中国科技

CHINA TECHNOLOGY

2007 Annual Report

Annual Report for the Fiscal Year Ended December 31, 2007

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CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors, I hereby present the CTDC's Annual Report and audited financial statements for the year ended 31 December 2007 ("FY2007").

Operating and Financial Results

During the year ended FY2007, the Company recorded the total revenues of the Company decreased by US$0.22 million, or 17.3%, from US$1.27 million in FY2006 to US$1.05 million in FY2007. Revenues were contributed solely from the Company's IT operations in 2007 which is outside of the current core business solar business.

Business Outlook

FY2007 was a transformational year for CTDC as China Merchants Group ("China Merchants"), one of the major Chinese state-owned conglomerate enterprises, became our ultimate principal shareholder along with a new management team in place for the Company since January 2007. To consider carefully about our strengths and resources of major shareholders and the strong solar market growth, the new management decided to shift the Company's business to solar thin film industry and disposed the Nutraceutical Operation in 2007. The Company has been disposing of business or assets which are outside our core business which includes the proposed discontinuation of the IT Operation expected to be completed in the coming year.

In recent years, the photovoltaic industry production has been expanding so fast with yearly growth rates over the last five years were in average more than 40%. The International Energy Agency (IEA) forecasts an annual worldwide increase of over 55% in energy demand by 2030 and thus the potential for solar electricity is considerable. According to the Thin-film PV was only 5% of the entire PV market a few years ago, but its production grew so fast by almost 107% in 2007 and expected to account for 35% of the PV market by 2015. Meanwhile, the market for our product is expected to grow due to the rising TCO glass demand and increasing commitment of government to reduce carbon dioxide emissions, CTDC entered the booming solar energy industry by the first step of manufacturing SnO2 solar base plates (TCO Glass) with exclusive license authorized by Terra Solar, a leading U.S. based pioneer in research and development of thin film PV technology.

The Company strongly believes that the new business strategy will deliver shareholder value and higher earnings potential for the Company. We aim to be a leading solar energy products and solutions provider focus on thin film technology in China.

We have made great effort in implementing a few of the major strategic tasks in 2007. Most notably, we have formed a strategic partnership with Terra Solar to develop and integrate applications of solar energy technology, completed the purchase of manufacturing plant located at China Merchants Zhangzhou Development Zone in China and the first SnO2 base plate production line was shipped to our facility at the end of 2007.

We started our production of SnO2 base plate in the third quarter of 2008 to reach our goal of business strategy development. Despite that we didn't generate revenue related to our core business as we just entered the solar business sector in late 2007, we firmly believe that the manufacturing and sales of SnO2 base plates will lead the Company to profitability in the future.

As the PV industry grows and matures, we think that there will be increased demand for all kinds of solar energy solutions. Despite our first phase product focusing on the SnO2 base plate, we are prepared to broaden our product line into solutions at suitable time by pursuing the flexible vertical integrated thin film industry chain from SnO2 base plate to a-Si PV module and BIPV (Building Integrated Photovoltaic). CTDC will remain the commitment to expanding our production capacity and producing industry leading quality products while lowering our cost and increasing our competitive advantages.

Appreciation

We look forward to continuing to earn your confidence and support as we tackle the exciting opportunities ahead.

I sincerely thank the Board of Directors for their guidance and support, and management and staff for their contribution and dedication in the past year. Based on our new business and focused approach, the opportunities allied give me great confidence in our future prospects and the delivery of increasing value to shareholders.

Alan Li
Chairman & Chief Executive Officer

Hong Kong, October 17, 2008

INTRODUCTION

This annual report on Form 20-F includes our audited consolidated financial statements as of December 31, 2006 and 2007, and for each of the three years in the period ended December 31, 2005, 2006 and 2007.

We list our common stock, par value of US$0.01 on the Nasdaq Capital Market, or Nasdaq, under the symbol “CTDC” (formerly known as “TRFDF”).

Except as otherwise required and for purposes of this Annual Report only:

- “CTDC”, “Company”, “us” or “we” refer to China Technology Development Group Corporation. The term “you” refers to holders of our common stock and preferred stock.
- “Hong Kong” and the “Government” refer to the Hong Kong Special Administrative Region of the People’s Republic of China and its government, respectively.
- “China” and the “Chinese government” refer to the People’s Republic of China and its government.
- All references to “Renminbi,” or “Rmb” are to the legal currency of China, all references to “U.S. dollars,” “dollars,” “$” or “US” are to the legal currency of the United States and all references to “Hong Kong dollars” or “HK$” are to the legal currency of Hong Kong. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Description of Business

China Technology Development Group Corporation (formerly known as “Tramford International Limited”) was incorporated as an International Business Company under the laws of the British Virgin Islands in September 1995. The Company is a dynamic growth company with its main portfolio business based in China. Headquartered in Hong Kong, the Company operates the business in Hong Kong, Beijing, Shenzhen, and the Fujian Province. The Company became a NASDAQ listed company in 1996, one of the very first China-based technology companies listed on the NASDAQ Capital Market. CTDC is a provider of solar energy products and solutions in China focusing on a-Si thin-film technology.

Recent major events

On September 23, 2008, the Company entered into a Securities Purchase Agreement (the “Agreement”) with certain institutional investors (the “Buyers”) for a private placement transaction. Pursuant to the Agreement, the Company agreed to sell to the Buyers(i) 498,338 shares of common stock of the Company, par value $0.01 per share, for an aggregate purchase price of $3.01; (ii) Series A Warrants to purchase an aggregate amount of 249,170 shares of common stock of the Company at an exercise price of $6.00 per share exercisable within five years after the Initial Closing; and

(iii) Series B Warrants to purchase an aggregate amount of1,277,136 shares of common stock of the Company issuable upon incurrence of price reset protection and dilutive subsequent issuance. Pursuant to the Agreement, the Buyers also have option to acquire up to additional 498,338 shares of common stock, additional Series A Warrants to purchase an aggregate amount of up to 249,170 and Series B Warrants to purchase an aggregate amount of up to 1,277,136 within the three months after the Initial Closing.

The shares sold in the private placement and the shares issuable upon the exercise of the related warrants have not been and will not be registered under the Securities Act of 1933, as amended, or state securities laws, and may not be offered or sold in the United States without being registered with the Securities and Exchange Commission ("SEC") or through an applicable exemption from SEC registration requirements.

In connection with the transaction described herein, FT Global Capital Inc. served as lead placement agent and Argosy Capital Securities, Inc served as co-placement agent for this offering. As consideration for its participation in the offering, the agents received a total cash commission equal to 6% of the total proceeds raised and warrants to purchase 50,000 shares of the Company's common stock at $6.00 per share with a five-year term.

On September 24, 2008, the Company filed a report on Form 6-K and issued a press release announcing the execution of the Securities Purchase Agreement.

On September 26, 2008, the transaction contemplated in the Securities Purchase Agreement was closed. As a result, the Company has received a gross proceed of $1.5 million from the private placement. The number of the outstanding common shares of the Company was 15,543,669 as of October 17, 2008.

SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with Item 5 - ”Operating and Financial Review and Prospects”, and the Financial Statements and Notes thereto included elsewhere in this Annual Report.

The selected financial data at December 31, 2006 and 2007 and for the years ended December 31, 2005, 2006 and 2007 have been derived from and should be read with our audited consolidated financial statements, including notes to the consolidated financial statements, included in this Annual Report beginning on page F-1. We derived the selected financial data at December 31, 2003, 2004 and 2005, and for the years ended December 31, 2003 and 2004 from our consolidated financial statements, which have been prepared in accordance with U. S. generally accepted accounting principles (“GAAP”), but have not been included in this annual report.

All financial data included elsewhere in this Annual Report are expressed, unless otherwise stated, in the nearest thousand of Renminbi. This Annual Report contains translations of Renminbi amounts into U.S. dollar amounts, solely for your convenience. Unless otherwise indicated, the translations have been made at Rmb7.2946 = US$1.00, which was the noon buying rate in New York City for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2007. See Item 3 “Key Information — Selected Financial Data — Exchange Rate Information” for historical information regarding this noon buying rate. You should not construe these translations as representations that the Renminbi actually represents such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rate indicated or at any other rates.

	(Amounts in thousands, except per share data)					
	Year Ended December 31, 2003 Rmb(1)	Year Ended December 31, 2004 Rmb(1)	Year Ended December 31, 2005 Rmb(1)	Year Ended December 31, 2006 Rmb(1)	Year Ended December 31, 2007 Rmb(1)	Year Ended December 31, 2007 US$(2)
Consolidated Statement of Operations Data:						
Revenues	8,405	2,720	6,468	9,291	7,680	1,053
Cost of sales	4,421	1,394	2,491	4,244	3,866	530
Gross Profit	3,984	1,326	3,977	5,047	3,814	523
Operating Loss	(4,378)	(10,779)	(16,676)	(30,720)	(25,415)	(3,484)

	(Amounts in thousands, except per share data)					
	Year Ended December 31, 2003 Rmb(1)	Year Ended December 31, 2004 Rmb(1)	Year Ended December 31, 2005 Rmb(1)	Year Ended December 31, 2006 Rmb(1)	Year Ended December 31, 2007 Rmb(1)	Year Ended December 31, 2007 US$(2)
Other Income (expense)						
Interest income	119	243	259	214	827	113
Finance costs	-	-	(2)	-	-	-
Gain (loss) on disposal of available-for-sale securities	2,013	100	(2,596)	(488)	15,500	2,125
Dividend income from available-for-sale securities	295	67	115	4	58	8
Exchange gain	-	-	-	-	559	77
Others, net	2	-	(28)	(6)	21	2
Loss from continuing operations	(1,308)	(10,369)	(18,933)	(30,996)	(8,840)	(1,213)
Income/(loss) from discontinued operations	366	254	(599)	(83,590)	1,729	237
Net loss for the year	(942)	(10,115)	(19,532)	(114,586)	(7,111)	(976)
Net loss per share	(0.14)	(1.47)	(2.67)	(10.13)	(0.50)	(0.07)
Net loss per share from continuing operations	(0.19)	(1.51)	(2.58)	(2.74)	(0.62)	(0.09)
Net earnings (loss) per share from discontinued operations	0.05	0.04	(0.08)	(7.39)	0.12	0.02
Consolidated Balance Sheet Data: (As of year-end)						
Total assets	51,582	39,355	117,849	64,751	115,888	15,887
Total liabilities	5,391	6,501	13,626	14,111	35,699	4,894
Shareholders' equity	46,191	32,854	98,708	50,640	80,189	10,993

(1) During the fiscal year ended December 31, 2005, we disposed of the Zhuhai branch of Beijing BHL Networks Technology Co., Ltd ("BBHL") and during the fiscal year ended December 31, 2006, we disposed of Anji Science Bio-Product Inc. ("Anji Bio"), the production base of our Nutraceutical Operations. The management of the Company approved the disposal of the Nutraceutical Operations on April 23, 2007. During the fiscal year ended December 31, 2007("the 2007 Period"), we regarded CNT as discontinued operations pursuant to Statement of Financial Accounting Standards ("SFAS") No.144 "Accounting for the Impairment or Disposal of Long-Lived Assets". The operating results up to the date of disposal and the loss resulted from the disposal were reported as discontinued operations (see Note 6 in consolidated financial statements). To conform to the presentation of the current year, the comparative operating results of the discontinued operations for the years ended December 31, 2003, 2004, 2005 and 2006 were reclassified as discontinued operations.

(2) For the convenience of the reader, translation of amounts from Renminbi into United States Dollars has been made at the noon buying rate in New York City for cable transfer in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2007 of Rmb7.2946 = US$1.00.

Exchange Rate Information

On July 21, 2005 the Chinese government changed its policy of pegging the value of the Renminbi to the U.S. dollar. This revaluation of the Renminbi was based on a conversion of Renminbi into United States dollars at an exchange rate of US$1.00 = Rmb8.11. Under the new policy, the Renminbi will be permitted to fluctuate within a band against a basket of certain foreign currencies. This change in policy resulted initially in an approximately 2.0% appreciation in the value of the Renminbi against the U.S. dollar and could result in further and more significant appreciations. Although the Company generates substantially all of its revenue in Renminbi which has become more valuable in U.S. dollars, the Company's U.S. dollar cash deposits are subject to foreign currency translation which will impact net income.

We normally maintain our financial statements in Renminbi, as our business is primarily conducted in China and its local currency is in Renminbi. Reports will be made to shareholders and will be expressed in Renminbi. The conversion of Renminbi into U.S. dollars in this Annual Report is based on the noon buying rate in New York City for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi to U.S. dollars in this Annual Report were made at US$1.00 to Rmb7.2946, which was the prevailing rate on December 31, 2007. The prevailing rate on May 30, 2008 was US$1.00 to Rmb6.9400. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The Chinese government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

The following table sets forth certain information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this Annual Report or will use in the preparation of our periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve Bank of New York.

	Average	High	Low	Period-end
		(Rmb per U.S. $1.00)		
2002 (1)	8.2770	8.2800	8.2669	8.2800
2003 (1)	8.2770	8.2800	8.2765	8.2769
2004 (1)	8.2768	8.2774	8.2764	8.2765
2005 (1)	8.1472	8.2765	8.0702	8.0702
2006 (1)	7.9579	8.0702	7.8041	7.8041
2007(1)	7.5806	7.7714	7.2946	7.2946
December 2007 (2)	7.3682	7.4120	7.2946	7.2946
January 2008 (2)	7.2405	7.2946	7.1818	7.1818
February 2008 (2)	7.1644	7.1973	7.1100	7.1115
March 2008 (2)	7.0722	7.1110	7.0105	7.0120
April 2008 (2)	6.9997	7.0185	6.9840	6.9870
May 2008 (2)	6.9725	7.0000	6.9377	6.9400
June 2008(2)(3)	6.9034	6.9633	6.8630	6.8630
July 2008(2)	6.8355	6.8632	6.8104	6.8388
August 2008(2)	6.8462	6.8705	6.7800	6.8252
September 2008(2)	6.8307	6.8510	6.7810	6.7899

(1) Annual averages are calculated by averaging the rates on the last business day of each month during the relevant period.

(2) Monthly average is calculated by averaging the daily rates during the relevant period.

(3) The month end is assumed on June 26, 2008.

COMPANY OVERVIEW

A. History and development of the Company.

Our legal and commercial name is China Technology Development Group Corporation ("CTDC"). Our company, formerly known as Tramford International Limited, was incorporated as an International Business Company under the laws of the British Virgin Islands on September 19, 1995. Our registered office is located at P.O. Box 71, Craigmuir Chambers, Road Town, Tortola, British Virgin Islands, where only corporate administrative matters are conducted through our registered agent, Harneys Corporate Services Limited. Our principal executive office is located at Unit 1712-13, Tower 1, Admiralty Centre, No. 18 Harcourt Road, Hong Kong, and our telephone number is (852) 31128461. Our primary internet address is www.chinactdc.com.

Our company was incorporated as an International Business Company under the laws of the British Virgin Islands on September 19, 1995. We previously owned, through our wholly owned subsidiaries, Jing Tai Industrial Investment Company Limited which was subsequently renamed to BHL Networks Technology Company Limited ("BHLHK"), and Jolly Mind Company Limited ("Jolly Mind"), both Hong Kong companies, 95% equity interests in each of Linyi Baoquan Bathtub Company Limited ("Baoquan") and Linyi Xinhua Building Ceramics Company Limited ("Xinhua", and together with Baoquan, the "Disposed Operations"). The Disposed Operations are Sino-foreign equity joint ventures incorporated under the laws of China. A wholly owned subsidiary of BHLHK, Beijing Taigong Sanitary Wares Company Limited ("Taigong"), was also incorporated in Beijing in 1997 under the laws of China as our administrative and sales support office of our Disposed Operations.

Pursuant to certain sales and purchases agreements entered into among BHLHK, Shandong Linyi Industrial Enamel Joint Stock Company ("Linyi Industrial"), Jolly Mind and Shandong Luozhang Group Company ("Shandong Luozhang"), on July 2, 1999, BHLHK sold its 60% interests in each of the Disposed Operations to Shandong Luozhang for cash consideration of Rmb28 million. Pursuant to a Share Purchase Agreement dated July 2, 1999 entered into between our company and Linyi Industrial, we sold all of our interest in Jolly Mind, which owned a 35% interest in each of the Disposed Operations, to Linyi Industrial in consideration of 1,952,291 shares (the "Consideration Shares") of Common Stock of the Company. Taigong was voluntarily dissolved in March 2000.

On June 30, 2000, Jingle Technology Co., Ltd. ("Jingle"), our wholly owned subsidiary incorporated in the British Virgin Islands, entered into an agreement with China Internet Technology Co., Ltd. ("China Internet") and Great Legend Internet Technology and Service Co., Ltd. ("Great Legend") to acquire the entire outstanding shares of BHL Networks Technology Co. Ltd. ("BHLNet"), a company incorporated under the laws of the Cayman Islands, which owns a 76% interest in Beijing BHL Networks Technology Co. Ltd. ("BBHL"), a company incorporated under the laws of China.

