

EBT MOBILE CHINA PLC

Directors' Report  
For the year ended 31 December 2007

Registered number	4654471
Registered office	Phoenix House 18 King William Street London EC4N 7HE

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**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2007**

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The directors present their report, together with the audited financial statements for the year ended 31 December 2007

**PRINCIPAL ACTIVITIES**

The principal activities of EBT Mobile China plc and its subsidiaries ("the Group") comprise the retail sale of mobile phone products and services, including mobile phones, SIM cards, phone cards, mobile phone accessories and mobile phone related value-added services in China

The subsidiary undertakings principally affecting the profits or net assets of the group in the year are listed in note 14 to the consolidated financial statements

**BUSINESS REVIEW**

The Company is required by the Companies Act to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2007 including an analysis of the development and performance of the Group during the year and of the position of the Group at the end of the year ("Business Review") The information that fulfils the requirements of the Business Review can be found within the Chairman's Statement and the CEO's Business Review on pages 2 and 5 respectively The Business Review also includes details of expected future developments in the business of the Group; and key performance indicators that management use

**PRINCIPAL RISKS AND UNCERTAINTIES**

Risk is inherent in all businesses Set out below are certain risk factors which the Group has identified which could have an impact on the Group's long term performance The Group's results could also be affected by other factors The factors discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing the Group

**Managing growth**

The Group intends to achieve significant growth in the mobile phone retail business in China, primarily through organic growth, both in terms of the number of stores and by expanding its geographic presence across China, but also through acquisitions The successful implementation of this strategy depends on several factors There is no assurance that the Group will be successful in implementing its strategy Significant time and attention is also required from senior management to implement its strategy The diversion of management attention from general business operations could have an adverse effect on the Group's financial results

**People retention**

Failure to retain and recruit key personnel could harm our ability to meet key objectives The Group has implemented a comprehensive programme to ensure that its human resources strategy can be measured, including active promotion and supporting career development, incorporating KPI methodology into our employee incentives and bringing discipline and consistency to reward and recognition

### **Vendor risk**

The Group forms close and mutually beneficial partnerships with a handful of third parties, including handset suppliers, network providers and operators of the hypermarkets and department stores from which the Group operates. The Group's relationships with these key partners and its suppliers is important to its continued success. The termination of a supply agreement or a significant change in partner or supplier terms or conditions of sale could negatively affect our operating margins, revenue or the level of capital required to fund our operations. The Group actively develops and sustains these partner and supplier relationships and where possible enters into contractual alliances to formalise the terms of these relationships.

### **Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due. Liquidity management within the Group focuses on working capital metrics, cash and cash equivalents as well as the extent of the Group's borrowing facilities. In managing its overall liquidity, the Group analyses and takes into account the effect of all business activities in assessing the investment in working capital. The short term liquidity needs of the Group are also managed on a daily basis to ensure that contractual cash flow obligations, and potential cash flows arising from undrawn commitments and other contingent obligations can be met as they arise from day to day.

### **Economic, political and social consideration**

China has undergone a series of political reforms since 1978. Such reforms have in the past resulted in significant economic growth in the past twenty years. But growth has been uneven both geographically and among various sectors of the economy. The Chinese government has implemented various measures from time to time to control economic growth. The Group's operating results and financial condition may be adversely affected by changes in the rate or method of taxation, imposition of additional restrictions on currency conversion, state policies affecting the Group's customers, suppliers or partners and the regulations of the mobile telephone industry. These regulations or changes may significantly constrain the flexibility and ability of the Group to expand its business operations or maximise its profitability. In addition, EBT's customer spending habits are subject to global and local economic cycles and risks that may be beyond EBT's control.

The further information in relation to price, cash flow and credit risk can be found within note 16 of the consolidated financial statements.

## **RESULTS AND DIVIDENDS**

The results of the Group for the year are shown in the financial statements on page 3. No dividends were paid or are proposed for the financial year.

## **DIRECTORS**

The directors, who served throughout the year and subsequently except as noted, were as follows

Name of Director	Date Appointed/Resigned
Daniel Skaff	Appointed on 10 October 2005
James A Reiman	Appointed on 7 September 2005
Stephen Davidson	Appointed on 1 July 2006
Zhang Ge	Appointed on 7 September 2005

The names and qualifications of the present Directors and Secretary are given on pages 9 and 51

## DIRECTORS' INTERESTS

The directors who held office during the year and their interests in the shares and/or options of the Company as at 31 December 2007, are given below

Name	Number of Shares	Number of Options
Daniel Skaff	- <sup>2</sup>	-
James A Reiman	59,675,688 <sup>1</sup>	1,078,261
Stephen Davidson	60,000	1,000,000
Zhang Ge	7,487,324	3,206,735

<sup>1</sup> The interests of Mr. Reiman include the holding of 59,675,688 ordinary shares held by China Retail Venture #1, Inc ("CRV1"), which is 100% owned by Mr Reiman

<sup>2</sup> 8,289,971 shares held by James A Reiman via CRV1 are subject to an option granted to a trust to which Daniel Skaff is connected.

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report

## SUPPLIER PAYMENT POLICY

The Company's policy, which is applied by the Group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, and ensure that suppliers are made aware of and abide by the terms of payment. Trade creditors of the Group at 31 December 2007 were equivalent to 23 (2006: 38) days' purchases, based on the average daily amount invoiced by suppliers during the period.

## POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group has made no political or charitable donations in the period

## SUBSTANTIAL SHAREHOLDINGS

In addition to the directors' interests shown above, the Company was aware of the following substantial interests or holdings exceeding 3% of the Company's ordinary share capital in issue on 28 February 2008

Shareholders	Number of Shares	% Issued Ordinary Shares
Audley Capital	54,915,000	24.9%
Gartmore Investment Management	30,445,414	13.8%
Universities Superannuation Scheme Limited	10,236,364	4.6%
JO Hambro Investment Management	8,709,416	4.0%
Charles Stanley, stockbrokers	7,339,383	3.3%

## FINANCIAL INSTRUMENTS

During the year the Group's financial instruments are comprised of cash, liquid resources and various items such as trade debts and trade credits that arise directly from its operations. The Group's financial assets comprise cash, trade and other debtors. The Group's financial liabilities comprise trade and other creditors. For the coming year, the Group's principal currency exposures are due to the effect of GBP/RMB exchange rates, as the market expects the RMB to appreciate. Other than this, there is only limited currency exposure. The Group's current policy is not to hedge against foreign exchange movements.

## AUDITORS

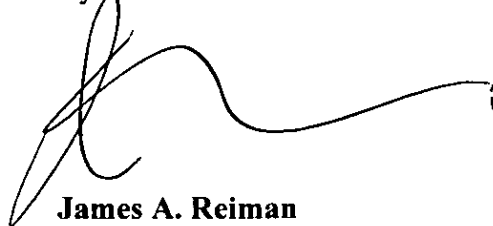
Each of the persons who is a director at the date of approval of this annual report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte & Touche 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.

By the order of the Board



**James A. Reiman**  
Chairman  
9 April 2008

**EBT MOBILE CHINA PLC**

**Independent Auditors' Report and Consolidated Financial Statements**

**For the year ended 31 December 2007**

**(Prepared under International Financial Reporting Standards as adopted by  
European Union)**

**Registered number 4654471**

**Registered office Phoenix House  
18 King William Street  
London EC4N 7HE**

EBT MOBILE CHINA PLC

AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

(Prepared under International Financial Reporting Standards as adopted by European Union)

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## **INDEPENDENT AUDITORS' REPORT**

### **TO THE MEMBERS OF EBT MOBILE CHINA PLC**

We have audited the consolidated financial statements of EBT Mobile China plc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 27. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the individual company financial statements of EBT Mobile China plc for the year ended 31 December 2007.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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**

The directors' responsibilities for preparing the annual report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the "Business Review", the "Chairman's Statement" and the "Corporate Governance Statement" that is cross referenced from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report for the above year as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any further information outside the Annual Report.



### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements.

