 hours before the time fixed for any adjourned Meeting or in the case of a poll 48 hours before the time appointed for taking the poll) at which the proxy is to attend, speak and to vote provided that in calculating such periods no account shall be taken of any part of a day that is not a working day). Any amendments made to this form of proxy must be initialled by the person who signs it.
4. In accordance with Regulation 41 of the Uncertified Securities Regulations 2001, the Company specifies that only those shareholders registered on the Company's register of members at 6.00 p.m. on 21 December 2009 (or in the case of adjournment forty-eight hours before the time of the adjourned meeting provided that in calculating such periods no account shall be taken of any part of a day that is not a working day) will be entitled to attend and vote at the meeting. Changes to the register of members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.
5. You may appoint more than one proxy, provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint multiple proxies you may photocopy this form. To appoint more than one proxy complete and submit more than one proxy form and make clear the number of shares over which the proxy has voting rights. Failure to specify the number of shares relating to each proxy appointment or specifying a number of shares in excess of those held by the member on the record date will result in the proxy appointment being invalid.
6. Use of the proxy form does not preclude a member attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.
7. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Registrars of the Company, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU (in the case of a member which is a company, the revocation notice must be executed in accordance with note 8 below).
8. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Registrars of the Company, not less than 48 hours before the time fixed for the holding of the Meeting or any adjourned Meeting (or in the case of a poll before the time appointed for taking the poll) at which the proxy is to attend, speak and to vote provided that in calculating such periods no account shall be taken of any part of a day that is not a working day.
9. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.
10. A corporation's form of proxy must be executed pursuant to the terms of section 44 of the Companies Act 2006 or under the hand of a duly authorised officer or attorney.

### EXPLANATION OF RESOLUTIONS 8, 9 and 10

#### Resolution 8 – authority to allot shares

Under the Companies Act 2006, the Directors of a company may only allot unissued shares if authorised to do so by the shareholders in general meeting. Resolution 8 renews the Directors' existing authority by authorising the Directors to allot shares up to an aggregate nominal amount of £29,027.67. The authority will expire at the conclusion of the next Annual General Meeting of the Company. This represents 2,902,767 Ordinary shares of 1 pence each in the capital of the Company and is equivalent to approximately one third of the Company's current issued ordinary share capital as enlarged by the allotment of Ordinary shares following the satisfaction of all of the Company's outstanding contractual commitments to allot shares, the exercise of all outstanding employee share options and employee and external warrants and options.

## **China Evoline Plc**

### **Resolution 9 – limited authority to allot shares for cash**

The Directors may only allot shares for cash otherwise than on a non-preemptive basis to existing shareholders in the Company if authorised to do so by the shareholders in general meeting.

This resolution renews power for the Directors to allot shares for cash and/or sell or transfer shares held by the Company in treasury without first offering them to existing members up to an aggregate nominal amount of £2,413.66. This sum represents 241,366 Ordinary shares, being equivalent to approximately 10% of the Company's current issued ordinary share capital as enlarged by the allotment of Ordinary shares following the satisfaction of all of the Company's outstanding contractual commitments to allot shares and the exercise of all outstanding employee warrants. The Directors will use such authority in the circumstances where it is in the best interests of the Company to issue small amounts of shares other than to existing shareholders.

The resolution also enables the Directors to modify the strict requirements for a rights issue in circumstances where they consider it necessary or expedient.

The authority will expire at the conclusion of the next Annual General Meeting of the Company.

### **Resolution 10 – purchase of the Company's own shares**

This resolution gives authority from shareholders for the Company to purchase up to 46,500 ordinary shares, an aggregate nominal amount of £465.00 which is equivalent to approximately 14.99% of the Company's current issued Ordinary share capital. The authority will expire at the conclusion of the next Annual General Meeting of the Company. The resolution specifies the maximum and minimum prices at which the Ordinary shares may be bought. Other investment opportunities, appropriate gearing levels and the overall financial position of the Company will be taken into account before deciding upon this course of action. Any Ordinary shares purchased in this way will be held by the Company in treasury and may then be sold for cash, transferred to an employee share scheme or cancelled. The Board has no immediate intention of exercising the proposed authority when it becomes effective, but believes that the ability of the Company to buy its own Ordinary shares when, in the Board's opinion, market prices do not reflect the Company's worth, will be in the best interests of the Company and its shareholders. The Directors intend to exercise this power only when they believe the effect of such purchases will increase earnings per Ordinary share.

# China Evoline Plc

(the "Company")

Form of Proxy for use at the Annual General Meeting of the holders of Ordinary Shares of China Evoline plc to be held on 23 December 2009 at 10.00 a.m.

I/We (name in full) the undersigned .....