On October 31, 2005, the Company acquired from Beijing Holdings Limited (“Beijing Holdings) of the 51% equity interest of the issued and outstanding stock of CNT and on December 22, 2005, the Company exercised the option to acquire from Beijing Holdings the remaining 49% equity interest of CNT and close the transaction on the same day. As a result of closing the transactions, the Company became the shareholder of 100% equity interest in CNT. CNT owns 71.43% interest in Zhejiang University (Hangzhou) Innoessen Bio-technology Inc. (“Zhejiang Innoessen”), the head office of CNT’s research and development and sale and marketing functions. CNT also owns 100% of Shenzhen Innoessen Bio-Tech Inc (“Shenzhen Innoessen”), which is engaged in sales and marketing in South China. CNT was incorporated in the British Virgin Islands on January 28, 2003. CNT, Zheijiang Innoessen, Anji Bio and Shenzhen Innoessen principally engaged in the development, manufacturing and marketing of a series of nutraceutical products utilizing bio-active components of bamboo.

Since February 2006, we had disputes with the then general manager and the minority shareholders of Anji Bio (the “Anji Buyers’) in terms of its future development strategy and consequently Zhejiang Innoessen entered into a memorandum with Anji Buyers on July 27, 2006 (the “Anji Memorandum”) pursuant to which the Company’s entire interest in Anji Bio held by Zhejiang Innoessen would be sold to Anji Buyers. The disposal of Anji Bio was not completed by September 30, 2006, the original completion date set forth in the Anji Memorandum, due to difference in interpretation of settlement terms between the Company and the Anji Buyers. During the fourth quarter of 2006, the Company continued to negotiate with the Anji Buyers on settlement terms, however, the Anji Buyers refused to cooperate with the Company again in executing the Anji Memorandum. In view of the fact that Company could not exert the control over the operational and financial aspects in Anji Bio, and that the property, plant and equipment had been idle for a long time without regular and proper maintenance, on December 29, 2006, the management of the Company decided to abandon Anji Bio and discontinue the Nutraceutical Operation (see Note 6 for details of disposal and discontinued operations). The management of the Company approved the disposal of Nutraceutical Operations on April 23, 2007. Therefore, the financial results of Nutraceutical Operations are reported as discontinued operations for all periods presented.

China Biotech has been the largest single shareholder of the Company since January 12, 2007. In 2007, the Company was restructured for the future development and planned to engage in the business of the development and manufacturing of solar energy products ("Solar Energy Operations") and exited the Nutraceutical Operations.

On April 27, 2007, we entered into a sale and purchase agreement with Win Horse Investments Limited (“Win Horse”) to dispose our entire interests in CNT for a cash consideration of HK$10 million. The agreement was subsequently terminated due to the fact that no payment was received from Win Horse. On December 18, 2007, the Group entered into the Sale and Purchase agreement with Total Trump, an independent party, to dispose of its entire interests in CNT at a consideration of HK$10 million and a deposit of HK$1 million was received on the same date. As of December

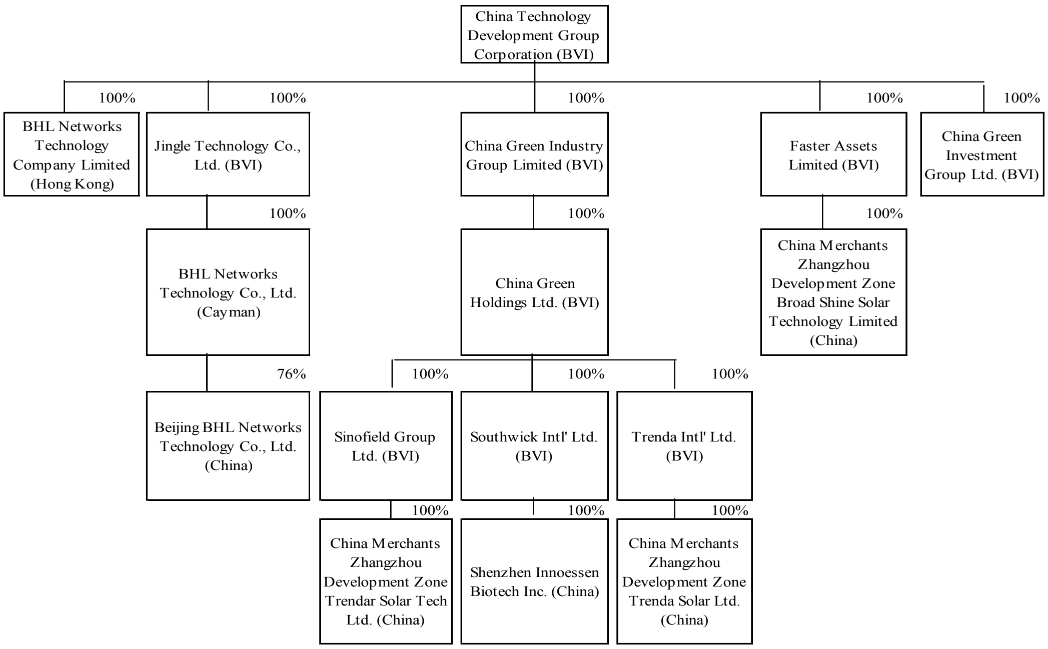
31, 2007, Total Trump was legally entitled to all rights, titles and interests of CNT. In April 2008, Total Trump informed the Company its financial inability to settle the remaining balance of the consideration amount of HK$9 million (the "Unpaid Consideration") on or before June 30, 2008 as required under the Sales and Purchase Agreement entered into between Total Trump and the Group and to consider the termination of the transaction. China Biotech, the Company's major shareholder, signed a memorandum with the Company to further commit its contribution of resources, at its unconditional best efforts basis, in streamlining the Company's core business to the solar energy business and agreed to assume all payment obligations of the Unpaid Consideration due from Total Trump by entering into an Assignment Agreement with Total Trump on May 8, 2008. The Unpaid Consideration assumed by the China Biotech was fully paid on June 16, 2008. Management of the Company considered the above transactions as two separate transactions provided that it was related to the same disposed business unit due to the fact that Total Trump and China Biotech were two separated parties. The HK$1 million deposit received from Total Trump was considered as forfeited by Total Trump. The HK$9 million received from China Biotech on June 16, 2008 will be recorded as shareholders' contribution in the additional paid-in capital in shareholders equity for the fiscal year ending December 31, 2008. The additional paid-in capital will not have any dilution to shareholders.

On December 10, 2007, the Company completed the acquisition of the entire equity interests in Faster Assets Limited (“Faster Assets”), a BVI company, which owns 100% equity interest in China Merchants Zhangzhou Development Zone Broad Shine Solar Technology Ltd. (“Broad Shine”)(collectively known as “Faster Group”), incorporated by laws in China to enter the Solar Energy Operations. In return, the Company issued 782,168 common shares and 1,000,000 preferred shares to China Biotech as consideration valued at Rmb20.7 million. Prior to the acquisition, Faster Group had no business activities and its major assets and liabilities were cash of Rmb5.78 million, plant of Rmb16.70 million, land use right of Rmb4.00 million and due to a related party of Rmb5.78 million. Accordingly, this transaction has been accounted for as an acquisition of assets.

In April 2008, our Board of Directors decided to discontinue certain non-operational BVI subsidiaries in order to focus on our current solar business. On April 21, 2008, we disposed Green Energy Industry Ltd., including its subsidiaries Fullwing Ltd. and Margot Ltd. to an independent third party Harvest Time International Holdings Ltd. for a cash consideration of HK$10,000. China Green Food Investment Ltd., Wellknown Ltd. and Green China Club Ltd. are struck off according to the board resolution on April 15, 2008.

The Group decided to focus on the strategic expansion in the solar business and proposed to dispose of its equity interest of Jingle Technology Co Ltd. ("Jingle") and its subsidiaries, BHLNet and BBHL, to Beijing Holdings, one of shareholders of the Company, for a cash consideration HK$1 million. The disposal of Jingle was approved by the written resolution of the Board passed on May 9, 2008. A definitive sale and purchase agreement relating to the proposed disposal of Jingle has not been entered into by the Group and Beijing Holdings. The Group does not expect the discontinuation of IT Operations to have a material impact on the Group's financial position.

The following diagram illustrates our corporate and share ownership structure as of October 17, 2008.



Organizational structure

During the fiscal year 2007, we conducted substantially all of our business through BBHL.

The following table set forth the details of our significant subsidiaries as at the date of this Annual Report:

Name	Country of Incorporation	Ownerships Interests	Direct Parent
BHL Networks Technology Co Ltd (”BHLHK”)	Hong Kong	100%	The Company
Beijing BHL Networks Technology Co Ltd(”BBHL”)	China	76%	BHLNet
Shenzhen Innoessen Bio-Tech Inc. (”Shenzhen Innoessen”)	China	100%	Southwick International Ltd
China Merchants Zhangzhou Development Zone Trenda Solar Ltd. (”Zhangzhou Trenda”)	China	100%	Trenda International Ltd
China Merchants Zhangzhou Development Zone Trendar Solar Tech Ltd. (”Zhangzhou Trendar Tech ”) (formerly known as China Merchants Zhangzhou Development Zone Innoessen Biotech Co., Ltd)	China	100%	Sinofield Group Ltd
China Merchants Zhangzhou Development Zone Broad Shine Solar Technology Ltd (”Broad Shine”)	China	100%	Faster Assets

BHLHK is the cash management vehicle of the Company. BBHL specializes in network technology, with network security and information security technology and support software as its main business.

Zhangzhou Trendar Tech acts as the core manufacturing base and quality control center.

Shenzhen Innoessen was established in Shenzhen, PRC and currently acts as the management, sale and marketing office in the South China.

Zhangzhou Trenda manufactures SnO2 solar base plates.

Broad Shine owns a five-story plant as our manufacturing site at China Merchants Zhangzhou Development Zone in China.

Capital Expenditures

For our network security business, there were no significant amount of capital expenditures incurred during the past three years.

We incorporated Zhangzhou Trendar Tech on December 22, 2006, as the core manufacturing base and quality control center for our solar industry. The total amount of registered capital is HK$7 million which was fully injected on February 1, 2007.

On September 7, 2007, China Merchants Zhangzhou Development Zone Trenda Solar Ltd. ("Zhangzhou Trenda "), a wholly-owned subsidiary of the Group, entered into a cooperation contract with China Solar Energy Group Limited, an independent third party, to purchase the SnO2 solar base plates production lines at an aggregate price of US$8 million equivalent to Rmb58.357 million for four SnO2 production lines. Half of the price for the production lines shall be paid in accordance with each delivery. The remaining 50% payment of each production line will be made by the Group upon successful installation of the production lines as well as meeting the requirements for production. As at the date of this Annual Report, the first SnO2 solar base plate production line in the factory concluded its installation and testing.

Seasonal sales

The Company is not subject to seasonal fluctuations in its sales.

Source of raw materials

The major raw materials used in our network security business are computer components such as integrated circuits and circuits boards. All of these raw materials could be easily purchased from the open market at competitive prices. Besides, we are not subject to shortage of raw materials as there existed a huge number of suppliers.

The major raw materials used in our solar energy are glass and several chemical materials. All of these raw materials could be easily purchased from the open market at competitive prices.

B. Description of Products and Services.

Network Security Business

We focus on network security solutions and distribution channels related products in 2007. They mainly include the Security Gate, Intranet Physical Separation and Security Solution (“IPSSS”), Secure Channel and Secure Server. Our major target customers include large enterprises and government bureaus, which are less price sensitive and are financially capable to pay. We have obtained ten certificates related to our security products from all related government bureaus in the past three years, which represent their recognition of the validity of our products.

Our most outstanding products in the network security sector include Security Gate and IPSSS. In 2005, we successfully developed the Security Gate application for the Power Supply Industry.

Another service of ours is network management. Network management primarily includes the BHL Lightweight Directory Access Protocol (“LDAP”) Catalogue Server, BHL Search Engine V2.0, BHL Charging Proxy of Network Expenses and BHL Re-broadcasting system V2.0. These products are highly efficient, intelligent and provide high performance in assisting enterprises in increasing the automatic abstraction and classification of information influx and control of network expenses.

Solar Energy Business

On September 7, 2007, China Merchants Zhangzhou Development Zone Trenda Solar Limited, a wholly-owned subsidiary of our company, entered into a cooperation contract with China Solar Energy Group Limited to purchase four SnO2 solar base plates production lines at an aggregate price of US$8 million. Currently, we have installed the first SnO2 thin-film base plate production line at China Merchants Zhangzhou Development Zone. At the date of this Annual Report, the first SnO2 solar base plate production line in the factory concluded its installation and testing.

SnO2 is a key component of a-Si (Amorphous Silicon) thin film PV products, which optimize the performance of BIPV.

In addition to producing the SnO2 solar plates in the solar energy business, the Company intends to expand the business vertically to integrate the thin film value chain in 2009.

C. Business Strategy.

We have strategically positioned our business goal as a leading renewable energy application solution provider by focusing our business on the solar sector.

We intend to achieve our business goals primarily through the following strategies:

Establish and strengthen relationships with key customers and suppliers to facilitate the sales generation.

In terms of our solar energy business, as we are the pioneer in producing the SnO2 solar base plates (TCO glass) in China, we have many potential customers in place to purchase our products. In addition to the first production line with an approximate 80,000 throughput per annum, we plan to further increase our manufacturing capacity by adding additional production lines as well as purchasing additional manufacturing facilities by the end of 2008 to early 2009. We will form a strong sales and marketing force and leverage our shareholders' resources as well as strategic partnerships to establish a wide customer base and a qualified vendor list.

Build up strong research and development capabilities in solar thin-film field.

We have established our technical engineering team and international renewable energy application centre to have easy access to collaborate with PV experts with strong track records. Dr. Jerry Yan, our Chief Scientist, has over 20 years proven energy engineering and technology innovation experience and strong exposure to the renewable energy application market. Mr. Yuxiang Liu, our Chief Engineer, has over 25 years manufacturing experience in various military production plants in China and expertise in operation, maintenance, and quality control of machinery. We continue to leverage more resources to recruit more experts in PV industry to join our company in the near future.

Strengthen our experienced management team as well as operational and technical labor force.

We have recruited international and seasoned experts with financial, operational, investment and public relations backgrounds. We plan to have more capable candidates to join our fast-growing company to share the success together in the booming solar industry.

Acquiring companies to realize the vertical consolidation in solar energy value chain.

We currently have thin-film base plate product offering which is the upstream part of the total PV thin-film value chain. We will explore new opportunities to acquire qualified solar companies to realize the vertical consolidation in the long run. How to identify the target company and consolidate effectively is critical to our future success in terms of our strategic development goal: to be a leading renewable energy application solution provider.

D. Property, plant and equipment.

Our principal executive office is located at Unit 1712-13, Tower 1, Admiralty Centre, No. 18 Harcourt Road, Hong Kong. The lease was entered into on March 20, 2007 for a period of two years from April 1, 2007 to March 31, 2009, with monthly rent of Rmb68,000. The total area for the principal office is 2,340sq. ft.

BBHL leases its office at Room C405, 4/F, Great Wall Computer Building, No.38 Xue Yuan Road, Haidian District, Beijing, China at a monthly rent of Rmb25,000. The lease is for a period of two years commencing November 11, 2006 to November 10, 2008.

On June 25, 2007, we incorporated Zhangzhou Trenda to manufacture and develop renewable energy products in China. On December 10, 2007, the Company entered into a sale and purchase agreement with China Biotech to acquire the entire equity interest of Faster Assets held by China Biotech at a consideration of Rmb20.7 million. The consideration was settled by issuance of 782,168 shares of common stock and 1,000,000 shares of Series A Preferred Stock of the Company. Faster Assets owns 100% equity interest of Broad Shine which was incorporated under the laws of PRC in June 2007 and owns a five-story plant at China Merchants Zhangzhou Development Zone in China. The total area for the production base is 11,895 m^2.

We have not to our knowledge violated any environmental laws, ordinances or regulations, and believe that all of our operations comply fully with applicable environmental laws.

We believe that the physical facilities are adequate to conduct our business for the next twelve months.

E. Directors and senior management.

Our Board of Directors consists of eleven directors, five of whom are executive directors and six of whom are independent directors.

The following table sets forth the name, age and position of each director and executive officer of our company as of October 17, 2008:

Name	Age	Positions with the Company
Alan Li	40	Chairman of the Board, Executive Director and Chief Executive Officer
Zhenwei Lu	37	Executive Director and Chief Operating Officer
Kang Li	41	Executive Director and Chief Investment Officer
Xu Qian	45	Executive Director and Co-Chief Executive Officer
Ju Zhang	45	Executive Director
Loong Cheong Chang (1) (3)	62	Independent Director
Xiaoping Wang	48	Independent Director
Xinping Shi (2) (3)	49	Independent Director
Yezhong Ni (1)	38	Independent Director
Weidong Wang (2) (3)	41	Independent Director
Yu Keung Poon (1) (2)	43	Independent Director
Charlene Hua	34	Chief Financial Officer

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Nominating Committee

Information about Directors

Set forth below is certain information with respect to each director as of October 17, 2008.