### **Opinion**

In our opinion

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

*Deloitte & Touche LLP*

***Deloitte & Touche LLP***

Chartered Accountants and Registered Auditors

London

9 April 2008

**EBT MOBILE CHINA PLC**

**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2007**

	<u>NOTES</u>	<u>2007</u> RMB'000	<u>2006</u> RMB'000
<b>Continuing operations</b>			
Revenue	4	628.084	495.107
Cost of sales		(554,038)	(440,332)
Gross profit		74,046	54,775
Other operating income	6	4,077	918
Distribution costs		(66,465)	(39,499)
Administrative expenses		(32,399)	(34,407)
Share of losses of a joint venture	26	(500)	-
Operating loss before financial guarantee		(21,241)	(18,213)
Financial guarantee	17	1,204	(2,268)
Operating loss		(20,037)	(20,481)
Finance costs		(23)	-
Investment revenues	9	7,454	1,775
Loss before tax		(12,606)	(18,706)
Taxation	10	-	(470)
Loss for the year	7	(12,606)	(19,176)
Attributable to equity holders of the parent		(12,606)	(19,176)
		RMB	RMB
Loss per share			
Basic and diluted	11	(0.06)	(0.11)

EBT MOBILE CHINA PLC

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE  
FOR THE YEAR ENDED 31 DECEMBER 2007

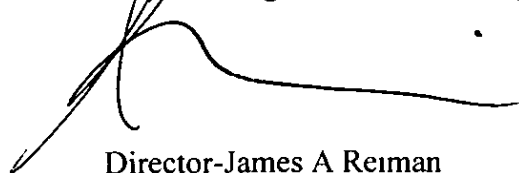
	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Exchange differences on translation of foreign operations and net gain/(loss) recognised directly in equity	(7,713)	7,446
Loss for the year	<u>(12,606)</u>	<u>(19,176)</u>
Total recognised income and expense for the year	<u>(20,319)</u>	<u>(11,730)</u>
Attributable to equity holders of the parent	<u>(20,319)</u>	<u>(11,730)</u>

**EBT MOBILE CHINA PLC**

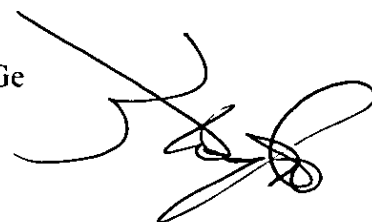
**CONSOLIDATED BALANCE SHEET  
AS AT 31 DECEMBER 2007**

	<u>NOTES</u>	<u>2007</u> RMB'000	<u>2006</u> RMB'000
<b>Non-current assets</b>			
Other intangible assets	12	2,111	60
Property, plant and equipment	13	3,924	2,561
		<u>6,035</u>	<u>2,621</u>
<b>Current assets</b>			
Inventories	15	52,339	58,743
Trade receivables	16	48,332	52,184
Other receivables	16	6,326	3,525
Cash and cash equivalents	16	132,415	52,959
Deposits and prepayments	16	56,878	37,605
Prepaid taxes		32	1,787
Amounts due from related parties	16, 24	2,800	-
		<u>299,122</u>	<u>206,803</u>
<b>TOTAL ASSETS</b>		<u>305,157</u>	<u>209,424</u>
<b>Current liabilities</b>			
Trade payables	16	19,673	24,807
Notes payables	16	14,839	19,459
Accruals and other payables	16	6,905	4,857
Provisions	17	969	2,268
Other tax liabilities		1,745	2,689
		<u>44,131</u>	<u>54,080</u>
<b>Net current assets</b>		<u>254,991</u>	<u>152,723</u>
<b>Total liabilities</b>		<u>44,131</u>	<u>54,080</u>
<b>NET ASSETS</b>		<u>261,026</u>	<u>155,344</u>
<b>EQUITY</b>			
Share capital	18	53,609	52,958
Share premium account	19	288,170	173,169
Other reserves	20	89,534	86,898
Retained losses	21	(170,287)	(157,681)
<b>TOTAL EQUITY</b>		<u>261,026</u>	<u>155,344</u>

The financial statements were approved by the Board of Directors and authorised for issue on 9 April 2008. They were signed on its behalf by

  
Director-James A Reiman

Director- Zhang Ge



**EBT MOBILE CHINA PLC**

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2007**

	<u>NOTES</u>	<u>2007</u> RMB'000	<u>2006</u> RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax from continuing operations		(12,606)	(18,706)
Adjustments for:			
Share of losses of a joint venture		500	-
Depreciation of property, plant and equipment		778	621
Amortisation of intangible assets		5,536	23
Impairment of intangible assets		789	-
Share-based payments expense		2,872	12,258
Loss/(gain) on disposal of property, plant and equipment		16	(47)
Allowances for doubtful debts		(3,747)	327
Finance costs		23	-
Investment revenues		(7,454)	(1,775)
Net foreign exchange (gain)/loss		(2,481)	3,741
Operating cash flows before movements in working capital		(15,774)	(3,558)
Decrease/(increase) in inventory		6,404	(29,544)
Decrease in notes receivable		-	626
Decrease/(increase) in trade receivables		4,155	(29,815)
(Increase) in other receivables		(2,102)	(810)
(Increase) in deposits and prepayments		(19,273)	(28,237)
Decrease in amounts due from related parties		-	50
Decrease in prepaid taxes		1,755	1,924
(Decrease)/increase in trade payables		(5,134)	6,265
(Decrease)/increase in notes payables		(4,620)	13,167
Increase/(decrease) in accruals and other payables		2,048	(13,745)
(Decrease)/increase in provisions		(1,299)	2,268
(Decrease)/increase in other tax liabilities		(474)	1,290
(Decrease) in amounts due to related parties		-	(1,070)
Cash from operating activities		(34,314)	(81,189)
Interest paid		(23)	-
Income tax paid		(470)	(335)
Net cash from operating activities		(34,807)	(81,524)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		7,454	1,775
Proceeds on disposal of property, plant and equipment		84	57
Purchase of property, plant and equipment		(2,241)	(889)
Business combination	25	(900)	(20)
Acquisition of a joint venture		(2,500)	-
Proceeds on disposal of a joint venture		2,000	-
Net cash generated from investing activities		3,897	923

**EBT MOBILE CHINA PLC****CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2007**

	<u>NOTES</u>	<u>2007</u> RMB'000	<u>2006</u> RMB'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank loans raised		9,000	-
Repayments of borrowings		(9,000)	-
Proceeds on issue of shares		115,652	75,625
Net cash from financing activities		<u>115,652</u>	<u>75,625</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		84,742	(4 976)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		52,959	54,230
Effect of foreign exchange rate change		<u>(5,286)</u>	<u>3,705</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u><u>132,415</u></u>	<u><u>52,959</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

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1 GENERAL INFORMATION

EBT Mobile China plc ("the Company") is a company incorporated in the United Kingdom under the Companies Act 1985. The Company and its subsidiaries ("the Group") is a retailer of mobile telephone products and services, including mobile phones, phone cards, mobile phone accessories and mobile phone related value-added services based in China.

These consolidated financial statements are presented in Renminbi (RMB) because that is the currency of the primary economic environment in which the Group operates. The results of the foreign operations of the Group are included in accordance with the policies set out in note 2 to the consolidated financial statements.

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. The impact of the adoption of IFRS 7 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 16). Four 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*, and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations which have not been applied in these consolidated financial statements were in issue but not yet effective:

IFRS 8	Operating Segments
IAS 1 (revised)	Presentation of Financial Statements
IAS 23 (revised)	Borrowing Cost
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14, IAS19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the consolidated financial statements of the Group.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The consolidated financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

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2 SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries consolidated during the year are included in the consolidated income statement from the effective date of acquisition.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

The key accounting judgements and estimates adopted by the directors in arriving at this accounting policy are described in note 3 to the consolidated financial statements.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

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

Interest in a joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is, when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Interest in a joint venture - continued

Joint venture arrangements that involve the establishment of a separate entity in which each venture has an interest are referred to as jointly controlled entities. The results and assets and liabilities of a joint venture are incorporated into these financial statements using the equity method of accounting. Investments in a joint venture are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of a joint venture, less any impairment in the value of individual investments. Losses of a joint venture in excess of the Group's interest in that a joint venture (which includes any long-term interest that, in substance, form part of the Group's net investment in a joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of a joint venture.