(IN BLOCK CAPITALS)

being (a) registered holder(s) of Ordinary Shares of 1p ("Ordinary Shares") in the capital of the Company, hereby appoint the duly appointed Chairman of the Meeting or (see note 1)

as my/our proxy to attend and vote for me/us and on my/our behalf in respect of ..... Ordinary Shares at the Annual General Meeting of the Company to be held at the offices of Pritchard Englefield, 14 New Street, London EC2M 4HE on 23 December 2009 at 10.00 a.m. and at any adjournment thereof. In the event of a poll being directed or demanded, I/we desire my/our vote(s) to be cast as shown below on the Resolutions set out in the Notice of Annual General Meeting.

Please indicate with a tick in the appropriate spaces provided below how you wish your votes on the Resolutions to be cast.

If you sign this Form of Proxy and return it without any specific direction as to how you wish your votes to be cast, the proxy may vote as he thinks fit or abstain from voting in respect of the Resolutions and also on any other business (including amendments to the Resolutions) which may properly come before the meeting.

## ORDINARY RESOLUTIONS

	For	Against	Vote withheld
1. To receive and adopt the Directors' Report and Accounts.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect M Syropoulo as a Director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To elect Y Zheng as a Director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To elect J Xin as a Director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To elect X Lou as a Director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-appoint the auditors.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the Directors to agree the auditors' remuneration.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. To authorise the Directors to allot shares generally.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## SPECIAL RESOLUTIONS

9. To approve a limited disapplication of pre-emption rights.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. To authorise the Directors to purchase ordinary shares.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signed this ..... day of ..... 2009

Signature ..... Name .....

Address .....

Please tick here if this proxy appointment is one of multiple appointments being made:

☐

For the appointment of more than one proxy, please refer to Note 7 below.

## Notes:

- As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a general meeting of the Company. You can only appoint a proxy using the procedures set out in these notes.
- A proxy need not be a member of the Company but must attend the Meeting to represent you.
- If it is desired to appoint any person other than the Chairman of the Meeting as a proxy the words "the duly appointed Chairman of the Meeting" should be struck out and the name and address of the other person be inserted in block capitals in the space provided. If you sign and return this proxy form with no name inserted in the box, the Chairman of the Meeting will be deemed to be your proxy. Where you appoint as your proxy someone other than the Chairman, you are responsible for ensuring that they attend the Meeting and are aware of your voting intentions.
- The manner in which the proxy is to vote should be indicated by marking the appropriate box with an 'X'. To abstain from voting on a resolution, select the relevant "Withheld" box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote (or abstain from voting) at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.
- To be valid, a form of proxy must be signed by a member or his/her attorney duly authorised in writing and a form of proxy the power of attorney or other written authority, if any, under which it is signed, or an office or notarially certified copy in accordance with the Powers of Attorney Act 1971 of such power and written authority must be delivered to Capita Registrars Limited, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than on at 10.00 a.m. on 21 December 2009 (or 48 hours before the time fixed for any adjourned Meeting or in the case of a poll 48 hours before the time appointed for taking the poll) at which the proxy is to attend, speak and to vote provided that in calculating such periods no account shall be taken of any part of a day that is not a working day). Any amendments made to this form of proxy must be initiated by the person who signs it.
- In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered on the Company's register of members at 6pm on 21 December 2009 (or in the case of adjournment forty-eight hours before the time of the adjourned meeting) will be entitled to attend and vote at the Meeting. Changes to the register of members after that time will be disregarded in determining the rights of any person to attend or vote at the Meeting.
- You may appoint more than one proxy, provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you may photocopy this form. To appoint more than one proxy complete and submit more than one proxy form and make clear the number of shares over which the proxy has voting rights. Failure to specify the number of shares relating to each proxy appointment or specifying a number of shares in excess of those held by the member on the record date will result in the proxy appointment being invalid.
- Use of this form does not preclude a member attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.
- In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Registrars of the Company, Capita Registrars Limited, 34 Beckenham Road, Beckenham, Kent BR3 4TU (in the case of a member which is a company, the revocation notice must be executed in accordance with note 12 below).
- Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by the Registrars of the Company, not less than 48 hours before the time fixed for the holding of the Meeting or any adjourned meeting (or in the case of a poll before the time appointed for taking the poll) at which the proxy is to attend, speak and to vote.
- If you attempt to revoke your proxy appointment but the revocation is received after the time specified then your proxy appointment will remain valid.
- In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
- If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
- A corporation's form of proxy must be executed pursuant to the terms of section 44 of the Companies Act 2006 or under the hand of a duly authorised officer or attorney.

THIRD FOLD AND TUCK IN

Business Reply  
Licence Number  
RSBH-UXKS-LRBC



FIRST FOLD

PXS  
34 Beckenham Road  
Beckenham  
BR3 4TU

SECOND FOLD