Mr. Alan Li, 40, was appointed as Executive Director of the Company on May 24, 2005. He has been appointed as Chief Executive Officer and the Chairman of the Board of the Directors of the Company since January 8 and May 23, 2007, respectively. Mr. Li obtained a Masters degree in Business Administration from Murdoch University, Australia. Prior to joining the Company, he served as the Executive Director of Shun Tai Investment Limited, a company engaged in investment, merger and acquisition of hospitals and pharmaceuticals factories in China. From 2000 to 2002, Mr. Li functioned as the Executive Director and Vice President of Linchest Technology Ltd. Mr. Li has demonstrated considerable experience in investment and management of conglomerate companies. His current responsibilities include strategic planning, merger and acquisition and capital market development of the Company.

Mr. Zhenwei Lu, 37, was appointed as Executive Director of the Company on January 5, 2007 and was further appointed as the Chief Operating Officer of the Company on March 26, 2007. Mr. Lu obtained a Bachelors degree from Shanghai Marine College and a Masters degree from Zhongnan University of Economics and Law. He is also the General Manager of China Merchants Technology Co., Ltd. ("CMTH"), a wholly owned subsidiary of the China Merchants Group. China Merchants Group is one of the largest state-owned enterprises directly under the administration of the China State Council and has significant business operations across Hong Kong and China in real estate, energy, logistics, ports, highways, and industrial zones. Mr. Lu's current responsibilities include assets management and operation management of the Company.

Mr. Kang Li, 41, was appointed as Chief Investment Officer of the Company on March 26, 2007 and was further appointed as Executive Director of the Company on May 23, 2007. Mr. Li obtained a Bachelors degree in Law from Fudan University in 1987 and subsequently in 1995 earned a Masters degree in Law from Xiamen University. He acquired the qualification of lawyer in 1993. Mr. Li served as Senior Manager in Investment Banking Department of China Eagle Securities Co., Ltd. in 1996 and from 1997 to 2001 he held the position of Senior Manager in Investment Banking Department of China Merchants Securities Co., Ltd. Prior to joining the Company, Mr. Li was Vice President of China Science & Merchants Venture Capital Management Co., Ltd.

Mr. Xu Qian, 45, was appointed as Executive Director on March 29, 2005 and was appointed as Co-Chief Executive Officer of the Company on January 8, 2007. Mr. Qian graduated from the Economics and Management Faculty of Beijing Industrial University with a Bachelors degree in Economics in 1986. From 1986 to 1993, he worked as an economic analyst in the Statistics Bureau of the Beijing People's Municipal Government. From 1993 to 1996, he worked as an independent auditor in Hong Kong and from 1996 to 1998, he worked as the Project Chief Financial Officer of the TA Orient Telecommunication Co., Ltd. Since 1998, he worked as the Finance Manager of Beijing Holdings. In March 2005, he was appointed the Chief Financial Officer of Beijing Holdings and was further promoted as the Assistant General Manager of Beijing Holdings in March 2006. Mr. Qian has extensive experience in mergers and acquisitions, corporate restructuring and financial management.

Mr. Ju Zhang, 45, was appointed as Executive Director of the Company on May 24, 2005. Mr. Zhang obtained a Masters degree in Philosophy from the Chinese Academy of Social Sciences and a Bachelors degree in Energy Engineering from Tsinghua University. He served as Deputy Chairman of China Merchants Technology Holdings Co., Ltd. Inclusive to his aforementioned duties Mr. Zhang was also appointed as the Associate Professor of Chinese Academy of Medical Sciences and Peking Union Medical College, the assistant Director of Department of Research in National Committee of Science and Technology and Department of Research in Chinese Ministry of Science and Technology.

Mr. Loong Cheong Chang, 62, was appointed our Independent Director on January 5, 2007 and the Chairman of the Audit Committee and a member of the Nominating Committee on March 2, 2007. Mr. Chang holds the Certificate of Business Management from Hong Kong Management Association. He served as a member of senior management of Orient Overseas Container Line, Ltd. (OOCL) and Island Navigation Corporation International Ltd. (INCIL); Director and General Manager of Noble Ascent Company Ltd. Hong Kong; Chairman of Audit Committee and Independent Non-Executive Director of Guangshen Railway Company Limited (HKSE:525 and NYSE:GSH). Mr. Chang is now holding the position of Director of World Target Properties (Shanghai) Ltd. and the Director of Orient International (Shanghai) Ltd.

Mr. Xiaoping Wang, 48, was appointed our Independent Director on January 5, 2007. Mr. Wang is now the Dean, Professor and Doctoral Tutor of School of Economics, Jiangxi University of Finance and Economics. Inclusive to his aforementioned duties and positions, he serves as Independent Director of Jiangxi Ganneng Co., Ltd., Director of Association of Foreign Economics Studies in China, Vice Chairman of Youth Association of Social Science of Jiangxi Province, Managing Director of Association of Economics Studies, Jiangxi Province, and Fellow Researcher of Advisory and Consulting Committee of Jiangxi Provincial Government.

Dr. Xinping Shi, 49, was appointed our Independent Director on July 28, 2005 and the Chairman of the Compensation Committee and Nominating Committee on March 2, 2007. Dr. Shi obtained a Doctorate degree and a Masters degree in Business Administration from Middlesex University and Lancaster University, UK respectively. Dr. Shi is holding positions as Director of Logistics Management Research Centre, Coordinator of Logistics and Supply Chain Management of the School of Business, and Associate Professor of the Department of Finance and Decision Sciences of the Hong Kong Baptist University. Dr. Shi also serves as an Independent Director of China Merchants Shekou Holdings Company Limited, a company listed on the Shenzhen Stock Exchange; and as a Director of Weboptimal International Limited, a management consulting firm. He is also Guest Professor of the College of Logistics of Beijing Normal University and Advisor of the Chamber of Hong Kong Logistics.

Mr. Weidong Wang, 41, was appointed our Independent Director on July 28, 2005 and a member of the Compensation Committee and Nominating Committee on March 2, 2007. He qualified as International Business Engineer in China in 1994, a Masters degree in Public Finance from the Tianjin University of Finance & Economics in 1999 and obtained the Master of Business Administration from Murdoch University, Australia in 2000. Mr. Wang served as the Business Representative of Henan Province in China from 1990 to 1991 and the Business Director of China National Cereals, Oils & Foodstuffs Import & Export Corporation from 1991 to 2000. Mr. Wang was appointed the Deputy General Manager of Ceroilfood Enterprises Limited, one of the foreign offices of China Business Bureau in March 2000 and his responsibilities are in charge of overseas business development and management. Mr. Wang has demonstrated ample experience in import and export business of oil, cereal products and foodstuffs.

Mr. Yu Keung Poon, 43, was appointed our Independent Director, a member of the Compensation Committee and the financial expert of the Audit Committee of the Company on March 2, 2007. Mr. Poon graduated from The Hong Kong Polytechnic University with a professional diploma in accountancy, and subsequently received his Executive MBA degree from The Chinese University of Hong Kong in 2004. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in England. He is currently the Financial Controller and the Company Secretary of Jiuzhou Development Company Limited (HKSE: 0908). Prior to joining Jiuzhou Development Company Limited, he had worked in Ernst & Young Hong Kong in the auditing field and had assumed the accounting and financial management positions in a number of China affiliated and multinational companies.

Mr. Yezhong Ni, 38, was appointed our Independent Director and re-appointed as a member of the Audit Committee of the Company on March 2, 2007. Mr. Ni graduated from the Law School of the Peking University in 1990 and is currently holding a position as a partner of the Kingson Law Firm, one of the leading law firms in China. He has demonstrated experience in legal services for bankruptcy, derivatives and financial instruments.

There are no family relationships between the above named directors. Notwithstanding that China Biotech is the major shareholder of the Company; we do not have any formal agreement and arrangement with China Biotech pursuant to which the authority of direct nomination of directors into the Company's board was granted. All of our directors are appointed and approved through resolutions passed in our annual shareholders meeting. All candidates were nominated and recommended by the Nominating Committee based on their experience and capability.

Audit Committee. Mr. Loong Cheong Chang, Mr. Yu Keung Poon and Mr. Yezhong Ni were appointed the members of the Audit Committee of our board of directors on March 2, 2007. According to the Charter of the Audit Committee, the responsibilities of the Audit Committee include the oversight of (1) integrity of our financial statements; (2) our compliance with legal and regulatory requirements; (3) the qualification, appointment, compensation, retention and oversight of our independent auditors, including resolving disagreements between management and the auditors regarding financial reporting; and (4) the performance of our independent auditors and of our internal control function.

The Audit Committee was given the resources and assistance necessary to discharge its responsibilities, including appropriate funding, as determined by the Committee, the unrestricted access to our personnel and documents and our independent auditors. The Committee shall also have authority, with notice to the Chairman of the Board, to engage outside legal, accounting and other advisors as it deems necessary or appropriate.

The Audit Committee is required to meet at least two times a year and may call a special meeting as required. All members of the Audit Committee shall be financially literate, having a basic understanding of financial controls and reporting, and none of them shall receive directly or indirectly any compensation from our company other than his or her directors' fee and benefits.

Compensation Committee. The Compensation Committee makes recommendations to the Board of Directors concerning salaries and incentive compensation for our officers, including our Chief Executive Officer, directors and employees and administers our stock option plans. The Compensation Committee consists of three directors, each of whom meets the independence requirements and standards established by NASDAQ rules and the SEC regulations. The Compensation Committee was established on May 24, 2005. Mr. Xinping Shi, and Weidong Wang were re-appointed and Yu Keung Poon was appointed the members of the Compensation Committee pursuant to a board resolution on March 2, 2007.

Nominating Committee. The purpose of the Nominating Committee is to assist the Board of Directors in identifying qualified individuals to become board members, consultants and officers of the Company, in determining the composition of the Board of Directors and in monitoring a process to assess Board effectiveness. The Nominating Committee established on July 28, 2005, consists of three directors, each of whom meets the independence requirements and standards established by NASDAQ rules and the SEC regulations. Mr. Xinping Shi, Loong Cheong Chang and Weidong Wang were appointed the members of the Nominating Committee pursuant to a board resolution on March 2, 2007.

F. Compensation to directors.

Except Mr. Alan Li, the Chairman of the Board of Directors, who had been paid HK$ 0.14 million in 2007 as allowance for his capacity as the Chairman, we did not pay any cash compensation to other directors in the 2007 Period for their capacity as directors.

The compensation for each member of senior management is principally comprised of base salary, allowance, discretionary bonus and other fringe benefit. The compensation that we pay to our senior management is evaluated on basis of the following primary factors: our financial results and individual performance during the prior year, market rates and movements, as well as the individual's anticipated contribution to the Company and its growth. The aggregate base salary, allowance and bonus compensation which we paid to all members of senior management as a group in cash was approximately HK$2.02 million in 2007.

In 2007, the Company has granted aggregately stock options representing the right to purchase 480,000 shares of common stock, to certain directors and executive officers as described in Item 6E.

We have no service contracts with any of our directors or executive officers that provide benefits to them upon termination.

G. Board practices.

In 2007, our directors met in person or passed resolutions by written consent 17 times. No director is entitled to any severance benefits upon termination of his directorship with us. Our board of directors has concluded that Mr. Yu Keung Poon meets the criteria for an "audit committee financial expert" as established by the U.S. Securities and Exchange Commission.

H. Share ownership of directors and officers.

None of our executive officers and directors own shares of the Company as of October 17, 2008.

The names and titles of our executive officers and directors to whom we have granted stock options which are outstanding as of October 17, 2008 and exercisable within 60 days from the date hereof (except as noted) and the number of shares of our common stock subject to such options are set forth in the following table:

Name	Title/Office	Number Of options	Exercise Per option (US$)	Expiration Date
Alan Li	Chairman, Executive Director and Chief Executive Officer	75,000	1.85	September 20, 2015 (1)
		100,000	3.18	September 18, 2016 (2)
		150,000	3.13	May 23, 2012 (3)
Zhenwei Lu	Executive Director and Chief Operating Officer	40,000	1.85	September 20, 2015 (1)
		60,000	3.18	September 18, 2016 (2)
		80,000	3.13	May 23, 2012(3)
Kang Li	Executive Director and Chief Investment Officer	80,000	3.13	May 23, 2012 (3)
Xu Qian	Executive Director and Co-Chief Executive Officer	140,000	3.18	September 18, 2016 (2)
Ju Zhang	Executive Director	10,000	1.85	September 20, 2015 (1)
		10,000	3.18	September 18, 2016 (2)
Xinping Shi	Independent Director	10,000	1.85	September 20, 2015 (1)
		10,000	3.18	September18, 2016 (2)
		30,000	3.13	May 23, 2012 (3)
Yezhong Ni	Independent Director	10,000	1.85	September 20, 2015 (1)
		10,000	3.18	September 18, 2016 (2)
		10,000	3.13	May 23, 2012 (3)
Weidong Wang	Independent Director	10,000	1.85	September 20, 2015 (1)
		10,000	3.18	September 18, 2016 (2)
		10,000	3.13	May 23, 2012(3)
Loong Cheong Chang	Independent Director	30,000	3.13	May 23, 2012 (3)
Yu Keung Poon	Independent Director	20,000	3.13	May 23, 2012 (3)
Xiaoping Wang	Independent Director	10,000	3.13	May 23, 2012 (3)
Charlene Hua	Chief Financial Officer	60,000	3.74	August 20, 2012 (4)

Note:

(1) These options were granted under the Company's 1996 Stock Option Plan and 2000 Stock Option Plan. These options were granted pursuant to a board resolution passed on September 20, 2005 and were fully vested as of December 31, 2007.

(2) These options were granted under the Company's 2005 Stock Option Plan. These options were granted pursuant to a board resolution passed on September 18, 2006 and were fully vested as of December 31, 2007.

(3) These options were granted under the Company's 2006 Stock Option Plan. These options were granted pursuant to a resolution of the Compensation Committee passed on May 23, 2007. One-third of the options granted were vested on May 23, 2008 and the remaining two-thirds will be vested on May 23, 2009.

(4) These options were granted under the Company's 2006 Stock Option Plan. These options were granted pursuant to a resolution of the Compensation Committee passed on August 20, 2007. One-third of the options granted will be vested on August 20, 2008 and the remaining two-thirds will be vested on August 20, 2009.

I. Major shareholders.

The following table sets forth as of October 17, 2008, the beneficial ownership of our common stock of (i) all persons known to us to be beneficial owners of equal or more than five percent or more and (ii) our current officers and directors and (iii) our current officers and director as a group.

Principal Stockholder	Shares of common stock beneficially owned (1)	Percent of class
China Biotech Holdings Limited ("China Biotech") of 5/F, B&H Plaza, 27 Industry Ave, Shekou, Shenzhen 518067, PR China	4,837,168	31.12%
Beijing Holdings of Room 4301, Central Plaza 18 Harbour Road, Wanchai Hong Kong.	1,009,323	6.49%
Alan Li of c/o Unit 1712-13, Tower 1, Admiralty Centre, No.18 Harcourt Road, Hong Kong	0(2)(4)	*
Zhenwei Lu of c/o Unit 1712-13, Tower 1, Admiralty Centre, No.18 Harcourt Road, Hong Kong	0(2)(4)	*
Xu Qian of c/o Rm 4301, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong	0(3)	*
Kang Li of c/o Unit 1712-13, Tower 1, Admiralty Centre, No.18 Harcourt Road, Hong Kong	0(2)(4)	*
Ju Zhang of c/o Unit 1712-13, Tower 1, Admiralty Centre, No.18 Harcourt Road, Hong Kong	0(2)	*
Loong Cheong Chang of c/o Unit 1712-13, Tower 1, Admiralty Centre, No.18 Harcourt Road, Hong Kong	0(4)	*
Xiaoping Wang of c/o Unit 1712-13, Tower 1, Admiralty Centre, No.18 Harcourt Road, Hong Kong	0(4)	*
Xinping Shi of c/o Unit 1712-13, Tower 1, Admiralty Centre, No.18 Harcourt Road, Hong Kong	0(4)	*
Yezhong Ni of c/o Unit 1712-13, Tower 1, Admiralty Centre, No.18 Harcourt Road, Hong Kong	0(4)	*
Weidong Wang of c/o Unit 1712-13, Tower 1, Admiralty Centre, No.18 Harcourt Road, Hong Kong	0(4)	*
Yu Keung Poon of c/o Unit 1712-13, Tower 1, Admiralty Centre, No.18 Harcourt Road, Hong Kong	0(4)	*
Charlene Hua of c/o Unit 1712-13, Tower 1, Admiralty Centre, No.18 Harcourt Road, Hong Kong	0(4)	*
All officers and directors as a group (12 persons)	0(2)(3)(4)	*

China Biotech owns 1,000,000 shares of Series A Preferred Stock of the Company, representing 25% voting power of the combined voting power of the Common Stock and Preferred Stock. The rights, preferences and privileges with respect to the Series A Preferred Stock are as follows:

- *Voting right*
  The 1,000,000 shares of Preferred Stock shall have an aggregate voting power of 25% of the combined voting power of the entire issuer's shares, Common Stock and Preferred Stock.

- *Dividends*
  The holder shall be entitled to receive dividends only as, when and if such dividends are declared by the Board with respect to shares of Preferred Stock.

- *Liquidation preference*
  In the event of any distribution of assets upon any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, after payment or provision for payments of the debts and other liabilities of the Company, the holder shall be entitled to receive out of assets of the Company, whether such assets are capital, surplus or earnings, an amount equal to the consideration paid by him for each such share plus any accrued and unpaid dividends with respect to such shares of Preferred Stock through the date of such liquidation, dissolution or winding up.