Where a group company transacts with a joint venture of the Group, profits and losses are eliminated to the extent of the Group's interest in a joint venture. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

Revenue recognition

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

Sales of mobile phones and phone cards are recognised when goods are delivered and title has passed.

Where the Group recognises revenue through the sale of goods out of retail outlets within department stores and hypermarkets, the revenue is recognised at the gross value billed to the customer rather than the net value retained after costs incurred with the department stores and hypermarkets.

The key accounting judgements and estimates adopted by the directors in arriving at this accounting policy are described in note 3 to the consolidated financial statements.

Investment revenue

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

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2 SIGNIFICANT ACCOUNTING POLICIES - continued

Leasing

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.

Foreign currencies

The individual 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 Renminbi, which is the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

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

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

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2 SIGNIFICANT ACCOUNTING POLICIES - continued

Retirement benefit costs

The Group adopts defined contribution retirement benefit schemes. Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme. Pursuant to the relevant regulations of the People's Republic of China (PRC) government, the five companies established in the PRC included in the consolidated financial information have participated in central pension schemes (the "Schemes") operated by local municipal governments, whereby these five companies are required to contribute a certain percentage of the basic salaries of their employees to the Schemes to fund their retirement benefits. The local municipal governments undertake to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries in the People's Republic of China (PRC). The only obligation of these five companies with respect to the Schemes is to pay the ongoing required contributions under the Schemes mentioned above.

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 of goodwill or 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.

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

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 profit will be available to allow all or part of the asset to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

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2 SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

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. 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following bases:

	<u>Residual value</u>	<u>Useful lives</u>	<u>Annual rate</u>
Motor vehicles	4%	5 years	19.2%
Fixture and office equipment	4%-10%	3-5 years	18%-32%
Leasehold improvements	-	lease periods	-

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Other intangible assets

Other intangible assets are stated at cost less amortisation and any recognised impairment loss and are amortised on a straight-line basis over their useful lives. With respect to lease agreements, the useful lives represent the term on the relevant lease agreement.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

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2 SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment of tangible and intangible assets excluding goodwill - continued

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase and related costs which 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 costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

*Financial assets*

Financial assets are classified as "loans and receivables".

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

*Loans and receivables*

Trade receivables, loans, other receivables, deposits and prepayments and amount due from related parties that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial asset, such as trade receivables, other receivables and amount due from related parties, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, other receivables and amount due from related parties, where the carrying amount is reduced through the use of an allowance account. When a trade receivable, other receivable and amount due from related parties are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

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2 SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

*Financial liabilities and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into

*Equity instruments*

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

*Financial guarantee contract liabilities*

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above

*Financial liabilities*

Financial liabilities are classified as "other financial liabilities"

*Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payment through the expected life of the financial liability, or, where appropriate, a shorter period.

*Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Share-based payments

The Group has applied the requirements of IFRS 2 *Share-based Payments*. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of 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 a binomial model. 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.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements:

Consolidation of the special purpose entities

The Company does not directly or indirectly own the issued equity share capital of the following subsidiaries of the Group (known as the Special Purpose Entity (SPE)): iAtoZ Beijing Co., Ltd (EBT Beijing), Shanghai Everbright Communication Terminal Products Distribution Ltd (EBT Shanghai), Suzhou Everbright Communication Terminal Products Distribution Ltd (EBT Suzhou) and Shanghai YBT Service Consulting Co., Ltd (Shanghai YBT).

In making its judgement, management considered the detailed requirements to consolidate an SPE as set out in IAS27 *Consolidated and Separate Financial Statements* and SIC12 *Consolidation – Special Purpose Entities*, and in particular, whether the Company is able to exercise control over the SPEs. They concluded that they do control the financial and operating activities of the SPEs.

Management considered that the ability of the Company to exercise control is achieved through the following key factors:

Exclusive purchase rights

Exclusive purchase rights are held by EBT Mobile Limited ("EBT Mobile"), a wholly owned subsidiary of the Company incorporated in Hong Kong, to acquire the entire equity share capital of the SPEs. Prior to 7 April 2005, these purchase rights were held by EBT International Trade (Shanghai) Co., Ltd ("EBT Trade"), an indirect wholly owned subsidiary of the Company incorporated in PRC. Following a change in PRC law on 11 December 2004, a retail licence can be obtained in January 2006 under which foreign companies are permitted to undertake retail activities in China through its PRC subsidiaries.



3 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION  
UNCERTAINTY - continued

*Exclusive purchase rights - continued*

Following the above change, EBT Trade obtained a retail and wholesale licence in 2006. EBT Mobile will exercise the exclusive purchase rights when management considers the timing to be appropriate and after approval has been obtained by the authorities.

*Right to accrued benefits*

The purchase price in the above exclusive purchase rights is specified as the price paid on initial investment by the current legal owners. Consequently, any increase in value of the equity interests of the SPEs continues to accrue to EBT Mobile. In addition, EBT Mobile and EBT Trade have the discretion, through exclusive merchandise purchase agreements with the SPEs, to adjust the purchase prices of all items purchased by the SPEs.

Furthermore, Management considers that the Company exerts control over the operations of the Chinese trading entities of EBT as key management personnel direct the activities and decision making of the those entities.

Following the assessment of the above key factors, the directors are satisfied that the Company is able to exercise control over the SPEs and, accordingly, that the SPEs should be consolidated.

Revenue recognition

As described in note 2, it is the Group's accounting policy to recognise the sale of goods made out of retail outlets within department stores and hypermarkets at the retail price although the company does not invoice the end customer. In addition, sales of phone cards are recognised at the retail price although the Group is not the primary obligor in such transactions.

In making its judgement, management considered the detailed criteria for the recognition of gross revenue from the sale of goods set out in IAS18 *Revenue* and had regard to other available literature, in particular US GAAP, in determining whether the Group earns revenue from the sale of goods as a principal or earns a commission or fee as an agent and consequently, whether to recognise revenue gross or net.

Following the detailed assessment of the Group's activities, management has concluded that since the Group takes title to the products, has latitude in establishing price and has the risks associated with inventory, it is appropriate to conclude that the Group acts as principal in its revenue transactions. As a result, management has concluded that the recognition of revenue on a gross accounting basis is the appropriate accounting treatment for the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

## 4 REVENUE

An analysis of the Group's revenue is as follows

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
<b>Continuing operations</b>		
Mobile phones	538,996	439,042
Phone cards	54,872	50,147
Others	34,216	5,918
	<u>628,084</u>	<u>495,107</u>
Other operating income (note 6)	4,077	918
Investment revenue (note 9)	7,454	1,775
	<u>639,615</u>	<u>497,800</u>

Phone cards sales include sales proceeds of phone cards and commission from suppliers in relation to phone cards sales

## 5 GEOGRAPHICAL AND BUSINESS SEGMENTS

The Group's operations and markets are located within the People's Republic of China and form a single segment with three types of products mobile phones, phone card and related services

## 6 OTHER OPERATING INCOME

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Derecognised financial liabilities	851	692
Net foreign exchange gain	2,892	-
Other operating income	334	226
	<u>4,077</u>	<u>918</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

7 LOSS FOR THE YEAR

Loss for the year has been arrived at after charging (crediting)

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Depreciation of property, plant and equipment	778	621
Amortisation of intangible assets included in administrative expenses	5,536	23
Impairment of intangible assets	789	-
Net foreign exchange (gain)/loss	(2,359)	3,770
Allowance for doubtful debts on trade and other receivables	(947)	327
Write-back of allowance for doubtful debts on amount due from related parties (note 24)	(2,800)	-
Staff cost, including defined contribution benefit of RMB3,922,000 (2006 RMB3,962,000) (note 8)	24,537	33,363
Loss/(gain) on disposals of property, plant and equipment	16	(47)
Cost of inventories recognised as an expense	554,038	440,332
(Reversal)/write-downs of inventories recognised as an expense	(283)	441
Auditors' remuneration for services (see below)	1,796	1,886
	<u>          </u>	<u>          </u>

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	1,374	1,488
Fees payable to the Company's auditor and its associates for other services:		
- statutory audit of subsidiaries	422	398
- tax services	-	-
	<u>          </u>	<u>          </u>
	1,796	1,886
	<u>          </u>	<u>          </u>

8 STAFF COSTS

The average monthly number of employees, including executive directors, was

	<u>2007</u> Number	<u>2006</u> Number
Sales staff	169	628
Administrative staff	190	161
Executive director	1	1
Total	<u>          </u>	<u>          </u>
	360	790
	<u>          </u>	<u>          </u>

The Group also sub-contracted 812 employees from local human resource companies in the financial year

**EBT MOBILE CHINA PLC**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

**8 STAFF COSTS - continued**

Their aggregate remuneration comprised.