- *Redemption*
  The issuer shall have no right to redeem the Preferred Stock.

- *Non-convertible*

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* less than 1%.

(1) Unless otherwise noted, all persons named in the table have sole voting and investment power with respect to all shares of common stock beneficially owned by them.

(2) Mr. Alan Li, Chairman of the Board, Executive Director and Chief Executive Officer, Mr. Zhenwei Lu , Executive Director and Chief Operating Officer, Mr. Kang Li, Executive Director and Chief Investment Officer and Mr. Ju Zhang, Executive Director, are also directors of China Biotech and therefore they may be deemed to beneficially own the shares of Common Stock owned by China Biotech.

(3) Mr. Xu Qian, Executive Director, is also the Assistant General Manager and Chief Financial Officer of Beijing Holdings and therefore he may be deemed to be beneficially own the shares of Common Stock owned by Beijing Holdings.

(4) Holds options which are not currently exercisable or which vest within 60 days of the date of this Annual Report.

Except as disclosed below, there were no significant related party transactions with major shareholders.

J. Related party transactions.

The transactions and balances with related parties are analyzed as follows:

(a) Transactions with related parties

	Year ended December 31,2007
	Amounts in thousands
	Rmb
Transactions with related parties	
Acquisition of Faster Group from China Biotech (Note 1)	20,700
Prepayment for acquisition of property from ZMRE (Note 2)	3,301

(1) On November 8, 2007, the Company entered into a sale and purchase agreement with China Biotech to acquire the entire equity interest in Faster Group held by China Biotech at a consideration of Rmb20.7 million. The consideration was settled by issuance of 782,168 shares of Common Stock and 1,000,000 shares of Preferred Stock on December 10, 2007.

(2) Zhangzhou Trendar Tech and Broad Shine, the two wholly-owned subsidiaries of the Company, acquired four properties with Rmb3.301 million in total from Zhangzhou Merchants Real Estate Ltd. ("ZMRE"), a subsidiary of China Merchant Group ("CMG"), on July 3, 2007 and October 22, 2007, respectively. CMG is the ultimate holding company of China Biotech .

(b) Balances with related parties

As of December 31, 2007, the balances with related parties were as follows:

	Year ended December 31,2007
	Amounts in thousands
	Rmb
Balances with related parties:	
Due from related parties	
Funds held by China Biotech for potential acquisition of technology and business in China (Note 3)	5,612
	5,612
Due to related parties:	
Due to China Biotech (Note 4)	908
Due to CMZDZ (Note 5)	5,783
	6,691

(3) China Biotech has been the major shareholder of the Company since January 12, 2007. China Biotech has experience in acquisitions in China. In view of China Biotech’s experience, the Company deposited HK$6 million equivalent to Rmb5.612 million with China Biotech for the purpose of making (with the assistance of China Biotech) potential acquisitions of technology and businesses in China. There was no agreement signed for the funds deposited with China Biotech and the Company can withdraw the funds without any restrictions.

(4) The amount represented administrative expenses paid on behalf of Faster and Shenzhen Innoessen by China Biotech in China.

(5) The amount represented the amount payable to China Merchant Zhangzhou Development Zone Ltd. (”CMZDZ”), a subsidiary of CMG, for the cash of Faster Group acquired.

The balances with related parties are unsecured and interest-free, and have no fixed terms of repayment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion of the financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes thereto. The following discussion contains certain forward-looking statements that involve risks and uncertainties.

Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, risks and uncertainties related to the need for additional funds, the rapid growth of the operations and our ability to operate profitability in future.

All financial data referred to in the following management's discussion have been prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP"). Results of operations for the years ended December 31, 2005, 2006 and 2007 refer to our audited consolidated results. US GAAP requires that we adopt the accounting policies and make estimates that management believes are most appropriate in the circumstances for the purposes of giving a true and fair view of our results and financial condition. Our principal accounting policies are set forth in Note 2 to our consolidated financial statements. However, different policies, estimates and assumptions in critical areas could lead to materially different results. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions. We believe the following critical accounting policies may be affected by our judgments and estimates used in the preparation of these consolidated financial statements.

Revenue recognition.

Revenues arise from product sales and the rendering of services. Revenue is recognized when all of the following criteria are met (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the sellers' price to the buyer is fixed or determinable, and (iv) collectability is reasonably assured. Specifically, product sales represent the invoiced value of goods, net of discounts, supplied to customers. Revenues from product sales are recognized upon delivery to customers and when title has passed. Rendering of services represent fees charged on the provision of information technology and network security consultancy services. Fees on such services are recognized upon the completion of the underlying services and when collectability to the fees is reasonably assured.

The Company's subsidiaries are subject to value-added tax of 17% on the revenue earned for goods and services sold in the PRC. The Group presents revenue net of such value-added tax which amounted to Rmb6.47 million, Rmb9.29 million and Rmb7.68 million for the years ended December 31, 2005, 2006 and 2007 respectively.

Goodwill and impairment of goodwill.

Goodwill represents cost in excess of the fair value of assets of businesses acquired. Goodwill is not amortized, but is reviewed at least annually for impairment in accordance with FASB Statement No. 142, "Goodwill and Other Intangible Assets". Annual impairment review for goodwill is carried out in two steps. The first step, which is used to identify potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. For purposes of this review, the Group's business segments are its reporting units. The fair value is determined by the forecasted discounted net cash inflows of the reporting unit for a period of five years. If the carrying amount of the reporting unit exceeds its fair value, goodwill of the reporting unit is considered impaired. The second step of the impairment test quantifies the amount of the impairment loss by comparing the carrying amount of goodwill to its implied fair value. An impairment loss is recorded to the extent the carrying amount of goodwill exceeds its implied fair value.

Impairment or disposal of long lived assets.

Long-lived assets are included in impairment evaluations when events and circumstances exist that indicate the carrying amount of these assets may not be recoverable. The Group reviews its long-lived assets for potential impairment based on a review of projected undiscounted cash flows associated with these assets. Measurement of impairment losses for long-lived assets that the Group expects to hold and use is based on the estimated fair value of the assets.

Long-lived assets to be disposed of are stated at the lower of fair value or carrying amount. Expected future operating losses from discontinued operations are recorded in the periods in which the losses are incurred.

Recent accounting pronouncements.

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No.48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for the Company beginning in fiscal year 2007. The adoption of this statement does not have a material effect on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No.157 "Fair Value Measurements" ("SFAS No.157"). SFAS No.157 defines fair value, establishes a framework for measuring fair value and enhances fair value measurement disclosure. SFAS No.157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No.157 provides a single definition for fair value that is to be applied consistently for all accounting applications (excluding requirements of other standards), and also generally describes and prioritizes according to reliability the methods and inputs used in valuations. In February 2008, the FASB issued Staff Position ("FSP") No. 157-b, Effective Date of FASB Statement No. 157 ("FSP 157-b") FSP 157-b delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually) until the beginning of the first quarter of 2009. The Group does not expect the adoption of this statement to have a material effect on the Group's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities"("SFAS No.159"), including an amendment of SFAS No. 115, which allows an entity to choose to measure certain financial instruments and liabilities at fair value. Subsequent measurements for the financial instruments and liabilities an entity elects to measure at fair value will be recognized in earnings. SFAS No.159 also establishes additional disclosure requirements. SFAS No.159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted provided that the entity also adopts SFAS No. 157. The Group does not expect the adoption of this statement to have a material effect on the Group's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(Revised 2007) "Business Combination" ("SFAS No.141R"), to improve reporting creating greater consistency in the accounting and financial reporting of business combinations. The standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Group is currently evaluating whether the adoption of SFAS No. 141R will have a significant effect on its consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS No.160") to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way as required in the consolidated financial statements. Moreover, SFAS No. 160 eliminates the diversify that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transaction. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Group is currently evaluating whether the adoption of SFAS No. 160 will have a significant effect on its consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133". This statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement No.133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Group does not expect the adoption of this statement to have a material effect on the Group's consolidated financial statements.

A. Results of Operations.

The following table presents selected statements of operations data and such data expressed as a percentage of net sales for the years ended December 31, 2005, 2006 and 2007.

	(Amounts in thousands, Rmb)					
	*2005		*2006		2007	
	Amount	Percentage of Net sales	Amount	Percentage of Net sales	Amount	Percentage of Net sales
Net sales	6,468	100%	9,291	100%	7,680	100%
Cost of sales	(2,491)	38.5%	(4,244)	45.7%	(3,866)	50.3%
Gross profit	3,977	61.5%	5,047	54.3%	3,814	49.7%
Selling	(740)	11.4%	(1,109)	11.9%	(1,108)	14.4%
General and administrative expenses	(19,785)	305.9%	(34,658)	373.0%	(28,121)	366.2%
Allowance for doubtful accounts	(128)	2.0%	-	-	-	-
Operating loss	(16,676)	257.8%	(30,720)	330.6%	(25,415)	330.9%
Interest income	259	4.0%	214	2.3%	827	10.8%
Finance cost	(2)	-	-	-	-	-
(Loss) gain on disposal of available-for-sale securities	(2,596)	40.1%	(488)	5.3%	15,500	201.8%
Dividend income from available-for-sale securities	115	1.8%	4	-	58	0.8%
Exchange gain	-	-	-	-	559	7.3%
Others, net	(28)	0.4%	(6)	0.1%	21	0.3%
Income tax expenses	(5)	0.1%	-	-	(390)	5.1%
Loss from continuing operations	(18,933)	292.7%	(30,996)	333.6%	(8,840)	115.1%
(Loss) profit from discontinued operations	(599)	9.3%	(83,590)	899.7%	1,729	22.5%
Net loss for the year	(19,532)	302.0%	(114,586)	1,233.3%	(7,111)	92.6%

* Certain revenues and expenses of CNT Group for the fiscal years ended December 31, 2005 and 2006 were reclassified to discontinued operations (see Note 6 to consolidated financial statements).

The Operating results for the period for the years ended December 31, 2005, 2006 and 2007 of CNT and its subsidiaries were grouped into the line of "Income/(loss) from discontinued operations". A description of the disposal is also included in this Management Discussion and Analysis section (the "MD&A") and this is referred to as "Disposed Segment" in this MD&A.

The operating results for the year ended December 31, 2005, together with the operating results for the period from January 1 to March 31, 2005 of the Zhuhai branch (which represented the entire service rendering business segment of the Company) were grouped into the line of "(Loss) Profit from discontinued operations". A description of the disposal is also included in the MD&A and referred to as a "Disposed Segment".

The remaining operating units of BBHL, excluding the disposition of Zhuhai branch, are referred to as the "IT Operations" in this MD&A.

The Company, Jingle Technology Co Ltd. (”Jingle”), BHLHK, BHLNet, China Green Industry Group Ltd. (”Green Industry”), China Green Holdings Ltd. (”Green Holdings”), Sinofield Group Ltd. (”Sinofield”), Southwick International Ltd. (”Southwick”), Trenda International Ltd. (”Trenda”), Faster Assets and China Green Investment Group Ltd. (”Green Investment”) are collectively referred to as “Corporate Office” in this MD&A.

Zhangzhou Trendar Tech, Zhangzhou Trenda, Broad Shine and Shenzhen Innoessen are referred to as the “Solar Energy Operations” in this MD&A.

Year ended December 31, 2007 compared to year ended December 31, 2006

Revenues. Revenues decreased by Rmb1.61 million, or 17.3%, from Rmb9.29 million in 2006 to Rmb7.68 million in 2007. Revenues were contributed solely from the Company’s IT Operations in 2007. The decrease is further analyzed as follows:

(1) sales to Legendsec, the largest customer of BBHL, contributed Rmb1.58 million, or 20.5%, to the total revenues in 2007. The revenue from Legendsec decreased by Rmb0.82 million, or 34.2%, from Rmb2.4 million in 2006 as they purchased the hardware directly from suppliers.

(2) sales to Legend, contributed Rmb0.04 million, or 0.5% to the total revenues in 2007. The Legend was the second largest customer of BBHL in 2006. The revenue from Legend decreased by Rmb2.28 million, or 98.3% from Rmb2.32 million in 2006 due to their self development of own security products..

(3) sales to Computer Associates International Inc “CA”, the second largest customer of BBHL contributed Rmb1.52 million, or 19.8% to the total revenues in 2007, the revenue from CA decreased by Rmb0.35 million, or 18.7%, from Rmb1.87 million in 2006; and

(4) sales to Beijing Radio, the third largest customer of BBHL, contributed Rmb0.8 million, or 10.4%, to the total revenues in 2007.

(5) aggregated sales to customers other than the three largest increased by Rmb1.08 million, or 40.0%, from Rmb2.70 million in 2006 to Rmb3.78 million in 2007 due to more government departments becoming our new customers.

Cost of sales. Cost of sales decreased by Rmb0.38 million, or 8.9%, from Rmb4.25 million in 2006 to Rmb3.87 million in 2007. The cost of sales in the 2007 was incurred by the Company’s IT operations. The decrease in cost of sales of our IT Operations was in line with the decrease in our revenues.

Gross profit. Gross profit decreased by Rmb1.24 million, or 24.6%, from Rmb5.05 million in 2006 to Rmb3.81 million in 2007. As a percentage of sales, the gross profit margin of the IT operations, the sole operation of the Company in 2007, decreased 4.6% from 54.3% in 2006 to 49.7% in 2007. The decrease was due primarily to lower prices offered to new customers to promote sales in this highly competitive market.

General and administrative expenses. General and administrative expenses decreased by Rmb6.54 million, or 18.9%, from Rmb34.66 million in 2006 to Rmb28.12 million in 2007.

The decrease in general and administrative expenses was due primarily to the combined effects of the followings:

(1) Salaries and benefits of us decreased by Rmb15.25 million, or 67.9%, from Rmb22.46 million in 2006 to Rmb7.21 million in 2007. The decrease could be further analyzed as follows:

(a) salaries and benefits of our Corporate Office decreased by Rmb15.34 million, or 76.4%, from Rmb20.07 million in 2006 to Rmb4.73 million in 2007. The significant decrease was due primarily to nil stock-based compensation was recognised in 2007, compared to a stock-based compensation of Rmb14.04 million was recognized in 2006.

(b) salaries and benefits of our IT Operations decreased by Rmb0.2 million, or 9.1%, from Rmb2.2 million in 2006 to Rmb2.0 million in 2007, which was due primarily to the lay-off of certain technical support and post-sales services staff in 2007.

(c) salaries and benefits of our Solar Energy Operations incurred Rmb0.47 million in 2007.

(2) Rental charges increased by Rmb0.38 million, or 37.25%, from Rmb1.02 million in 2006 to Rmb1.4 million in 2007. The increase was analyzed as follows:

(a) the rental charges of Rmb0.96 million was incurred by our Corporate Office in 2007, compared to Rmb0.47 million was incurred in 2006 due to the movement to new office.

(b) a saving of rental charges of Rmb0.05 million, or 10%, was achieved by our IT Operations by moving to another smaller office.

(3) Audit fees increased by Rmb1.04 million, or 48.1%, from Rmb2.16 million in 2006 to Rmb3.20 million in 2007. The audit fees of Rmb3.20 million expensed in 2007 included:

(a) Audit fee of Rmb1.98 million charged for 2007 by Deloitte Touche Tohmatsu CPA Ltd, the independent registered public accounting firm appointed by our audit committee and the Board of Directors of the Company on February 14, 2008;

(b) Rmb0.48 million charged by PricewaterhouseCoopers to issue a consent letter for inclusion of their audit reports, for the fiscal years ended December 31, 2004 and 2005, in the Company's 2006 and 2007 Annual Report.

(c) Fees of Rmb0.07 million and Rmb0.01 million charged for 2007 by PricewaterhousCooopers and Friedman LLP, respectively, to issue letters of consent for the Company's Registration Statement on Form S-8;

(d) Rmb0.36 million of audit fees charged by Friedman LLP due to additional audit work performed for 2006;

(e) additional accrual of Rmb0.27 million charged by Friedman LLP for issuing the consent letter for inclusion of their audit reports, for the fiscal year ended December 31, 2006, in the Company's 2007 Annual Report; and

(f) Audit fee of Rmb0.03 million charged for 2004, 2005 and 2006 for BHL HK by S L lee & Lau .

The audit fees of Rmb2.16 million expensed in 2006 included:

(a) additional accrual of Rmb0.72 million in audit fees relating to 2005 due to additional audit work performed by PricewaterhouseCoopers, our former independent registered public accounting firm;

(b) the audit fee of Rmb1.34 million charged for 2006 by Friedman LLP, the independent registered public accounting firm appointed by our shareholders' meeting held on December 22, 2006; and

(c) Rmb0.10 million charged by PricewaterhouseCoopers to issue a consent letter for inclusion of their audit reports, for the fiscal years ended December 31, 2004 and 2005, in the Company's 2006 Annual Report.

(4) Legal and other professional fees increased by Rmb5.18 million, or 82.2%, from Rmb6.30 million in 2006 to Rmb11.48 million in 2007. The increase was due primarily to:

(a) Rmb4.58 million was incurred in 2007 as the compensation paid to certain consultants for their services rendered, which represented the fair value of the 400,000 stock warrants issued. Rmb2.39 million was incurred in 2006 as the compensation paid to certain consultants, which represented the fair value of the 150,000 stock options granted to these consultants; and

(b) Rmb0.88 million charged for 2007 for SOX 404 internal control assistance.

(c) Legal fee increased by Rmb0.49 million, or 25.3%, from Rmb1.93 million in 2006 to Rmb2.42 million in 2007, which was due primarily to review of Form 20-F and proxy statement in 2007 in relation to corporate and securities matters.

(d) Rmb1.2 million was incurred in 2007 as the compensation paid to certain consultants, which represented the fair value of the 250,000 stock options granted to these consultants.

(5) Traveling and entertainment expenses increased by Rmb1.16 million, or 184.13%, from Rmb0.63 million in 2006 to Rmb1.79 million in 2007. The increase was due primarily to frequent travels by our management for setting up our new production base in China in 2007;

(6) Depreciation charges increased by Rmb0.15 million, or 35.7%, from Rmb0.42 million in 2006 to Rmb0.57 million in 2007, due primarily to increase in property, plant and equipment as a result of the incorporation of Zhangzhou Trendar Tech.

Other income (expense). The other income mainly represented Rmb15.5 million of gain on disposal of available-for-sale securities and Rmb1.04 million of exchange gain on liabilities denominated in Hong Kong dollars and Rmb0.48 million exchange loss on bank account denominated in Hong Kong dollars.

Loss(gain) from discontinued operations. Loss (gain) from discontinued operations represented CNT and its subsidiaries disposed of in 2007 and the Anji Bio disposed of in 2006, details of which are discussed in note 6 to the consolidated financial statements.

Net loss. Net loss for 2007 was Rmb7.11 million, a decrease of Rmb107.48 million, or 93.80%, from Rmb114.59 million for 2006.

Year ended December 31, 2006 compared to year ended December 31, 2005

Revenues. Revenues increased by Rmb2.82 million, or 43.6%, from Rmb6.47 million in 2005 to Rmb9.29 million in 2006. The revenues of 2006 solely generated from our IT Operations. The increase is further analyzed as follows:

(1) sales to Legendsec, the largest and new customer of BBHL, contributed Rmb2.4 million, or 25.83%, to the total revenues in 2006. The contract with Legendsec was entered into in 2005 and its service began in 2006.

(2) sales to Legend, the second largest customer of BBHL consisted of Rmb2.32 million, or 25.0% of the total revenues in 2006. The revenue from Legend slightly decreased by Rmb0.15 million, or 6.07% from Rmb2.47 million in 2005.

(3) sales to Computer Associates International Inc "CA", the third largest customer of BBHL consisted of 20% of the total revenues in 2006, increased by Rmb1.84 million, or 61.3 times, from Rmb0.03 million in 2005 to Rmb1.87 million in 2006; and

(4) aggregated sales to customers other than the three largest decreased by Rmb1.39 million, or 33.98%, from Rmb4.09 million in 2005 to Rmb2.70 million in 2006 due primarily to resources reallocated to new customer Legendsec in order to improve the profit margin to the Company.

Cost of sales. Cost of sales in 2006 solely included that of our IT Operations, which was increased by Rmb1.76 million, or 70.7%, from Rmb2.49 million in 2005 to Rmb4.25 million in 2006. The increase in cost of sales of our IT Operations was in line with the increase in our revenues.

Gross profit. Gross profit in 2006 solely included that of our IT Operations, which was increased by Rmb1.07 million, or 26.9%, from Rmb3.98 million in 2005 to Rmb5.05 million in 2006. As a percentage of sales, the gross profit margin of the IT Operations decreased by 7.2%, from 61.5% in 2005 to 54.3% in 2006. The decrease was due primarily to lower prices offered to CA to promote sales. The gross margin of sales to Legend and Legendsec, however, was maintained at 64.3% and 64.5% respectively, similar gross profit margins as in previous years.

Selling expenses. Selling expenses increased by Rmb0.4 million, or 57.14%, from Rmb0.7 million in 2005 to Rmb1.1 million in 2006 due to promote sales.

General and administrative expenses. General and administrative expenses increased by Rmb14.87 million, or 75.1%, from Rmb19.79 million in 2005 to Rmb34.66 million in 2006.

The increase in general and administrative expenses was due primarily to the following:

(1) Salaries and benefits of us increased by Rmb13.09 million, or 139.7%, from Rmb9.37 million in 2005 to Rmb22.46 million in 2006. The increase could be further analyzed as follows:

(a) salaries and benefits of our Corporate Office increased by Rmb14.76 million, or 278.2%, from Rmb5.31 million in 2005 to Rmb20.07 million in 2006. The significant increase was due primarily to: (i) stock-based compensation of Rmb14.04 million which was recorded in 2006 for the fair value of 880,000 stock options granted to directors and senior management; and (ii) most of the Company's staff joined the Corporate office in the fourth quarter of 2005 so the amount recorded did not reflect the annualized expenses as in 2006;

(b) salaries and benefits of our IT operations decreased by Rmb1.83 million, or 45.4%, from Rmb4.03 million in 2005 to Rmb2.2 million in 2006, which was due primarily to the lay-off of certain technical support and post-sales services staff in 2006.

(2) Rental charges increased by Rmb0.03 million, or 3.03%, from Rmb0.99 million in 2005 to Rmb1.02 million in 2006. The increase was analyzed as follows:

(a) the rental charges of Rmb0.47 million was incurred by our Corporate Office in 2006, while Rmb0.3 million incurred in 2005 due to the lease which commenced May 2005;

(b) a saving of rental charges of Rmb0.1 million, or 16.4%, was achieved by our IT Operations in Beijing by moving to a new office.

(3) Audit fees increased by Rmb0.39 million, or 22.0%, from Rmb1.77 million in 2005 to Rmb2.16 million in 2006. The audit fees of Rmb2.16 million expensed in 2006 included:

(a) additional accrual of Rmb0.72 million in audit fees relating to 2005 due to additional audit work performed by PricewaterhouseCoopers, our former independent registered public accounting firm;

(b) the audit fee of Rmb1.34 million charged for 2006 by Friedman LLP, the independent registered public accounting firm appointed by our shareholders' meeting held on December 22, 2006; and

(c) Rmb0.10 million charged by PricewaterhouseCoopers to issue a consent letter for inclusion of their audit reports, for the fiscal years ended December 31, 2004 and 2005, in the Company's 2006 Annual Report.

(4) Legal and other professional fees increased by Rmb1.06 million, or 20.2%, from Rmb5.24 million in 2005 to Rmb6.30 million in 2006. The increase was due primarily to:

(a) Rmb0.18 million was incurred in 2006 as legal consultation fees in relation to the dispute with Anji Bio.

(b) Rmb2.39 million was incurred in 2006 as the compensation paid to certain consultants, which represented the fair value of the 150,000 stock options granted to these consultants; and

(c) Rmb1.1 million was paid as consultancy fee in 2005 but no such expenses were incurred in 2006 after the consulting contract expired.

(5) Traveling and entertainment expenses increased by Rmb0.12 million, or 23.5%, from Rmb0.51 million in 2005 to Rmb0.63 million in 2006. The increase was due primarily to frequent travels for investigations performed to search for new production base in China in 2006;

(6) Depreciation charges increased by Rmb0.23 million, or 121.1%, from Rmb0.19 million in 2005 to Rmb0.42 million in 2006, due primarily to full year's depreciation for fixed assets provided for in 2006, compared to two months' of such depreciation in 2005.

Loss from discontinued operations. Loss from discontinued operations represents Anji Bio disposed of in 2005 and 2006 and the Zhuhai branch of BEDC in 2005, details of which are discussed in note 6 to the consolidated financial statements.

Net loss. Net loss for 2006 was Rmb114.6 million, an increase of Rmb95.07 million, or 486.79%, from Rmb19.53 million for 2005.

Taxation

The Company is a tax exempted company incorporated in the BVI. The Company's subsidiaries incorporated in Hong Kong and PRC are subject to Hong Kong Profits Tax and Foreign Enterprise Income Tax in the PRC respectively.

The Company's subsidiaries incorporated in Hong Kong are taxed at 17.5% on the assessable profits arising in or derived from Hong Kong. For those Hong Kong subsidiaries which generate PRC sourced income, PRC income tax should still be payable on the assessable profits at 33%.

On March 16, 2007, the National People's Congress adopted the Enterprise Income Tax Law (the "New Income Tax Law"), which has become effective on January 1, 2008 and replaced the existing separate income tax laws for domestic enterprises and foreign-invested enterprises, which are PRC subsidiaries of the Company, by adopting unified income tax rate of 25% for most enterprises. In accordance with the implementation rules of the New Income Tax Law, the existing preferential tax treatments granted to various of Group's PRC entities will not continue and they will be subject to the statutory 25% tax rate and therefore such rate is used in the calculation of the Group's deferred tax balances, except that Shenzhen Innoessen that currently enjoy a lower tax rate of 15% will gradually transition to the uniform tax rate from 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. Among PRC subsidiaries, only Zhangzhou Trendar Tech obtained the preferential tax treatment that it will be fully exempt from the PRC enterprise income tax for two years starting from the year 2008, followed by a 50% tax exemption for the next three years ("tax holidays").

In the Cayman Islands, there are no taxes other than import duties and stamp duty (at certain occasions) and thus BHLNet is not subject to taxes in the Cayman Islands.

B. Liquidity and capital resources.

Working capital and cash flows

We have neither engaged in any form of off-balance sheet arrangement/relationships with unconsolidated entities or other persons that are reasonably likely to affect materially liquidity and the availability of or requirements for capital resources, or any trading activities that include non-exchange traded contracts accounted for at fair value. Except for the operating lease commitments and capital commitments for construction in progress and investments, as fully disclosed in Note 21 to the consolidated financial statements, other commitments, which may cause us to make future payments under contracts.

Our cash and cash equivalents on hand as of December 31, 2007 was Rmb18.91 million, which was increased by Rmb15.43 million, or 443.4% from Rmb3.48 million at the beginning of the year.

The net cash outflow of the operating activities in 2007 was Rmb17.50 million, which was increased by Rmb7.30 million, from an outflow of Rmb10.2 million in 2006. The increase in net cash outflow in 2007 was mainly due to the combined effects of (i) an increase in audit fee; (ii) an increase in legal and professional fees; and (iii) an increase in traveling expenses and entertainment expenses.

The net cash outflow of the investing activities in 2007 was Rmb1.94 million, which decreased by Rmb2.64 million, or 57.6%, from a net cash outflow of Rmb4.58 million in 2006. The decrease in net cash outflow in 2007, was mainly due to the combined effects of (i) prepayment of Rmb3.42 million for Property, plant and equipment; (ii) purchase and sale of available-for-sale securities; and (iii) received Rmb0.93 million from the disposal of CNT.

The net cash inflow from financing activities in 2007 was Rmb37.19 million, which increased by Rmb37.28 million, from an outflow of Rmb0.09 million in 2006. This increase was mainly due to the combined effects of (i) the Rmb7.77 million proceeds from the exercise of stock options during the year; and (ii) the Rmb29.42 million proceeds from issue of common stock and warrants in 2006.

As of December 31, 2007, after deducting the total liabilities from the cash and cash equivalents ("net cash balance"), we had a net cash deficit of Rmb16.79 million, which increased by Rmb6.15 million from a net cash deficit of Rmb10.64 million in 2006.

Capital resources

The capital expenditures in 2005, 2006 and 2007 were Rmb17.26 million, Rmb1.13 million and Rmb37.91 million, respectively, which are discussed in Note 22 to the consolidated financial statements.

We believe our current cash and cash equivalents will be sufficient to meet our anticipated cash needs, including our working capital needs, for next twelve months. We may, however, require additional cash resources due to changes in business conditions or other future developments. If these sources are insufficient to satisfy our cash requirements, we may seek to sell debt securities or additional equity securities or obtain a credit facility. The sale of convertible debt securities obligations or additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in debt service obligations and could result in operating and financial covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

From time to time, we also evaluate potential investments, acquisitions or divestments and may, if a suitable opportunity arises, make an investment or acquisition or conduct an investment. As a result of the above possible actions, we may need to obtain additional funds through issuance of new equity or debt. Again, we may have to seek additional financing sooner than currently anticipated and there can be no assurance that we would be able to obtain additional financing on terms acceptable to us.

C. Research and development, patents and licenses, etc.

Network Security Business:

We acquired, through BBHL, a technological platform for the development of Internet security devices at a cash consideration of Rmb4 million in 2000. This intangible asset had been fully amortized in 2003. Subsequent to that, we did not incur significant expenses in acquiring techniques but had maintained a research and development team to upgrade the existing products and all costs of which had been recorded as expenses in the consolidated statements of operations when incurred.

Solar Energy Business:

Our major research and development section for SnO2 production line is in Zhangzhou Trenda in Zhangzhou which owned one SnO2 base plate production line, with total potential manufacturing capacity of 80,000 plates per annum. Our manufacturing plant is located at China Merchants Zhangzhou Development Zone in Fujian Province of PRC. As of the date of this Annual Report, the first SnO2 solar base plate production line in the factory concluded its installation and testing.

D. Trend Information.

Except as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on our net sales, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-balance Sheet Arrangements.

We have no outstanding off-balance sheet arrangements. We do not engage in trading activities involving non-exchange traded contracts.

F. Tabular disclosure of contractual obligations.

The following table summarizes contractual obligations under non-cancellable operating lease as of December 31, 2007:

	Amounts in thousands
As of December 31,	Rmb
2008	1,292
2009	335
2010	120
2011 and thereafter	-
Total	1,747

Lease rental costs incurred by the Group for the years ended December 31, 2005, 2006 and 2007 amounted to Rmb1,052,000, Rmb759,000 and Rmb1,439,000 respectively.

Commitments

Capital commitments for construction in progress

On September 7, 2007, Zhangzhou Trenda, a wholly-owned subsidiary of the Company, entered into a cooperation contract with China Solar Energy Group Limited to purchase the SnO2 solar base plates production lines at an aggregate price of US$8 million. It consists of four SnO2 production lines. Half of the price for the production lines shall be paid in accordance with each delivery. The remaining 50% payment of each production line will be made by the Company upon successful installation of the production lines as well as meeting the requirements for production. As of the date of this Annual Report, the first SnO2 solar base plate production line in the factory concluded its installation and testing.

G. Safe Harbor.

Forward-Looking Statement Disclosure

This Annual Report contains forward-looking statements that relate to future events, including our future operating results and conditions, our prospects and our future financial performance and condition, all of which are largely based on our current expectations and projections. The forward-looking statements are contained principally in the sections entitled “Item 3. Key Information — D. Risk Factors,” “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects.” These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995.

You can identify these forward-looking statements by terminology such as “may,” “will,” “expect,” “anticipate,” “future,” “intend,” “plan,” “believe,” “estimate,” “is/are likely to” or other and similar expressions. Forward-looking statements involve inherent risks and uncertainties.

Known and unknown risks, uncertainties and other factors, may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. See “Item 3. Key Information — D. Risk Factors” for a discussion of some risk factors that may affect our business and results of operations. These risks are not exhaustive. Other sections of this Annual Report may include additional factors that could adversely impact our business and financial performance. Moreover, because we operate in an emerging and evolving industry, new risk factors may emerge from time to time. It is not possible for our management to predict all risk factors, nor can we assess the impact of these factors on our business or the extent to which any factor, or combination of factors, may cause actual result to differ materially from those expressed or implied in any forward-looking statement.

In some cases, the forward-looking statements can be identified by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “potential,” “continue,” “is/are likely to” or other similar expressions. The terms “CTDC”, the “Company”, the “Group”, “us” or “we” refer to China Technology Development Group Corporation. The term “you” refers to holders of our common stock. We have based the forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- our ability to achieve or sustain profitability in the rapidly changing PV market in which we operate;
- our expectations regarding the worldwide demand for electricity and the market for solar power;
- our ability to successfully integrate acquired businesses, products and technologies;
- our ability to keep pace with the rapidly changing technology and products in the market we operate;
- our expectations regarding governmental support for the deployment of solar energy;
- our beliefs regarding the acceleration of the adoption of solar technologies;
- our expectations regarding the scaling of our manufacturing capacity;
- our future business development, results of operations and financial condition ;
- our ability to achieve our plans to expand our sales; and
- our ability to respond to competition in the China market.