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Stock options (note 23)	2,872	12,258
Wages and salaries	17,591	17,026
Social security costs	3,922	3,962
Others	152	117
	<u>24,537</u>	<u>33,363</u>

The Group also incurred RMB16,024,000 in relation to sub-contracted employees in the financial year

**9 INVESTMENT REVENUES**

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Interest on bank deposits	<u>7,454</u>	<u>1,775</u>

**10 TAXATION**

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Current tax	<u>-</u>	<u>470</u>

Taxation for jurisdictions is calculated at the rates prevailing in the respective jurisdictions

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

	<u>2007</u>		<u>2006</u>	
	RMB'000	%	RMB'000	%
Loss before tax	<u>(12,606)</u>		<u>(18,706)</u>	
Tax at the PRC corporation tax rate of 33% (2006 33%)	(4,160)	(33)	(6,173)	(33)
Tax effect of expenses that are non deductible in determining taxable profit	3,166	25	5,200	28
Short term temporary differences	(368)	(3)	(85)	-
Tax effect of unused tax losses not recognised	3,448	27	2,792	15
Tax effect of utilisation of tax losses not previously recognised	(2,084)	(17)	(701)	(4)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>-</u>	<u>-</u>	<u>(563)</u>	<u>(3)</u>
Tax charge for the year	<u>-</u>	<u>-</u>	<u>470</u>	<u>3</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

10 TAXATION - continued

A deferred tax asset has not been recognised in respect of tax losses of RMB19,100,000 available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future. There is no other significant temporary difference at balance sheet date.

Decree No 63 of President of the People's Republic of China ("PRC") – Enterprise Income Tax Law of the People's Republic of China (the "EIT Law") was released on 16 March 2007, and will be effective as of 1 January 2008. The subsidiaries of the Group that operate in PRC will calculate and pay income tax based on the new income tax rate of 25% according to the EIT Law.

11 LOSS PER SHARE

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

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Loss		
Loss for the purpose of basic and diluted earnings per share	<u>(12,606)</u>	<u>(19,176)</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>214,920,927</u>	<u>168,656,872</u>

Instruments that could potentially dilute basic loss per share in the future have not been included in the calculation of diluted loss per share because they are anti-dilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

## 12 OTHER INTANGIBLE ASSETS

	<u>Software</u> RMB'000	<u>Lease</u> <u>agreements</u> RMB'000	<u>Total</u> RMB'000
<u>Cost</u>			
At 1 January 2006	69	-	69
Additions	20	-	20
At 31 December 2006	89	-	89
Additions	-	8,376	8,376
At 31 December 2007	89	8,376	8,465
<u>Amortisation and impairment</u>			
At 1 January 2006	6	-	6
Charge for the year	23	-	23
At 31 December 2006	29	-	29
Charge for the year	22	5,514	5,536
Impairment loss	-	789	789
At 31 December 2007	51	6,303	6,354
<u>Carrying value</u>			
At 31 December 2007	38	2,073	2,111
At 31 December 2006	60	-	60

Software is amortised over its estimated useful life of 3 years

Lease saving agreements recognised as intangible assets were acquired as part of the acquisition of Jingxin Jialing Telecommunications Co Ltd in February 2007 (see Note 25) and are amortised over lease periods ranging between 7 and 23 months

During the year, the Group performed a review of the recoverable amount of its lease saving agreements in light of the competitive business environment. This review led to the recognition of an impairment loss of RMB 789,000 (2006: nil), which has been recognised in the income statement for the year. The recoverable amount of relevant assets has been determined on the basis of their value in use. No discount rate has been used as the remaining period of the leases is due to finish within 1 year from the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

## 13 PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles RMB'000	Fixture and office equipment RMB'000	Assets under construction RMB'000	Total RMB'000
Cost				
At 1 January 2006	1,578	1,549	-	3,127
Additions	113	776	-	889
Disposals	(100)	-	-	(100)
At 31 December 2006	1,591	2,325	-	3,916
Additions	808	397	1,036	2,241
Disposals	(186)	(114)	-	(300)
At 31 December 2007	2,213	2,608	1,036	5,857
Accumulated depreciation				
At 1 January 2006	392	432	-	824
Charge for the year	293	328	-	621
Disposals	(90)	-	-	(90)
At 31 December 2006	595	760	-	1,355
Charge for the year	354	424	-	778
Eliminated on disposals	(92)	(108)	-	(200)
At 31 December 2007	857	1,076	-	1,933
Carrying value				
At 31 December 2007	1,356	1,532	1,036	3,924
At 31 December 2006	996	1,565	-	2,561

## EBT MOBILE CHINA PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

#### 14. SUBSIDIARIES

Details of the Company's subsidiaries, all of which are consolidated (refer to note 3) at 31 December 2007 are as follows:

<u>Name</u>	<u>Place of registration and operation</u>	<u>Proportion of ownership interest</u> %	<u>Proportion of voting power held</u> %
EBT Mobile Limited	Hong Kong	100	100
EBT International Trade (Shanghai) Co , Ltd (EBT Trade)	PRC	100	100
iAtoZ Beijing Co , Ltd (EBT Beijing)	PRC	-	-
Shanghai Everbright Communication Terminal Products Distribution Ltd (EBT Shanghai)	PRC	-	-
Suzhou Everbright Communication Terminal Products Distribution Ltd (EBT Suzhou)	PRC	-	-
Shanghai YBT Service Consulting Co , Ltd (Shanghai YBT)	PRC	-	-

#### 15. INVENTORIES

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Mobile phones	47,766	55,399
Phone cards	2,167	1,377
Others	2,406	1,967
	<u>52,339</u>	<u>58,743</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

## 16 FINANCIAL INSTRUMENTS

Categories and fair value of financial instruments

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values

The carrying amounts of each of the following categories of financial assets and financial liabilities are set out as follows:

*Cash and cash equivalents*

Cash and cash equivalents amount to RMB 132,415,000 comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The balance as of 31 December 2007 includes a restricted deposit of RMB2,000,000 for capital registration of new subsidiary to be set up (note 27)

*Loans and receivables*

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Amount receivable from the sale of goods	50,910	55,065
Allowance for doubtful debts	<u>(2,578)</u>	<u>(2,881)</u>
	48,332	52,184
Other receivables	6,326	3,525
Deposits and prepayments	56,878	37,605
Amounts due from related parties	<u>2,800</u>	<u>-</u>
	<u><u>114,336</u></u>	<u><u>93,314</u></u>

Trade receivables

The average credit period taken on sales of goods is 28 days (2006: 27 days). No interest is charged on the receivables. Included in the Group's trade receivables balance are debtors with carrying amounts of RMB 2,667,000 (2006: RMB680,000) which are past due at the reporting date for which the Group has not provided as the amounts have been received since the balance sheet date. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The allowance has been determined by reference to past default experience.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

## 16 FINANCIAL INSTRUMENTS - continued

The impairment movements of receivables are as follows

	Trade receivables RMB'000	Other receivables RMB'000	Amounts due from related parties RMB'000	Total RMB'000
At 1 January 2006	2,881	25,220	19,037	47,138
Impairment losses recognised	175	1,391	-	1,566
At 31 December 2006	3,056	26,611	19,037	48,704
Amounts recovered during the year	(303)	(644)	(2,800)	(3,747)
Exchange differences	-	(56)	-	(56)
At 31 December 2007	2,753	25,911	16,237	44,901

Deposits and prepayments

Deposits and prepayments comprise prepayments and short-term bank deposits. Included within bank deposits are deposits of RMB32,078,000 (2006: RMB18,338,000) for standby letters of credit with an original maturity of twelve months or less.