This Annual Report also contains data related to the solar power market in several countries. These market data, including market data from third party reports, include projections that are based on a number of assumptions. The solar power market may not grow at the rates projected by the market data, or at all. The failure of the market to grow at the projected rates may materially and adversely affect our business and the market price of our common shares. In addition, the rapidly changing nature of the solar power market subjects any projections or estimates relating to the growth prospects or future condition of our market to significant uncertainties. If any one or more of the assumptions underlying the market data proves to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this Annual Report relate only to events or information as of the date on which the statements are made in this Annual Report. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this Annual Report completely and with the understanding that our actual future results may be materially different from what we expect.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
China Technology Development Group Corporation

We have audited the accompanying consolidated balance sheet of China Technology Development Group Corporation and its subsidiaries (the "Group") as of December 31, 2007, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Group for the year ended December 31, 2005, before the effects of the retrospective adjustments for the discontinued operations discussed in Note 6(b) to the consolidated financial statements, were audited by other auditors whose report, dated September 19, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of China Technology Development Corporation and its subsidiaries as of December 31, 2007, and the results of their operations and their cash flows for the year ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

We also have audited the retrospective adjustments to the 2005 consolidated financial statements for the operations discontinued in 2007 and 2006, as discussed in Note 6(b) to the consolidated financial statements. Our procedures included (1) obtaining the Group's underlying accounting analysis prepared by management of the retrospective adjustments for discontinued operations and comparing the retrospectively adjusted amounts per the 2005 consolidated financial statements to such analysis, (2) comparing previously reported amounts to the previously issued financial statements for such year, (3) testing the mathematical accuracy of the accounting analysis, and (4) on a test basis, comparing the adjustments to retrospectively adjust the financial statements for discontinued operations to the Group's supporting documentation. In our opinion, such retrospective adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2005 consolidated financial statements of the Group other than with respect to the retrospective adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2005 consolidated financial statements taken as a whole.

Our audit also comprehended the translation of Renminbi amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such United States dollar amounts are presented solely for the convenience of readers in the United States of America.

/s/ Deloitte Touche Tohmatsu CPA Ltd.
Shenzhen, China
June 30, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
China Technology Development Group Corporation

We have audited the accompanying consolidated balance sheet of China Technology Development Group Corporation and its subsidiaries (the "Company") as of December 31, 2006, and the related consolidated statements of operations, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes accessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Technology Development Group Corporation and its subsidiaries as of December 31, 2006, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Friedman LLP
New York, New York
May 28, 2007, except for the effects of the discontinued operations as discussed in note 6(b)(ii) to which the date is June 30, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
China Technology Development Group Corporation

We have audited, before the effects of the adjustments to retrospectively apply the change in respect of presentation of discontinued operations described in Note 6(b), accompanying consolidated statements of operations, cash flows and changes in shareholders' equity of China Technology Development Group Corporation and its subsidiaries (the "Group") for the year ended December 31, 2005 (the 2005 financial statements before the effects of the adjustments discussed in Note 6(b) are not presented herein). The 2005 financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating to overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2005 financial statements, before the effects of the adjustments to retrospectively apply the change in respect of presentation of discontinued operations as described in Note 6(b), present fairly, in all material respects, the consolidated statements of operations, cash flows and changes in shareholders' equity of the Group for the year ended December 31, 2005 referred to above in conformity with accounting principles generally accepted in the United States of America. We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively apply the change in respect of presentation of discontinued operations described in Note 6(b) and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. These adjustments were audited by other auditors.

/s/ PricewaterhouseCoopers
HONG KONG
Hong Kong, September 19, 2006

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts expressed in thousands except for per share data)
For the years ended December 31, 2005, 2006 and 2007

	Notes	2005 *	2006 *	2007	2007
		Rmb	Rmb	Rmb	US$
Continuing operations:					
Revenues	22	6,468	9,291	7,680	1,053
Cost of sales		(2,491)	(4,244)	(3,866)	(530)
Gross profit		3,977	5,047	3,814	523
Selling expenses		(740)	(1,109)	(1,108)	(152)
General and administrative expenses **		(19,785)	(34,658)	(28,121)	(3,855)
Allowance for doubtful accounts		(128)	-	-	-
Operating loss	22	(16,676)	(30,720)	(25,415)	(3,484)
Other Income (expense):					
Interest income		259	214	827	113
Finance costs		(2)	-	-	-
(Loss) gain on disposal of available-for-sale securities		(2,596)	(488)	15,500	2,125
Dividend income from available-for-sale securities		115	4	58	8
Exchange gain		-	-	559	77
Others, net		(28)	(6)	21	2
Loss before income tax expenses		(18,928)	(30,996)	(8,450)	(1,159)
Income tax expenses	5	(5)	-	(390)	(54)
Loss from continuing operations		(18,933)	(30,996)	(8,840)	(1,213)
Discontinued operations:	6				
(Loss) profit from discontinued operations, net of income taxes of Rmb4, Rmb15 and nil in each of the three years ended December 31, 2005, 2006 and 2007		(599)	(83,590)	1,729	237
Net loss for the year		(19,532)	(114,586)	(7,111)	(976)
Net loss per share	15				
-Basic and dilutive		(2.67)	(10.13)	(0.50)	(0.07)
Net loss per share from continuing operations					
-Basic and dilutive		(2.58)	(2.74)	(0.62)	(0.09)
Net (loss) earning per share from discontinued operations					
-Basic		(0.08)	(7.39)	0.12	0.02
-Dilutive		(0.08)	(7.39)	0.11	0.02
Weighted average common shares	15				
-Basic		7,327	11,312	14,249	
-Dilutive		7,327	11,312	15,328	

* Certain revenues and expenses were reclassified to discontinued operations for comparative purpose (see Note 6).

** Included in general and administrative expenses were stock-based compensation of Rmb3,176, Rmb16,431 and Rmb5,788 for the years ended December 31, 2005, 2006 and 2007, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION
CONSOLIDATED BALANCE SHEETS
(Amounts expressed in thousands except share and per share data)
As of December 31, 2006 and 2007

	Notes	2006	2007	2007
		Rmb	Rmb	US$
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		3,475	18,906	2,592
Short-term investments-security trust account		19,867	-	-
Available-for-sale securities	20	165	44,808	6,143
Trade accounts receivable, net of allowance for doubtful accounts of nil and nil as of December 31, 2006 and 2007, respectively		1,457	975	134
Inventories		1,507	267	37
Value added tax and business tax recoverable		137	167	23
Due from related parties	16	36,164	5,612	769
Prepaid expenses and other current assets	7	1,273	1,466	201
TOTAL CURRENT ASSETS		64,045	72,201	9,899
Prepayment for land use right	8	-	4,490	615
Property, plant and equipment, net	9	706	35,771	4,903
Prepayment for acquisition of property	10	-	3,426	470
TOTAL ASSETS		64,751	115,888	15,887
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Trade accounts payable		885	488	67
Accrued professional fees		5,607	5,365	735
Income taxes payable		236	611	84
Due to related parties	16	949	6,691	917
Deferred tax liabilities	5	492	1,325	182
Other liabilities and accrued expenses	13	5,942	18,689	2,562
TOTAL CURRENT LIABILITIES		14,111	33,169	4,547
Deferred tax liabilities-non-current	5	-	2,530	347
TOTAL LIABILITIES		14,111	35,699	4,894
Contingencies and commitments	21			
SHAREHOLDERS' EQUITY				
Common stock, (US$0.01 par value; 5,000,000,000 authorized in 2006 and 4,000,000,000 authorized in 2007; shares issued and outstanding 13,809,497 in 2006 and 15,028,665 in 2007)	18	1,078	1,170	160
Preferred stock, (US$0.01 par value; 1,000,000,000 shares authorized; shares issued and outstanding 1,000,000 in 2007)	19	-	77	11
Additional paid-in capital		335,692	369,779	50,692
Accumulated deficit		(285,762)	(292,873)	(40,149)
Accumulated other comprehensive (loss) income		(368)	2,036	279
TOTAL SHAREHOLDERS' EQUITY		50,640	80,189	10,993
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		64,751	115,888	15,887

The accompanying notes are an integral part of these consolidated financial statements.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Amounts in thousands)
For the years ended December 31, 2005, 2006 and 2007

	Preferred stock		Common stock		Additional paid in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
	Shares	Amount	Shares	Amount				
		Rmb		Rmb	Rmb	Rmb	Rmb	Rmb
Balance at January 1, 2005	-	-	6,894,497	571	187,159	(151,644)	(3,232)	32,854
Issue of shares	-	-	4,380,000	339	79,589	-	-	79,928
Stock options granted	-	-	-	-	3,176	-	-	3,176
Components of comprehensive loss:								
Net loss	-	-	-	-	-	(19,532)	-	(19,532)
Net unrealized loss on available-for-sale securities, net of tax	-	-	-	-	-	-	(147)	(147)
Reclassification adjustment upon disposal of available-for-sale securities, net of tax	-	-	-	-	-	-	2,890	2,890
Translation adjustment	-	-	-	-	-	-	(461)	(461)
Total comprehensive loss for the year								(17,250)
Balance at December 31, 2005	-	-	11,274,497	910	269,924	(171,176)	(950)	98,708
Issue of shares	-	-	2,500,000	165	48,601	-	-	48,766
Shares issued upon exercise of stock options	-	-	35,000	3	502	-	-	505
Issue of warrants during the year	-	-	-	-	234	-	-	234
Stock options granted	-	-	-	-	16,431	-	-	16,431
Components of comprehensive loss:								
Net loss	-	-	-	-	-	(114,586)	-	(114,586)
Net unrealized gain on available-for-sale securities, net of tax	-	-	-	-	-	-	84	84
Reclassification adjustment upon disposal of available-for-sale securities, net of tax	-	-	-	-	-	-	479	479
Translation adjustment	-	-	-	-	-	-	19	19
Total comprehensive loss for the year	-	-	-	-	-	-		(114,004)
Balance at December 31, 2006	-	-	13,809,497	1,078	335,692	(285,762)	(368)	50,640
Issue of shares	1,000,000	77	782,168	60	20,563	-	-	20,700
Shares issued upon exercise of stock options	-	-	437,000	32	7,736	-	-	7,768
Issue of warrants during the year	-	-	-	-	4,584	-	-	4,584
Stock options granted	-	-	-	-	1,204	-	-	1,204
Components of comprehensive loss:								
Net loss	-	-	-	-	-	(7,111)	-	(7,111)
Net unrealized gain on available-for-sale securities, net of tax	-	-	-	-	-	-	6,247	6,247
Reclassification adjustment upon disposal of available-for-sale securities, net of tax	-	-	-	-	-	-	(84)	(84)
Translation adjustment	-	-	-	-	-	-	(3,759)	(3,759)
Total comprehensive loss for the year								(4,707)
Balance at December 31, 2007	1,000,000	77	15,028,665	1,170	369,779	(292,873)	2,036	80,189

The accompanying notes are an integral part of these consolidated financial statements.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts expressed in thousands)
For the years ended December 31, 2005, 2006 and 2007

	2005	2006	2007	2007
	Rmb	Rmb	Rmb	US$
Cash flows from operating activities				
Net loss	(19,532)	(114,586)	(7,111)	(976)
Adjustments to reconcile net loss to net cash used in operating activities				
Minority interests in loss of consolidated subsidiaries	(712)	(5,515)	-	-
Amortization of intangible asset	692	6,209	-	-
Stock-based compensation	3,176	16,431	5,788	793
Impairment of goodwill	-	69,526	-	-
Amortization of long-term prepayment for rental of land	2	-	-	-
Depreciation and amortization	376	693	668	92
Profit on disposal of property, plant and equipment	(1)	(4)	-	-
Impairment of property, plant and equipment	-	2,989	-	-
Loss (gain) on disposal of available-for-sale securities	2,596	488	(15,500)	(2,125)
Loss (gain) on disposal of subsidiaries	509	7,872	(2,128)	(292)
Allowance for doubtful accounts	128	892	-	-
Changes in assets and liabilities:				
Decrease (increase) in trade accounts receivable	321	(1,004)	482	66
Decrease (increase) in inventories	79	(444)	1,240	170
(Increase) decrease in due from related parties and other assets	(7,621)	1,423	(378)	(52)
Increase (decrease) in trade accounts payable	126	614	(397)	(54)
Increase in amount due to related parties	1,093	60	373	51
Increase (decrease) in other current liabilities	685	4,342	(926)	(127)
(Decrease) increase in income taxes payable	(4)	(9)	390	53
Decrease (increase) in income taxes recoverable	35	(174)	-	-
Net cash used in operating activities	(18,052)	(10,197)	(17,499)	(2,401)
Cash flows from investing activities				
Decrease (increase) in security trust account	6,763	(181)	19,160	2,627
Decrease in funds held by related parties for security investment purposes	10,081	-	-	-
Acquisitions, net of cash acquired	(35)	-	5,783	793
Cash and cash equivalents disposed of upon disposal of		-	-	-
subsidiaries	(350)	(3,550)	900	123
Proceeds from disposal of available-for-sale securities	12,511	276	156,382	21,438
Purchase of available-for-sales securities	-	-	(178,470)	(24,466)
Addition of construction in progress	-	-	(829)	(114)
Prepayment for acquisition of property	-	-	(3,426)	(470)
Purchases of property, plant and equipment	(879)	(1,126)	(1,443)	(198)
Proceeds from disposal of property, plant and equipment	1	5	-	-
Net cash provided by (used in) investing activities	28,092	(4,576)	(1,943)	(267)
Cash flows from financing activities				
Proceeds from issue of common stock and warrants in 2006	-	-	29,422	4,033
Proceeds from exercise of stock option	-	505	7,768	1,065
Loan to a third party (Note 4)	-	(600)	-	-
Proceeds from short-term borrowings	3,500	-	-	-
Repayments of short-term borrowings	(10)	-	-	-

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Amount expressed in thousands)
For the years ended December 31, 2005, 2006 and 2007
(Continued)

	2005	2006	2007	2007
	Rmb	Rmb	Rmb	US$
Net cash provided by (used in) financing activities	3,490	(95)	37,190	5,098
Effect of exchange rate changes on cash and cash equivalents	(461)	19	(2,317)	(314)
Net increase (decrease) in cash and cash equivalents	13,069	(14,849)	15,431	2,116
Cash and cash equivalents at beginning of year	5,255	18,324	3,475	476
Cash and cash equivalents at end of year	18,324	3,475	18,906	2,592
Supplemental disclosure of cash flow information				
Income taxes paid	-	15	-	-
Interest paid	11	-	-	-
Supplemental disclosure non-cash investing and financing activities				
Issue of new shares for business combination in 2005 (Note 3a)	79,928	-	-	-
Issue of shares for financing activities in 2006	-	48,766	-	-
Issue of warrants for financing activities in 2006	-	234	-	-
Issue of shares in exchange for equity interest in Faster Group in 2007 (Note 3b)	-	-	20,700	2,838

The accompanying notes are an integral part of these consolidated financial statements.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

1 Nature of operations and basis of presentation

China Technology Development Group Corporation (the “Company” or “CTDC”) was incorporated under the laws of the British Virgin Islands ("BVI") on September 19, 1995 as a holding company. The consolidated financial statements include the financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group").

On June 30, 2000, Jingle Technology Co., Ltd. (“Jingle”), our wholly owned subsidiary incorporated in the British Virgin Islands, entered into an agreement with China Internet Technology Co., Ltd. (“China Internet”) and Great Legend Internet Technology and Service Co., Ltd. (“Great Legend”) to acquire the entire outstanding shares of BHL Networks Technology Co. Ltd. (“BHLNet”), a company incorporated under the laws of the Cayman Islands, which owns a 76% interest in Beijing BHL Networks Technology Co. Ltd. (“BBHL”), a company incorporated under the laws of China.

On September 13, 2005, CTDC entered into a sale and purchase agreement with Beijing Holdings Limited ("Beijing Holdings"), its then 47.18% shareholder, to acquire 51% and 49% equity interests of China Natures Technology Inc. ("CNT") and its interest in majority-owned subsidiaries, through two separate transactions, one was effective from October 31, 2005 for a consideration of 2,233,800 common shares of CTDC, another one was effective from December 22, 2005 for a consideration of 2,146,200 common shares of CTDC. Through the acquisition of CNT and its interest in majority-owned subsidiaries, CTDC commenced its business of the development, manufacturing and marketing of healthfood products utilizing bio-active components of bamboo ("Nutraceutical Operations"). Due to the dispute between the minority shareholders of Anji Science Bio-Product Inc. ("Anji Bio"), one of the major operating subsidiaries which was engaged in Nutraceutical Operations, on December 29, 2006, the management of the Company decided to abandon Anji Bio and discontinue the nutraceutical operations (see Note 6 for details of disposal and discontinued operations). The management of the Company approved the disposal of Nutraceutical Operations on April 23, 2007. Therefore, the financial results of Nutraceutical Operations are reported as discontinued operations for all periods presented.

On September 7, 2007, the management of the Company approved the Group’s strategic plan and decided to enter into the business of the development and manufacturing of solar energy products ("Solar Energy Operations") in order to become a provider of clean and renewable energy products focusing on solar energy business. On December 10, 2007, the Group completed the acquisition of the entire equity interests in Faster Assets Limited ("Faster Assets"), a BVI company,

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

1 Nature of operations and basis of presentation (continued)

which owns 100% equity interest in China Merchants Zhangzhou Development Zone Broad Shine Solar Technology Ltd. ("Broad Shine"), incorporated by laws in China to enter into the Solar Energy Operations. In return, the Company issued 782,168 shares of common stock (the "Common Stock") and 1,000,000 shares of preferred stock (the "Preferred Stock") to China Biotech Holdings Limited ("China Biotech"), one of the major shareholders of CTDC, at consideration of Rmb20,700 (see Note 3 for details of acquisition). As at December 31, 2007, the Solar Energy Operations were still under development stage where the Group was constructing the plant and factory in Zhangzhou, China.

In 2007, the sole business of the Group was the IT Operations and its Solar Energy operations are under the development stage and no operation has been commenced.

2 Summary of significant accounting policies

The accompanying consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in the United States of America (“US GAAP”).