Other financial liabilities – amortised cost

	2007 RMB'000	2006 RMB'000
Financial liabilities		
Trade payables	19,673	24,807
Notes payables	14,839	19,459
Accruals and other payables	6,905	4,857
	41,417	49,123

Trade, notes and accruals and other payables principally comprise amounts outstanding for trade purchases and ongoing basis costs. The average credit period taken for trade purchases is 23 days (2006: 38 days).

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the financial statements.

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, cash and cash equivalents, deposits and prepayments, amount due from related parties, trade payables, other payables and accruals and other payables. The Group's activities expose it to a variety of financial risks, including capital risk, currency risk, interest rate risk, credit risk and liquidity risk. The Group's overall financial risk management objectives and policies remain unchanged over the relevant periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

16 FINANCIAL INSTRUMENTS - continued

Capital risk management

The Group manages its capital to ensure that entities in the Group will each be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising share capital, share premium accounts, other reserves and retained losses as disclosed in notes 18 to 21. It is the Group's policy to maintain a strong capital base so as to sustain future development of the Group's business and to maintain the confidence of creditors.

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements.

Currency risk management

The Group's functional currency is Renminbi in which most of the transactions are denominated. However, certain bank balances are denominated in Hong Kong Dollar (HKD) and Pound Sterling (GBP) as a result of the finance raised on the AIM market on the London Stock Exchange by the parent company of the Group.

The Group currently does not have a foreign currency hedging policy but management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying value of the Group's monetary assets denominated in foreign currencies as at 31 December 2007 and 31 December 2006 are set out below:

	<u>Liabilities</u>		<u>Assets</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	RMB'000	RMB'000	RMB'000	RMB'000
GBP	1,543	1,622	123,063	58,130
HKD	106	644	461	295

The following table details the Group's sensitivity to a potential change of 1% in exchange rate of each foreign currency against Renminbi while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at each balance sheet date for 1% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the Renminbi weakens 1% against the relevant currency. For a 1% strengthening of the Renminbi against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	<u>GBP impact</u>		<u>HKD impact</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Profit or loss	-	-	-	-
Other equity	1,215	565	3	(3)

16 FINANCIAL INSTRUMENTS - continued

Currency risk management - continued

The movement in equity is mainly attributable to the exposure to net assets of EBT Mobile China Plc dominated in GBP

The Group's sensitivity to foreign currency has increased during the current period mainly due to the placing shares issued to raise ongoing working capital denominated in GBP

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. In order to minimise the credit risk, the management of the Group has procedures in place to monitor and to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group has concentrated credit risk, with exposure spread over a small number of customers, like department stores, hypermarkets and China Mobile. The Group has credit risk exposure to certain single counterparties and group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are connected entities. Management considers that the credit risk in respect of these customers is minimal, as the counterparties have high credit ratings and are reputable listed companies. Ongoing monitoring of credit risk is performed on the financial condition of trade receivables.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

All the financial assets that are past due have been impaired. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

Liquidity risk management

Due to the capital intensive nature of the Group's business and notwithstanding the net current assets position as at the balance sheet dates, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements. The Group has a policy to maximise the return on surplus cash and also utilise cash within the Group to reduce the costs of external short-term funding. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

## 16 FINANCIAL INSTRUMENTS - continued

Liquidity and interest risk tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The interest represents the imputed interest expenses on interest-free retention payables, which are not included in the carrying amount of the financial liability on the financial statements.

	Weighted average effective interest rate %	Within 1 year RMB'000	1-2 years RMB'000	2-3 years RMB'000	After 3 years RMB'000	Total RMB'000
<u>At 31 December 2007</u>						
Non-interest bearing	n/a	41,417	-	-	-	41,417
<u>At 31 December 2006</u>						
Non-interest bearing	n/a	49,123	-	-	-	49,123

The following table details the Group's remaining contractual maturity for its non-derivative financial assets other than those classified as available-for-sale and held-for-trading financial assets. The table has been drawn up based on the undiscounted cash flows of financial assets including interest that will be earned on those assets.

	Weighted average effective interest rate %	Within 1 year RMB'000	1-2 years RMB'000	2-3 years RMB'000	After 3 years RMB'000	Total RMB'000
<u>At 31 December 2007</u>						
Non-interest bearing	n/a	81,469	471	318	-	82,258
Interest bearing	6.2%	32,078	-	-	-	32,078
		113,547	471	318	-	114,336
<u>At 31 December 2006</u>						
Non-interest bearing	n/a	74,592	-	-	383	74,975
Fixed interest rate instruments	4.8%	18,338	-	-	-	18,338
		92,930	-	-	383	93,313

The Group has access to financing facilities, the total unused amount of which is RMB17,239,000 at the balance sheet date. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

## 17 PROVISIONS

	Scottish Minister Claim RMB'000	MacRoberts Claim RMB'000	Total RMB'000
At 1 January 2006	-	-	-
Additional provision in the year	2,268	-	2,268
At 1 January 2007	2,268	-	2,268
Utilised in the year	(1,064)	-	(1,064)
Released to the income statement in the year	(1,204)	-	(1,204)
Additional provision in the year	-	969	969
At 31 December 2007	-	969	969

Scottish Ministers Claim

In February 2007, the parent Company was called upon by the Scottish Ministers to implement the terms of the guarantee given by the Company (then TradingSports Exchange Systems plc) for a regional selective assistance grant of £145,000 paid by the Scottish Ministers to the Trading Exchange (UK) Limited ("TTEL", then the TradingSports Limited). Under the Share Purchase Agreement entered into between The Trading Exchange plc and Intuition Capital Limited for the acquisition of the entire issued share capital of TTEL on 30 April 2005, a personal guarantee was given by one of the directors of TTEL to the Company for the guarantee given by the Company to the Scottish Ministers for the grant. As at 31 December 2006, TTEL had failed to pay any amounts due to the Scottish Ministers and given that EBT was unable to assess the existence of a likelihood of success of any legal defence at that time, a provision was recognized in relation to the claim. On 4 September 2007, Sheriffdom of Glasgow and Strathkelvin of Glasgow gave the judgment that the Company was liable to pay amounts due (including interest) to the Scottish Ministers. As a result, the Company paid the amount of £160,248, during the 2007 financial year. The Company has since received £145,000 from the director of TTEL, who gave the personal guarantee for the grant. The difference between the amount provided and the amount settled of RMB1,204,000 was due to the need for the Company to incur directly attributable professional fees as part of the transaction and was reflected in the income statement for the year ended 31 December 2007.

MacRoberts claim

The company received a notice of litigation from its former firm of solicitors MacRoberts, in relation to unpaid fees due from work performed in November 2005. In response, a counter-claim in the amount of £100,000 was made by the company for legal malpractice on the part of MacRoberts. Management has received correspondence dated 27 March 2008 from its current legal counsel stating that the total claim from MacRoberts amounts to £40,447 plus interest which is estimated to be £8,363.

As of the date of this statement, EBT is unable to assess the likelihood of success of the Company's counter-claim which dates back to services provided before the reverse takeover of the group in 2005. As a result the Company has made a provision totalling £63,570 for the claim from MacRoberts. The decree is expected to be judged during the 2008 financial year.