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned or controlled subsidiaries. All significant inter-company balances and transactions have been eliminated during consolidation.

The operating results of subsidiaries acquired during the year are included in the accompanying consolidated statements of operations from the effective date of acquisition. Historical operating results of segments disposed of are included in discontinued operations.

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires management of the Group to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant accounting estimates reflected in the Group’s consolidated financial statements included the valuation of deferred tax assets, useful lives of property and equipment, impairment of goodwill and intangible assets, economic lives of intangible assets and allowances for doubtful receivables. Actual results could differ from those estimates.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

2 Summary of significant accounting policies (continued)

(c) Revenues

Revenues arise from product sales and the rendering of services. Revenue is recognized when all of the following criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the sellers' price to the buyer is fixed or determinable; and (iv) collectability is reasonably assured. Specifically, product sales represent the invoiced value of goods, net of discounts, supplied to customers. Revenues from product sales are recognized upon delivery to customers and when title has been passed. Rendering of services represents fees charged on the provision of information technology and network security consultancy services. Fees on such services are recognized upon the completion of the underlying services and when collectability to the fees is reasonably assured.

The Company's subsidiaries are subject to value-added tax of 17% on the revenue earned for goods and services sold in the PRC. The Group presents revenue net of such value-added tax which amounted to Rmb6,468, Rmb9,291 and Rmb7,680 for the years ended December 31, 2005, 2006 and 2007 respectively.

(d) Income Taxes

Income taxes are provided using the assets and liability method under Statement of Financial Accounting Standards ("SFAS") No.109, "Accounting for Income Taxes". Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the financial statements and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax asset and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The tax consequences of these differences are classified as current or non-current based on the classification of the related asset or liability for financial reporting. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of, the deferred tax assets will not be realized.

The Group has adopted FASB Interpretation No ("FIN") 48 on January 1, 2007 and there is no material impact on the Group's financial position, results of operations or cash flows upon adoption and during the year ended December 31, 2007. The Group has no additional material uncertain tax positions as of December 31, 2007.

2 Summary of significant accounting policies (continued)

(e) Concentration of credit risk and major customers

The Group is engaged in the provision of information technology and network security services to a wide range of industries and end users within the PRC. All the Group's revenue is derived from sales to customers located in the PRC. Accordingly, the Group's trade accounts receivable are concentrated with respect to both geography and customer. The Group performs ongoing credit evaluations of its customers and generally does not require collateral. Approximately, 20.5%, 19.8% and 10.4% of the total revenues were contributed by 3 major customers during the year ended December 31, 2007. Approximately, 6.3%, 18.6% and 33.0% of total revenues and 25.8%, 25.0% and 20.0% of the total revenues were contributed by 3 major customers during the year ended December 31, 2005 and 2006, respectively.

(f) Foreign currency transaction gains and losses and translation of foreign currencies

Currency transaction gains and losses are recognized as other non-operating income (expenses) in the consolidated statements of operations. Translation adjustments are recorded in accumulated other comprehensive income, a component of shareholders' equity.

The functional currency of the subsidiaries of the Group that are established in the PRC is Renminbi ("Rmb"). Transactions denominated in other currencies are translated into Rmb at the average rates of exchange prevailing during the year. Monetary assets and liabilities denominated in other currencies are translated into Rmb at rates of exchange in effect on the balance sheet dates. Nonmonetary assets and liabilities are remeasured into Rmb at historical exchange rates.

The functional currency of the Company is Hong Kong dollars ("HK$"). The Group has chosen the Rmb as its reporting currency. Assets and liabilities are translated using the exchange rates in effect at the balance sheet date and average exchange rates for the period are used for revenue and expense transactions.

(g) Translation into United States Dollars

The financial statements of the Group are stated in Rmb. Translations of amounts from Rmb into U.S. dollars are solely for the convenience of the reader and were calculated at the rate of (Rmb7.2946=US$1) on December 31, 2007 representing the noon buying rate in New York City for cable transfers of Rmb, as certified for customs purposes by the Federal Bank of New York. The translation is not intended to imply that the Rmb amounts could have been, or could be, converted, realized or settled into U.S. dollars at that rate on December 31, 2007 or at any other rate.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

2 Summary of significant accounting policies (continued)

(h) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets and assuming no residual value. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20 years
Plant and machineries	10 years
Computer equipments	3 years
Furniture, fixtures and office equipments	3 years
Motor vehicles	5 years

(i) Construction in progress

Construction in progress represents buildings, structures, plant and machinery and other property, plant and equipment under construction or installation and is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalized borrowing costs on related borrowed funds during the period of construction or installation. No interest was capitalized for the years ended December 31, 2005, 2006 and 2007. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

(j) Intangible assets and impairment of intangible assets

Intangible assets represent the core technology relating to extraction of bamboo flavonoids and its related application patents obtained through the acquisition of Nutraceutical Operations on October 31, 2005. The extraction of bamboo flavonoids (the core technology) is recognized at fair value upon acquisition and is amortized on a straight-line basis over its estimated useful life of eight years. The related application patents of the extraction of bamboo flavonoids (the completed technology) are recognized at fair value upon acquisition and are amortized on a straight-line basis over the estimated useful life of five years. The acquired in-process research and development technology is immediately expensed.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

2 Summary of significant accounting policies (continued)

(k) Goodwill and impairment of goodwill

Goodwill represents cost in excess of the fair value of assets of businesses acquired. Goodwill is not amortized, but is reviewed at least annually for impairment in accordance with FASB Statement No. 142, "Goodwill and Other Intangible Assets". Annual impairment review for goodwill is carried out in two steps. The first step, which is used to identify potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. For purposes of this review, the Group's business segments are its reporting units. The fair value is determined by the forecasted discounted net cash inflows of the reporting unit for a period of five years. If the carrying amount of the reporting unit exceeds its fair value, goodwill of the reporting unit is considered impaired. The second step of the impairment test quantifies the amount of the impairment loss by comparing the carrying amount of goodwill to its implied fair value. An impairment loss is recorded to the extent the carrying amount of goodwill exceeds its implied fair value.

(l) Impairment or disposal of long lived assets

Long-lived assets are included in impairment evaluations when events and circumstances exist that indicate the carrying amount of these assets may not be recoverable. The Group reviews its long-lived assets for potential impairment based on a review of projected undiscounted cash flows associated with these assets. Measurement of impairment losses for long-lived assets that the Group expects to hold and use is based on the estimated fair value of the assets. Impairment of property, plant and equipment of RMB 2,989 was recognized for the year ended December 31, 2006 and no impairment charge was recognized for the year ended December 31, 2007.

Long-lived assets to be disposed of are stated at the lower of fair value less cost to sell or carrying amount. Expected future operating losses from discontinued operations are recorded in the periods in which the losses are incurred.

(m) Trade accounts receivable

Trade accounts receivable are stated at the amount management expects to collect. An allowance for doubtful accounts is recorded based on a combination of historical experience, aging analysis and information on specific accounts. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Management has determined that an allowance is required at December 31, 2005, 2006 and 2007 for Rmb31, nil and nil, respectively.

2 Summary of significant accounting policies (continued)

(n) Inventories

Inventories are valued at the lower of cost or net realizable value. Cost includes the purchase cost of products at invoiced value using weighted average method. Net realizable value is determined by reference to the sales proceeds of items sold in the ordinary course of business or to a management estimate based on prevailing market conditions.

(o) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with banks and liquid investments with an original maturity of three months or less. The carrying value of cash equivalents approximates their fair value.

(p) Investment in securities

Investment in securities comprises of available-for-sale equity securities with readily determinable fair value which are carried at fair value, with unrealized gains or losses, if any, reported, net of tax, in other comprehensive income. The cost of securities sold or the amount reclassified out of comprehensive income into earnings is determined based on a specific identification basis.

(q) Employee benefit plans

As stipulated by the regulations of the PRC, the Group's subsidiaries in the PRC participate in various defined contribution plans organized by municipal provincial governments for its employees. The Group is required to make contributions to these plans at a percentage of the salaries, bonuses and certain allowances of the employees. Under these plans, certain pension, medical and other welfare are provided to employees. The Group has no other material obligation for the payment of employee benefits associated with these plans beyond the annual contribution described above.

The contributions are charged to the statement of operations as they become payable in accordance with the rules of the central pension scheme. For the years ended December 31, 2005, 2006 and 2007, the Group contributed Rmb401, Rmb546 and Rmb390, respectively to the plans.

(r) Segment reporting

The Group previously managed its business as two operating segments engaged in the provision of IT Operations and Nutraceutical Operations in the PRC in 2005 and 2006 and decided to discontinue the operations of Nutraceutical business in 2006. In 2007, the management of the Company approved the Group's strategic plan and decided to enter into the Solar Energy Operations.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

2 Summary of significant accounting policies (continued)

(r) Segment reporting (continued)

During the year 2007, the Group's business is solely the provision of IT Operations. Its Solar Energy Operations is under the development stage and no revenue was generated. Substantially all of their revenues are derived in the PRC. All long-lived assets are located in PRC.

(s) Comprehensive income (loss)

Accumulated other comprehensive income (loss) represents foreign currency translation adjustments and the unrealized income (loss) on available-for-sale securities, net of tax, which are included in the consolidated statements of shareholders' equity.

(t) Advertising cost

The Group expenses advertising costs as incurred. Total advertising expenses were Rmb9, Rmb46 and Rmb246 for the years ended December 31 2005, 2006 and 2007, respectively, and have been included as part of selling and marketing expenses.

(u) Earnings per share

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive Common Stock equivalents were issued, as well as any adjustment to income that would result from the assumed issuance. Dilutive Common Stock equivalents that may be issued by the Group relate to outstanding stock options and warrants, and are determined using the treasury stock method. Effect of stock options and warrants is excluded from the computation if the effect would be antidilutive.

(v) Stock-based compensation

The Group grants stock options to its employees and certain non-employees under the Company's stock option plans.

Prior to the fiscal year ended December 31, 2006, the Group applied Accounting Principles Board ("APB") Opinion No. 25 "Accounting for Stock Issued to Employees" for options granted to employees and applied Statement of Financial Accounting Standards ("SFAS") No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"), as amended by SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure" ("SFAS No. 148") for options granted to non-employees. Under APB Option No. 25, because the exercise price of all the options issued by the Group equals or is higher than the market price of the underlying stock on the date of grant, no compensation expense was recognized.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

2 Summary of significant accounting policies (continued)

(v) Stock-based compensation (continued)

Under SFAS No. 123, as amended by SFAS No. 148, a charge for stock-based awards using the Black-Scholes Option pricing model is recognized in general and administrative expenses in the accompanying consolidated statements of operations by the Group when options are granted or modified. Since January 1, 2006, the Group applies SFAS No. 123R, to account for the financial impact of options modified or granted to both employees and non-employees, as they vest.

The Group has adopted SFAS No. 123 (revised 2004) "Share-Based Payment" ("SFAS No. 123R") in 2006. This statement is a revision to SFAS No. 123 and supersedes APB Opinion No. 25. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on the accounting for transactions in which an entity obtains employee services in share-based payment transactions. Entities are required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service, the requisite service period (usually the vesting period), in exchange for the award. The grant-date fair value of employee share options and similar instruments are to be estimated using option-pricing models. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

Upon adoption, the Group applied the modified-prospective transition approach. Under the modified-prospective transition method the Group would be required to recognize compensation cost for share-based awards to employees based on their grant-date fair value from the beginning of the fiscal period in which the recognition provisions are first applied as well as compensation cost for awards that were granted prior to, but not vested as of the date of adoption. Prior periods remain unchanged and pro forma disclosures previously required by SFAS No. 123 continue to be required.

For the fiscal year ended December 31, 2005, had compensation cost for options granted to employees under the Group stock option plans (the "Plans") been determined based on the fair value at the grant date, as prescribed by SFAS No. 123 and SFAS No. 148, the Group's pro forma net loss and net loss per share would have been as follows:

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

2 Summary of significant accounting policies (continued)

(v) Stock-based compensation (continued)

	2005
	Rmb
Net loss for the year, as reported	(19,532)
Add: Stock-based compensation, as reported	2,475
Less: Stock-based compensation determined using the fair value method	(7,791)
Pro forma loss for the year	(24,848)
Basic and diluted net loss per share (in Rmb)	
- As reported	(2.67)
- Pro forma	(3.39)

(w) Operating leases

Leases where substantially all the risk and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are expensed on a straight-line basis over the lease periods.

(x) Reclassifications

Certain reclassifications due to discontinued operations have been made to the prior year consolidated financial statements to conform to the current year presentation.

(y) Fair value of financial instruments

The carrying value of the Group's financial instruments, including trade accounts receivable, value added tax and business tax recoverable, other assets and trade accounts payable, accrued professional fees, income taxes payable and other current liabilities and accrued expenses approximate their fair values due to their relatively short-term nature.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

2 Summary of significant accounting policies (continued)

(z) Recent accounting pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No.157 "Fair Value Measurements" ("SFAS No.157"). SFAS No.157 defines fair value, establishes a framework for measuring fair value and enhances fair value measurement disclosure. SFAS No.157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No.157 provides a single definition for fair value that is to be applied consistently for all accounting applications (excluding requirements of other standards), and also generally describes and prioritizes according to reliability the methods and inputs used in valuations. In February 2008, the FASB issued Staff Position ("FSP") No. 157-b, Effective Date of FASB Statement No. 157 ("FSP 157-b") FSP 157-b delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually) until the beginning of the first quarter of 2009. The Group does not expect the adoption of this statement to have a material effect on the Group's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "the Fair Value Option for Financial Assets and Financial Liabilities"("SFAS No.159"), including an amendment of SFAS No. 115, which allows an entity to choose to measure certain financial instruments and liabilities at fair value. Subsequent measurements for the financial instruments and liabilities an entity elects to measure at fair value will be recognized in earnings. SFAS No.159 also establishes additional disclosure requirements. SFAS No.159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted provided that the entity also adopts SFAS No. 157. The Group does not expect the adoption of this statement to have a material effect on the Group's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combination" ("SFAS No.141R"), to improve reporting creating greater consistency in the accounting and financial reporting of business combinations. The standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Group is currently evaluating whether the adoption of SFAS No. 141R will have a significant effect on its consolidated financial position, results of operations or cash flows.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

2 Summary of significant accounting policies (continued)

(z) Recent accounting pronouncements(continued)

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements” ("SFAS No.160") to improve the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way as required in the consolidated financial statements. Moreover, SFAS No. 160 eliminates the diversify that currently exists in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transaction. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Group is currently evaluating whether the adoption of SFAS No. 160 will have a significant effect on its consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133". This statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement No.133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Group does not expect the adoption of this statement to have a material effect on the Group’s consolidated financial statements.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

3 Acquisition

(a) CNT

On September 13, 2005, the Group entered into agreements with Beijing Holdings, the then 47.18% shareholder of the Company, to (i) acquire 51% equity interest in CNT and its interest of majority-owned subsidiaries in exchange for 2,233,800 shares of Common Stock (the "51% Acquisition") and (ii) obtain an option to acquire the remaining 49% equity interest in CNT and its interest of majority-owned subsidiaries in exchange for 2,146,200 shares of Common Stock (the "49% Acquisition"). The majority-owned subsidiaries of CNT, namely, Zhejiang University (Hangzhou) Innoessen Bio-technology Inc. ("Zhejiang Innoessen"), Shenzhen Innoessen Bio-tech Inc. ("Shenzhen Innoessen") and Anji Bio were engaged in the development, manufacturing and marketing of healthfood products utilizing bio-active components of bamboo. Effective from October 31, 2005, the 51% Acquisition was completed and effective from December 22, 2005, the option was also exercised and the 49% Acquisition was completed. The acquisitions were accounted for using the purchase method of accounting. Accordingly, the purchase consideration has been allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisitions. The excess of the purchase price over the fair value of net assets acquired was Rmb69,526 and has been recorded as goodwill.

The fair value of the shares issued for the 51% Acquisition was approximately US$2.41 per share which was calculated based on the simple average of five days' quoted closing price of the Company's stock, including two days prior and after the announcement date of the transaction and the announcement date on September 26, 2005. The fair value of the shares issued for the 49% Acquisition was approximately US$2.1 per share which was the quoted closing price of the Company's stock on December 22, 2005, the date when the Group exercised the option. The consideration paid, the net assets of the Nutraceutical Operations acquired and the goodwill arising there from can be summarized as follows.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

3 Acquisition (continued)

(a) CNT (continued)

	Acquisition of 51%	Acquisition of 49%
	Rmb	Rmb
Consideration Paid:		
Shares of Common Stock issued at fair value	43,523	36,405
Direct cost related to the acquisition capitalized	936	—
Subtotal	44,459	36,405
Less: Net assets acquired		
Cash and cash equivalents	247	2,387
Trade accounts receivable, net	56	166
Inventories	751	748
Due from related parties	11	19
Income taxes recoverable	18	—
Other assets	835	307
Property, plant and equipment, net	4,665	4,487
Intangible assets	3,514	3,205
Trade accounts payable	(138)	(148)
Income taxes payable	—	(2)
Deferred government grants	(139)	(113)
Due to a related party	(104)	(119)
Short term borrowings	(40)	(1,749)
Deferred tax liabilities	(251)	(241)
Other liabilities and accrued expenses	(466)	(909)
Minority interests	(2,957)	(2,702)
Subtotal	6,002	5,336
Goodwill arising from acquisition of Nutraceutical Operations	38,457	31,069

The weighted average amortization period for the intangible assets acquired was 4.19 years (Note 11). There was no goodwill that was expected to be deductible for tax purposes.