# EBT MOBILE CHINA PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 18 SHARE CAPITAL

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Issued and fully paid 220,466,331 (2006: 177,527,542 of 0.1p each) ordinary shares of 0.1p each	<u>3,247</u>	<u>2,596</u>
Issued and fully paid deferred shares 3,447,931,806 (2006: 3,447,931,806) deferred shares of 0.1p each	<u>50,362</u>	<u>50,362</u>

The authorised share capital is 300,000,000 ordinary shares of 0.1p each (2006: 300,000,000 authorised ordinary share of 0.1p each) and 7,245,000,000 deferred shares of 0.1p (2006: 7,425,000,000 deferred shares of 0.1p)

	<u>Ordinary Share Issued Number</u>	<u>Deferred Share Number</u>	<u>Share Issued Amount RMB'000</u>
Balance at 1 January 2006	156,114,827	3,447,931,806	52,642
Placing shares issued to raise ongoing working capital	16,666,667	-	244
Share options exercised	4,745,958	-	72
Balance at 1 January 2007	177,527,452	3,447,931,806	52,958
Placing shares issued to raise ongoing working capital	33,566,300	-	142
Share options exercised	9,372,579	-	509
Balance at 31 December 2007	<u>220,466,331</u>	<u>3,447,931,806</u>	<u>53,609</u>

#### Note:

- (1) EBT Mobile China plc issued 16,666,667 placing shares on 3 May 2006
- (2) 666,666 options of EBT Mobile China plc were exercised on 8 May 2006
- (3) 100,000 options of EBT Mobile China plc were exercised on 8 June 2006
- (4) 3,129,292 options of EBT Mobile China plc were exercised on 31 August 2006
- (5) 850,000 options of EBT Mobile China plc were exercised on 29 November 2006
- (6) EBT Mobile China plc issued 33,566,300 placing shares on 4 January 2007
- (7) 773,000 options of EBT Mobile China plc were exercised on 18 January 2007
- (8) 6,387,875 options of EBT Mobile China plc were exercised on 14 March 2007
- (9) 1,715,852 options of EBT Mobile China plc were exercised on 25 May 2007
- (10) 495,852 options of EBT Mobile China plc were exercised on 7 September 2007

The deferred shares were not admitted to trading on any securities exchange, but are transferable and capable of being repurchased by the Company for a nominal amount. The deferred shares do not have any voting or income rights or rights on a sale or winding up.

## EBT MOBILE CHINA PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

#### 19 SHARE PREMIUM ACCOUNT

	RMB'000
Balance at 1 January 2006	97,860
Placing of shares issued during the year	73,011
Share options exercised	6,456
Share issue cost	(4,158)
Balance at 1 January 2007	173,169
Placing of shares issued during the year	111,611
Share options exercised	4,149
Share issue cost	(759)
Balance at 31 December 2007	288,170

#### 20 OTHER RESERVES

	Capital reserve RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Acquisition reserve RMB'000	Deferred consideration reserve RMB'000	Total RMB'000
Balance at 1 January 2006	124,548	(3,408)	43,168	(97,114)	-	67,194
Exchange differences on translation of foreign operations and balances at 31 December 2006	-	7,446	-	-	-	7,446
Recognition of share-based payment	-	-	12,258	-	-	12,258
Balance at 31 December 2006	124,548	4,038	55,426	(97,114)	-	86,898
Exchange differences on translation of foreign operations and balances at 31 December 2007	-	(7,713)	-	-	-	(7,713)
Recognition of share-based payment	-	-	2,872	-	-	2,872
Deferred shares for acquisition	-	-	-	-	7,477	7,477
Balance at 31 December 2007	124,548	(3,675)	58,298	(97,114)	7,477	89,534

#### Capital reserve

Liabilities forgiven by GMAI-Asia com, Inc are regarded as additional contribution and therefore have been included in the capital reserve

#### Translation reserve

During the fiscal year ended 31 December 2007 and 2006, the Group consolidated the financial statements of EBT Mobile Limited and EBT Mobile China Plc, which were translated at the applicable exchange rates prevailing on relevant date. The reserve arises from the translation of the financial results of EBT Mobile China plc and EBT Mobile Limited from their functional currencies (GBP and Hong Kong dollar respectively) to the presentation currency (RMB).

#### Share option reserve

Share option reserve is recognised at fair value at the date of grant. Details are described in note 23.



EBT MOBILE CHINA PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

20 OTHER RESERVES - continued

Acquisition reserve

The acquisition reserve of the Group represents the premium of the issued ordinary share capital of EBT Mobile China plc at the time of the reverse acquisition by EBT Mobile Limited

Deferred consideration reserve

The deferred consideration reserve represents the shares to be issued as part of the deferred consideration for the business combination that occurred in February 2007. Details are described in note 25

21 RETAINED LOSSES

RMB'000

Balance at 1 January 2006	(138,505)
Loss for the year	(19,176)
Balance at 1 January 2007	(157,681)
Loss for the year	(12,606)
Balance at 31 December 2007	(170,287)

22 OPERATING LEASE ARRANGEMENTS

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
As lessee:		
Minimum lease payments under operating leases recognised in income for the year	<u>23,584</u>	<u>9,232</u>

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

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Within one year	11,849	8,041
In the second to fifth years inclusive	<u>12,471</u>	<u>13,404</u>
	<u>24,320</u>	<u>21,445</u>

Operating lease payments represent rentals payable by the Group for certain of its office and store properties

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

23 SHARE-BASED PAYMENTS

The Group has several share option schemes for senior management of the Group as follows

**The Trading Exchange plc options transferred to EBT Mobile China plc**

Options are exercisable at a price ranging from £0.01 to £0.50. The maximum vesting period is within 2 years from 31 December 2006. If certain of the options remain unexercised after a period ranging from 3 to 10 years from the date of grant, they will expire. However, certain options do not have an expiry term. Options are forfeited if the employee leaves the Group before the options vest. 5,323,000 shares were originally issued by the Trading Exchange plc prior to the reverse acquisition and those share options remained effective, among which, 334,000 shares, 1,616,666 shares and 1,144,334 shares have been exercised respectively during the year of 2005, 2006 and 2007.

**EBT Mobile Limited options transferred to EBT Mobile China plc**

Options are exercisable at a price ranging from £0.01 to £0.0197. The maximum vesting period is 3 years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

**EBT Mobile China plc 2007 options scheme**

Options are exercisable at the price £0.001 provided the market share price of the Company exceed the performance targets of each vesting period which are as follows

	<u>Vesting period</u>	<u>Performance target</u> GBP
Tranche 1	1 year	0.36
Tranche 2	2 years	0.43
Tranche 3	3 years	0.52

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows

	2007			2006		
	Number of share options	Weighted average exercise price		Number of share options	Weighted average exercise price	
		GBP	RMB equivalent		GBP	RMB equivalent
Outstanding at 1 January	21,647,748	0.049	0.67	24,393,706	0.043	0.60
Options granted during the year	3,696,000	0.001	0.01	2,000,000	0.220	3.24
Options forfeited during the year	(333,999)	0.001	0.01	-	-	-
Exercised during the year	(9,372,579)	0.030	0.46	(4,745,958)	0.092	1.36
Outstanding at 31 December	<u>15,637,170</u>	<u>0.050</u>	<u>0.65</u>	<u>21,647,748</u>	<u>0.049</u>	<u>0.67</u>
Exercisable at the end of year	<u>11,766,493</u>	<u>0.055</u>	<u>0.80</u>	<u>10,498,447</u>	<u>0.063</u>	<u>0.92</u>

The weighted average share price at the date of exercise for share options exercised during the period was GBP0.030 (equivalent to RMB0.46). The options outstanding at 31 December 2007 had a weighted average exercise price of GBP0.050 (equivalent to RMB0.65), and the remaining contractual life ranging from 7 years to infinity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

## 23 SHARE-BASED PAYMENTS - continued

## Note

- 1) In 2006, options were granted on 10 July 2006. The aggregate of the estimated fair values of the options granted on those dates is RMB2,603,000.
- 2) In 2007, options were granted on 1 July 2007. The aggregate of the estimated fair values of the options granted on those dates is RMB13,076,000.

The inputs into the Binomial model are as follows

	<u>2007</u>	<u>2006</u>
Range of share price (GBP)	0.25-0.31	0.25-0.33
Range of exercise price (GBP)	0.001	0.17-0.27
Expected volatility	45.0%	51.5%
Expected life	6-8 years	3 years
Risk free rate	5.46%	4.5%-4.76%
Expected dividends yield	0.3%	Nil

The expected life of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The range given above results from certain groups of employees exhibiting different behaviour and the differing market vesting conditions attached with each of the tranches granted in the year as noted in table at the top of this note. Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 2 years.

The Group recognised total expenses of RMB2,872,000 related to equity-settled share-based payment transactions in 2007 (2006: RMB12,258,000).

## 24. 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. The nature of the Group's relationship with related parties is set out below.

<u>Name</u>	<u>Relationship with the Group</u>
Everbright Telecom-land Network (Shanghai) Co., Ltd	A company under common control of China Retail Venture #1
China Everbright Telecom-land Network Co., Ltd	A company under common control of China Retail Venture #1
China Retail Venture #1, Inc. (note)	Substantial shareholder of the Company

Note: China Retail Venture #1, Inc., which is ultimately wholly owned by James A. Reiman, non-executive director of EBT, acquired all the shares in EBT owned by GMAI-Asia.com, Inc. on 7 December 2006 and became the substantial shareholder of the Company.

Transactions between the Group and the related parties are disclosed below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

24 RELATED PARTY TRANSACTIONS - continued

(a) Other related party transactions

Net amounts due from a related company, Everbright Telecom-land Network (Shanghai) Co., Ltd are RMB2,800,000 as at 31 December 2007 (2006 nil), which are expected to be collected in the first half of 2008. These balances are stated after allowances for doubtful debts amounting to RMB16,237,000 (2006 RMB19,037,000)

(b) Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*

	<u>2007</u> RMB'000	<u>2006</u> RMB'000
Short-term employee benefits including emoluments of RMB3,880,000 (2006 RMB4,332,000)	5,366	6,019
Post-employment benefits	75	55
Share-based payments	2,216	9,880
	<u>7,657</u>	<u>15,954</u>

During the year of 2007, directors exercised 100,000 option shares (2006 1,666,666) and the aggregate gain on exercise was RMB376,000 (2006 RMB2,554,000)

The highest paid director for the year is disclosed

	<u>2007</u> RMB'000
Emoluments	1,146
Benefits received or receivable under long-term incentive schemes	475
Gain on exercise for share options	376
	<u>1,997</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

## 25. BUSINESS COMBINATION

On 8 February 2007, the Group acquired eight retail stores and a mobile repair centre belonging to Shanghai Jingxin Jialing Telecommunications Co., Ltd. The Group acquired the business for a cash consideration of RMB0.9 million and through the provision of equity instruments of up to 2.4 million ordinary shares with a nominal value of £0.1p each. The exact number of ordinary shares to be issued is linked to the number of lease agreements that are renewed on the acquired stores over a period of two years from the date of acquisition.

The quoted share price at the date of acquisition has not been used as the basis for determining the fair value of the ordinary shares issued given that the shares will be issued in future periods. Instead, the ordinary shares have been fair valued applying an illiquidity discount using the Chaffe and Finnerty models. The inputs into these models are as follows:

	<u>2007</u>
Expected volatility	38%
Expected life	24 months
Risk free rate	5.5%
Expected dividends yield	Nil

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 14 months before the acquisition date.

This transaction has been accounted for by the purchase method of accounting.

	<u>Book value</u> RMB'000	<u>Fair value</u> RMB'000
Net assets acquired		
Other intangible assets (note 12)	-	8,376
Total consideration		<u>8,376</u>
Satisfied by		
Cash		900
Deferred consideration		7,476
		<u>8,376</u>
Net cash outflow arising on acquisition.		
Cash consideration		<u>900</u>

It is impracticable to disclose the revenue and profit of the acquired business as the results of the acquired stores have been business has mixed with the original business of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

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26 SET UP AND SUBSEQUENT DISPOSAL OF A JOINT VENTURE

On 29 November 2007, the Group entered into an agreement to dispose of its 50% interest in Shanghai Jiaqi Telecommunications Co , Ltd , a joint venture acquired by the Group in March 2007. This business was sold to the other party to the joint venture. The consideration for acquisition and disposal are RMB 2,500,000 and RMB 2,000,000 respectively. The disposal was effected by the uncertainty of the potential to explore business opportunities in the fixed line arena.

27 SUBSEQUENT EVENTS

On 4 February 2008, a wholly-owned subsidiary of the Group, Suzhou Yiteng Telecommunications Products Co , Ltd , was established with the registered capital of RMB2,000,000 after approval was obtained from relevant government authorities.

On 6 March 2008, a wholly-owned subsidiary of the Group, Hubei Yiteng Telecommunications Products Co , Ltd , was established with the registered capital of RMB1,000,000 after approval was obtained from relevant government authorities.

\* \* \* \* \*

EBT MOBILE CHINA PLC

AUDITORS' REPORT AND FINANCIAL STATEMENTS (COMPANY ONLY)  
FOR THE YEAR ENDED 31 DECEMBER 2007

(Prepared under UK GAAP)

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## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EBT MOBILE CHINA PLC**

We have audited the individual Company financial statements of EBT Mobile China plc for the year ended 31 December 2007 which comprise the balance sheet and the related notes 1 to 11. These individual Company financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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**

The directors' responsibilities for preparing the individual Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the individual Company financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the "Business Review" that is cross referenced from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report for the above year as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual Company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual Company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the individual Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.




We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the individual Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual Company financial statements.

### **Opinion**

In our opinion

- the individual Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007,
- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

*Deloitte & Touche* 

***Deloitte & Touche LLP***

*Chartered Accountants and Registered Auditors*

*London*

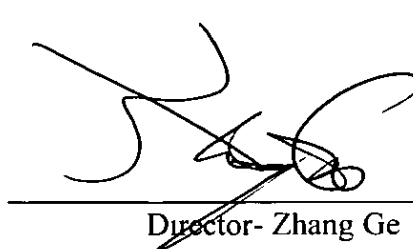
*9 April 2008*

**EBT MOBILE CHINA PLC**

**COMPANY BALANCE SHEET  
AS AT 31 DECEMBER 2007**

	<u>NOTES</u>	<u>2007</u> <u>GBP</u>	<u>2006</u> <u>GBP</u>
<b>FIXED ASSETS</b>			
Investment in subsidiaries	3	<u>3,077,628</u>	<u>2,425,258</u>
<b>CURRENT ASSETS</b>			
Debtors	4	10,059,784	6,040,942
Cash at bank and in hand		<u>6,180,130</u>	<u>2,592,363</u>
		<u>16,239,914</u>	<u>8,633,305</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	5	(105,866)	(106,167)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	11	<u>(63,570)</u>	<u>(150,709)</u>
<b>NET ASSETS</b>		<u>19,148,106</u>	<u>10,801,687</u>
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	6	3,668,398	3,625,460
Share premium account	7	19,404,956	11,830,303
Other reserve	8	4,004,683	3,327,149
Retained loss	9	<u>(7,929,931)</u>	<u>(7,981,225)</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>	10	<u>19,148,106</u>	<u>10,801,687</u>

The financial statements were approved by the Board of Directors and authorised for issue on 9 April 2008. They were signed on its behalf by

  
\_\_\_\_\_  
Director-James A Reiman  
\_\_\_\_\_  
Director- Zhang Ge

NOTES TO THE COMPANY FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

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1 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Investments

Fixed assets investments are shown at cost less provision for impairment.

Share-based payments

The Company has applied the requirements of FRS 20 *Share-based Payments*. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

The Company issues equity settled share based payments to certain employees. A fair value for the equity settled share awards is measured at the date of grant. The fair value is measured using the Binomial model of valuation, which is considered to be the most appropriate valuation technique. The valuation takes into account factors such as non-transferability, exercise restrictions and behavioural considerations.

An expense is recognised to spread the fair value of each award over the vesting period on a straight-line basis, after allowing for an estimate of the share awards that will actually vest. The estimate of vesting is reviewed annually, with any impact on the cumulative charge being recognised immediately. Share-based payments granted to employees of the subsidiary entities are recognised as an increase in investments.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

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1 SIGNIFICANT ACCOUNTING POLICIES - continued

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Foreign currency

Transactions in foreign currencies are recorded at the rates of exchange at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at the date.

2 LOSS BEFORE TAX

The Company has elected to take the exemption from the requirement to publish a separate profit and loss account for the parent company in accordance with section 230 of the Act 1985.

Excluding 3 non-executive directors in 2007 (2006: 4), the average monthly number of employees is nil (2006: nil).

## EBT MOBILE CHINA PLC

### NOTES TO THE COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

#### 2 LOSS BEFORE TAX - continued

Their aggregate remuneration comprised

	<u>2007</u> GBP	<u>2006</u> GBP
Wages and salaries	88,110	110,198
Social security costs	31,406	-
	<u>119,516</u>	<u>110,198</u>

The auditors' remuneration for audit and other services is disclosed in note 7 to the consolidated accounts

#### 3 INVESTMENT IN SUBSIDIARIES

	<u>Investment in</u> <u>subsidiaries</u> GBP	<u>Capital</u> <u>contributions</u> GBP	<u>Total</u> GBP
Balance at 1 January 2006	96,365	1,612,458	1,708,823
Share options granted to non-UK employees	-	716,435	716,435
Balance at 1 January 2007	96,365	2,328,893	2,425,258
Share options granted to non-UK employees	-	163,280	163,280
Deferred consideration for acquisition (note 8)	-	489,090	489,090
Balance at 31 December 2007	<u>96,365</u>	<u>2,981,263</u>	<u>3,077,628</u>

Capital contributions represent share options granted to employees and parties of non-UK entities, and deferred consideration shares for non-UK entity's business acquisition

Details of the Company's subsidiaries at 31 December 2007 are as follows

<u>Name</u>	<u>Place of</u> <u>registration</u> <u>and operation</u>	<u>Proportion</u> <u>of ownership</u> <u>interest</u> %	<u>Proportion</u> <u>of voting</u> <u>power held</u> %	<u>Method used</u> <u>to account</u> <u>for investment</u>
EBT Mobile Limited	Hong Kong	100	100	Cost

EBT MOBILE CHINA PLC

NOTES TO THE COMPANY FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

4. DEBTORS

	<u>2007</u> GBP	<u>2006</u> GBP
Amounts due from subsidiaries	7,828,798	4,823,752
Deposits and prepayments	2,228,812	1,211,429
Prepaid taxes	2,174	5,761
	<u>10,059,784</u>	<u>6,040,942</u>

5 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>2007</u> GBP	<u>2006</u> GBP
Accruals	82,242	78,900
Other creditors	23,624	27,267
	<u>105,866</u>	<u>106,167</u>

6 CALLED-UP SHARE CAPITAL

	<u>2007</u> GBP	<u>2006</u> GBP
Issued and fully paid ordinary shares 220,466,331 (2006 177,527,452 of 0 1p each) ordinary shares of 0 1p each	<u>220,466</u>	<u>177,527</u>
Issued and fully paid deferred shares 3,447,931,806 (2006 3,447,931,806) deferred shares of 0 1p each	<u>3,447,932</u>	<u>3,447,932</u>

The authorised share capital comprises 300,000,000 ordinary shares of 0 1p each (2006 300,000,000 ordinary shares of 0 1p each) and 7,425,000,000 deferred shares of 0 1p (2006 7,425,000,000 deferred shares of 0 1p each)

	<u>Share issued</u> Number	<u>Share</u> Number	<u>Share issued</u> Amount GBP
Balance at 1 January 2006	156,114,827	3,447,931,806	3,604,047
Placing shares issued to raise ongoing working capital	16,666,667	-	16,667
Share options exercised	4,745,958	-	4,746
Balance at 1 January 2007	177,527,452	3,447,931,806	3,625,460
Share options exercised	9,372,579	-	9,372
Placing shares issued to raise ongoing working capital	33,566,300	-	33,566
Balance at 31 December 2007	<u>220,466,331</u>	<u>3,447,931,806</u>	<u>3,668,398</u>

## EBT MOBILE CHINA PLC

### NOTES TO THE COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

#### 6 CALLED-UP SHARE CAPITAL - continued

##### Note

- 1) EBT Mobile China plc issued 16,666,667 placing shares on 3 May 2006
- 2) 666,666 options of EBT Mobile China plc were exercised on 8 May 2006
- 3) 100,000 options of EBT Mobile China plc were exercised on 8 June 2006
- 4) 3,129,292 options of EBT Mobile China plc were exercised on 31 August 2006
- 5) 850,000 options of EBT Mobile China plc were exercised on 29 November 2006
- 6) EBT Mobile China plc issued 33,566,300 placing shares on 4 January 2007
- 7) 773,000 options of EBT Mobile China plc were exercised on 18 January 2007
- 8) 6,387,875 options of EBT Mobile China plc were exercised on 14 March 2007
- 9) 1,715,852 options of EBT Mobile China plc were exercised on 25 May 2007
- 10) 495,852 options of EBT Mobile China plc were exercised on 7 September 2007

The deferred shares were not admitted to trading on any securities exchange, but are transferable and capital of being repurchased by the Company for a nominal amount. The deferred shares do not have any voting or income rights nor rights on a sale or winding up.

#### 7 SHARE PREMIUM ACCOUNT

	<u>2007</u> GBP	<u>2006</u> GBP
Balance at 1 January	11,830,303	6,699,783
Placing of shares issued during the year	7,351,020	4,983,333
Share issue costs	(50,000)	(283,820)
Share options exercised	273,633	431,007
Balance at 31 December	<u>19,404,956</u>	<u>11,830,303</u>

#### 8 OTHER RESERVES

	<u>2007</u> GBP	<u>2006</u> GBP
Balance at 1 January	3,327,149	2,495,403
Recognition of share-based payments	188,443	831,746
Deferred consideration for acquisition	489,091	-
Balance at 31 December	<u>4,004,683</u>	<u>3,327,149</u>

Other reserve represents the share options reserve valued in accordance with FRS 20. The share-based payments and deferred consideration for acquisition are disclosed in note 23 and note 25, respectively to the consolidated accounts.

**EBT MOBILE CHINA PLC**

**NOTES TO THE COMPANY FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

**9. RETAINED LOSS**

	<u>2007</u> GBP	<u>2006</u> GBP
Balance at 1 January	7,981,225	7,507,774
Net (gain)/loss for the year	(51,294)	473,451
Balance at 31 December	<u>7,929,931</u>	<u>7,981,225</u>

**10 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<u>2007</u> GBP	<u>2006</u> GBP
Balance at 1 January	10,801,687	5,291,459
Shares issued during the year	7,384,586	5,000,000
Share issue costs	(50,000)	(283,820)
Share options exercised	283,005	435,753
Recognition of share-based payments	188,443	831,746
Deferred consideration on a business combination	489,090	-
Net gain/(loss) for the year	51,294	(473,451)
Balance at 31 December	<u>19,148,106</u>	<u>10,801,687</u>

**11 PROVISIONS FOR LIABILITIES AND CHARGES**

	<u>Scottish</u> <u>Minister Claim</u> GBP	<u>MacRoberts</u> <u>Claim</u> GBP	<u>Total</u> GBP
At 1 January 2006	-	-	-
Additional provision in the year	150,709	-	150,709
At 1 January 2007	150,709	-	150,709
Utilised in the year	(71,694)	-	(71,694)
Released to the income statement in the year	(79,015)	-	(79,015)
Additional provision in the year	-	63,570	63,570
At 31 December 2007	<u>-</u>	<u>63,570</u>	<u>63,570</u>

Refer to note 17 in the consolidated financial statements for further details

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