3 Acquisition (continued)

(b) Faster Assets Limited

On November 8, 2007, the Group entered into a sale and purchase agreement with China Biotech, one of major shareholders of the Company, for acquiring 100% equity interest of Faster Assets and its subsidiary (collectively known as "Faster Group") for a consideration of Rmb20,700 which was determined based on the fair market value of the plant located at Tangyang Industrial Zone of China Merchants Zhangzhou Development Zone of the PRC ("Zhangzhou Development Zone") and its land use right owned by Faster Group. The consideration was settled by issuing and allotting 782,168 shares of Common Stock and 1,000,000 shares of Preferred Stock. Prior to the acquisition, Faster Group had no business activities and its major assets and liabilities were cash of Rmb5,783, plant of Rmb16,700, land use right of Rmb4,000 and due to a related party of Rmb5,783. Accordingly, this transaction has been accounted for as an acquisition of assets.

4 Write-off of loan to a third party

On January 12, 2006, Zhejiang Innoessen, a subsidiary of CNT, entered into a joint venture agreement with Fujian Jian’ou Food Production Limited (the "Jian’ou Agreement") to form the Fujian Jian’ou Yingshi Food Technology Limited ("Fujian Jian’ou"). Pursuant to the Jian’ou Agreement, Zhejiang Innoessen would invest Rmb5,100 (the "Capital Injection") to own 51% interest of Fujian Jian’ou. Rmb3,000 and Rmb2,100 of the Capital Injection would be invested in the form of technology owned by Zhejiang Innoessen and a mix of plant and machinery (after valuation) and cash, respectively. The deadline for Capital Injection was December 31, 2006. In 2006, an aggregated sum of Rmb600 in the form of cash had been injected to Fujian Jian’ou during early 2006, nevertheless, the legally required set up procedures of Jian’ou were not completed. Accordingly, the sum injected was treated as a loan to Fujian Jian’ou.

Since early June of 2006, the Fujian Province of China had been subject to the heaviest rainstorms and floods in the past fifty years, Jian’ou, one of the cities in the Fujian Province, suffered the most damage. As a result of this flooding, the production facilities held by Fujian Jian’ou were damaged. It was noted that the factory was flooded under 2.50-meter water for over thirty hours. After the rainstorm, the management of the Company had reassessed the physical environment of Jian’ou for possible future risk of such rainstorms, and finally decided to withdraw from the investment. The Group had negotiated with the joint venture partner for the cancellation of the Jian’ou Agreement but no conclusion was reached. Accordingly, the management of the Group decided to write-off on the loan to Fujian Jian’ou of Rmb600 and recognized as a bad debt expense included in loss from discontinued operations in the fiscal year ended December 31, 2006.

5 Income tax expenses

The Company is a tax exempted company incorporated in the BVI. The Company's subsidiaries incorporated in Hong Kong and PRC are subject to Hong Kong Profits Tax and Foreign Enterprise Income Tax in the PRC respectively.

The Company's subsidiaries incorporated in Hong Kong are taxed at 17.5% on the assessable profits arising in or derived from Hong Kong. For those Hong Kong subsidiaries which generate PRC sourced income, PRC income tax should still be payable on the assessable profits at 33%.

On March 16, 2007, the National People's Congress adopted the Enterprise Income Tax Law (the "New Income Tax Law"), which has become effective from January 1, 2008 and replaced the existing separate income tax laws for domestic enterprises and foreign-invested enterprises, which are PRC subsidiaries of the Company, by adopting unified income tax rate of 25% for most enterprises. In accordance with the implementation rules of the New Income Tax Law, the existing preferential tax treatments granted to various of Group's PRC entities will not continue and they will be subject to the statutory 25% tax rate and therefore such rate is used in the calculation of the Group's deferred tax balances, except Shenzhen Innoessen that currently enjoys a lower tax rate of 15% and will gradually transition to the uniform tax rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. Among the PRC subsidiaries, only Zhangzhou Trendar Tech obtained the preferential tax treatment that it will be fully exempt from the PRC enterprise income tax for two years starting from the year 2008, followed by a 50% tax exemption for the next three years ("tax holidays").

Due to the changes in the New Income Tax Law enacted in March 2007, the Group's deferred tax balances were calculated based on the newly enacted tax rate to be effective on January 1, 2008. The impact on the deferred taxes resulting from the rate change as of January 1, 2008 is an adjustment to the net deferred tax assets of RMB1,114, representing a decrease in deferred tax assets before full valuation allowance provided. As a full valuation allowance was provided for the deferred tax assets of all the PRC subsidiaries, the change in statutory tax rate in this regard has resulted in no effect to current year's income tax provision for these entities.

As all the PRC subsidiaries are in accumulated deficit at December 31, 2007, no provision for PRC dividend withholding tax has been provided thereon. Upon distribution of the future earnings if any in the form of dividends or otherwise in the future, the Group would be subject to the applicable PRC tax laws and regulations.

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(Amounts expressed in thousands, unless otherwise stated)

5 Income tax expenses (continued)

The Group has adopted FASB Interpretation No ("FIN") 48 on January 1, 2007 and there is no material impact on the Group's financial position and results of operations and cash flows on adoption and during the year ended December 31, 2007. The Group has no additional material uncertain tax positions as of December 31, 2007. The Group classifies interest and/or penalties related to unrecognized tax benefits as a component of income tax provisions; however, as of December 31, 2007, there were no interest and penalties related to uncertain tax positions, and the Group had no material unrecognized tax benefit which would favorably affect the effective income tax rate in future periods. The Group does not anticipate any significant increases or decreases to its liability for unrecognized tax benefits within the next twelve months. For PRC subsidiaries, the year 2000 to 2007 remained subject to examination by the PRC tax authorities. For BHLHK, the year 2007 remained subject to examination by the HK tax authorities.

Composition of income tax expenses

Income tax expenses comprises of the following:

	2005	2006	2007
	Rmb	Rmb	Rmb
Current income tax expenses - Continuing operations	5	-	390
Deferred income tax expenses	-	-	-
Income tax expenses	5	-	390

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

5 Income tax expenses (continued)

Reconciliation of income tax expenses by applying PRC statutory Enterprise Income Tax rate

Income tax expenses of the continuing operations differed from the amounts computed by applying PRC statutory Enterprise Income Tax ("EIT") rate of 33% as a result of the following:

	2005	2006	2007
	Rmb	Rmb	Rmb
Net loss before provision for income taxes	(18,928)	(30,996)	(8,450)
PRC statutory tax rate	33%	33%	33%
Income tax credit at PRC statutory EIT rate	(6,246)	(10,229)	(2,789)
Income or expenses adjusted for inter-group liabilities or receivables written off	-	-	(137)
Effect of income tax rate differences in other jurisdictions	572	9,575	4,192
Income not subject to taxation	(60)	(31)	(22)
Expenses not deductible for taxation purpose	-	-	21
Effect of utilization of tax losses not previously recognized	-	-	1,033
Effect of preferential tax treatment	-	-	226
Effect of tax losses expired under statute	-	-	1,455
Effect of tax losses written off	-	-	713
Effect of tax losses from disposed entities	(204)	4,059	4,840
Effect of change in PRC statutory tax rate	-	-	1,114
Change in valuation allowance	5,943	(3,374)	(10,256)
Total income tax expenses	5	-	390

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION
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5 Income tax expenses (continued)

The principal components of the deferred income tax assets and liabilities are as follows:

	December 31, 2006	December 31, 2007
Deferred tax assets:	Rmb	Rmb
Current deferred tax assets	-	-
Less: valuation allowance	-	-
Current Deferred Tax Assets, net	-	-
Tax loss carryforwards	14,033	3,777
Less: valuation allowance	(14,033)	(3,777)
Non-current deferred tax assets, net	-	-
Deferrd tax liability:		
Unrealized gain on available-for-sales securities	-	(1,325)
Other intangible asset	(322)	-
Property, plant and equipment, net	(170)	-
Current deferred tax liabilities	(492)	(1,325)
Property, plant and equipment, net	-	(2,041)
Prepayment for land use right	-	(489)
Non-current deferred tax liabilities	-	(2,530)
Total	(492)	(3,855)
Reported as:		
Current deferred tax assets	-	-
Current deferred tax liabilities	(492)	(1,325)
Subtotal	(492)	(1,325)
Non-current deferred tax assets	-	-
Non-current deferred tax liabilities	-	(2,530)
Total	(492)	(3,855)

The above tax loss carryforwards from the Company's PRC subsidiaries can be carried forward for one to five years. Due to the uncertainty of the level of PRC statutory income, the management does not believe the subsidiaries will generate taxable PRC statutory income in the near future and it is not more likely than not that all of the deferred tax assets will be realized, a full valuation allowance has been established for the amount of deferred tax assets at December 31, 2006 and December 31, 2007. The tax loss carry forwards for the PRC subsidiaries expire on various dates through 2012 and the amount expired in 2008 is Rmb991.

Deferred tax liabilities were recognized for (i) acquisition of Faster Group (Note 3(b)) which give rise to the temporary difference between book value and tax base of land and buildings; (ii) and unrealized gain on available-for-sales securities (Note 20).

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION
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6 Disposal and discontinued operations

(a) Branch of BBHL in Zhuhai

In March 2005, BBHL entered into an agreement with Beijing Enterprises Development Corporation ("BEDC"), a related party (Note 16), to dispose of its branch in Zhuhai, China ("Zhuhai") which represented the entire service rendering business segment of BBHL, at zero consideration. The assets and liabilities of Zhuhai as of the disposal date are as follows:

	2005
	Rmb
Net assets disposed of (excluding cash and cash equivalents):	
Trade accounts receivable, net	56
Other assets	18
Goodwill	999
Income taxes payable	(753)
Other liabilities and accrued expenses	(161)
	159
Loss on disposal of discontinued operations	(509)
	(350)
Discharged by:	
Cash and cash equivalents disposed	(350)

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6 Disposal and discontinued operations (continued)

(b) Discontinued operations

(i) Disposal of Anji Bio

The Group's Nutraceutical Operations were acquired in the purchase of CNT and its majority owned subsidiaries including Anji Bio, Shenzhen Innoessen and Zhejiang Innoessen (see Note 3 for details of acquisition). Since the beginning of 2006, disputes in terms of future development strategy of Anji Bio arose between the Group and Mr. Hu Linfu ("Mr. Hu"), the general manager of Anji Bio and Ms. Chen Shuizhen, Mr. Hu's wife and the minority shareholder of Anji Bio (collectively, the "Anji Buyers"), and Zheijiang Innoessen entered into a memorandum (the "Anji Memorandum") with the Anji Buyers on July 27, 2006, to dispose of the entire interest in Anji Bio held by Zheijiang Innoessen to the Anji Buyers. The disposal of Anji Bio was not completed by September 30, 2006, the original completion date set forth in the Anji Memorandum, due to the differences in interpretation of settlement terms between the Group and the Anji Buyers. During the fourth quarter of 2006, the Group continued to negotiate with the Anji Buyers on settlement terms. In view of the fact that the Group could not exert control over the operational and financial aspects of Anji Bio, and given that the property, plant and equipment had been idle for a long time without regular and proper maintenance, on December 29, 2006 ("disposal date"), the management of the Company decided to abandon Anji Bio and discontinue the Nutraceutical Operations. As a result, the management impaired the remaining value of intangible assets and goodwill acquired amounted to Rmb6,541 and Rmb69,526, respectively in year 2006.

The carrying amounts of the major classes of assets and liabilities of Anji Bio as of the disposal date are as follows:

	2006
Net assets disposed of (excluding cash and cash equivalents):	Rmb
Trade accounts receivable, net	338
Inventories	1,523
Due from related parties	18
Prepaid expenses and other assets	162
Property, plant and equipment, net	6,434
Intangible asset	332
Trade accounts payable	(301)
Income taxes payable	(4)
Short term borrowing	(3,569)
Other liabilities and accrued expenses	(611)
	4,322
Loss on disposal of discontinued operations	(7,872)
	(3,550)
Discharged by:	
Cash and cash equivalents disposed	(3,550)

(Amounts expressed in thousands, unless otherwise stated)

6 Disposal and discontinued operations (continued)

(ii) Disposal of CNT

On December 18, 2007, the Group entered into the Sale and Purchase agreement with Total Trump, an independent party, to dispose of its entire interests in CNT at a consideration of HK$10,000 and a deposit of HK$1,000 was received on the same date. As of December 31, 2007, Total Trump was legally entitled to all rights, titles and interests of CNT. In April 2008, Total Trump informed the Company its financial inability to settle the remaining balance of the consideration amount of HK$9,000 (the "Unpaid Consideration") on or before June 30, 2008 as required under the Sales and Purchase Agreement entered into between Total Trump and the Group and to consider the termination of the transaction. China Biotech, the Company's major shareholder, signed a memorandum with the Company to further commit its contribution of resources, at its unconditional best efforts basis, in streamlining the Company's core business to the solar energy business and agreed to assume all payment obligations of the Unpaid Consideration due from Total Trump by entering into an Assignment Agreement with Total Trump on May 8, 2008.The Unpaid Consideration assumed by the China Biotech was fully paid on June 16, 2008. Management of the Company considered the above transactions as two separate transactions provided that it was related to the same disposed business unit due to the fact that Total Trump and China Biotech were two separated parties. The HK$1,000 deposit received from Total Trump was considered as forfeited by Total Trump.

The assets and liabilities held by CNT as of the disposal date are as follows:

	2007
	Rmb
Net assets disposed of (excluding cash and cash equivalents):	
Other assets	750
Property, plant and equipment, net	46
Deferred tax liabilities	(491)
Other liabilities and accrued expenses	(1,533)
	(1,228)
Gain on disposal of discontinued operations	2,128
	900
Discharged by:	
Consideration received	935
Cash and cash equivalents disposed	(35)
	900

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(Amounts expressed in thousands, unless otherwise stated)

6 Disposal and discontinued operations (continued)

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the financial results of the Nutraceutical Operations are reported as discontinued operations for all periods presented. The financial results involved in discontinued operations were as follows:

	Year ended December 31, 2005				Year ended December 31, 2006			Year ended December 31, 2007
	Rmb	Rmb	Rmb	Total	Rmb	Rmb	Total	Rmb
	Zhuhai	Anji Bio	CNT	2005	Anji Bio	CNT	2006	CNT
Revenues	1,040	1,015	20	2,075	-	52	52	17
Cost of sales	(678)	(783)	(16)	(1,477)	-	(44)	(44)	(17)
Gross profit	362	232	4	598	-	8	8	-
Selling expenses	-	(111)	(21)	(132)	-	(185)	(185)	-
General and administrative expenses	(141)	(299)	(1,013)	(1,453)	-	(4,082)	(4,082)	(399)
Bad debt expenses	-	-	-	-	-	(892)	(892)	-
Impairment of intangible assets	-	-	-	-	-	(6,541)	(6,541)	-
Impairment of goodwill	-	-	-	-	-	(69,526)	(69,526)	-
Operating profit (loss)	221	(178)	(1,030)	(987)	-	(81,218)	(81,218)	(399)
Other income	-	125	73	198	-	-	-	-
Finance costs	-	-	(9)	(9)	-	-	-	-
(Loss) profit on disposal of subsidiaries	(509)	-	-	(509)	(7,872)	-	(7,872)	2,128
(Loss) profit from operations before income tax expenses	(288)	(53)	(966)	(1,307)	(7,872)	(81,218)	(89,090)	1,729
Income tax expenses	-	(4)	-	(4)	-	(15)	(15)	-
(Loss) profit from operations before minority interests	(288)	(57)	(966)	(1,311)	(7,872)	(81,233)	(89,105)	1,729
Minority interests	-	-	712	712	-	5,515	5,515	-
(Loss) profit from operations	(288)	(57)	(254)	(599)	(7,872)	(75,718)	(83,590)	1,729
The carrying amounts of total assets and liabilities included as part of the disposal group were as follows:								
Total assets	1,423	-	-	1,423	12,357	-	12,357	831
Total liabilities	(914)	-	-	(914)	(4,485)	-	(4,485)	(2,024)

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

7 Other assets

Other assets consisted of the following:

	December 31, 2006	December 31, 2007
	Rmb	Rmb
Rental and utility deposits	375	372
Advance to staff	202	174
Prepayment for insurance	387	331
Prepayment for consultancy fee	122	9
Prepayment for raw materials	50	56
Deposit in security account	-	495
Others	137	29
	1,273	1,466

8 Prepayment for land use right

The land use right was acquired through the acquisition of the equity interest of Faster Group as mentioned in Note 3(b). The value of the land use right was determined based on the fair value of the lease as of the completion date of the acquisition of Faster Group. As of the date of this Annual Report, the Group is still in progress of obtaining the official land use right certificate from the relevant PRC authorities.

9 Property, plant and equipment, net

	December 31, 2006	December 31, 2007
	Rmb	Rmb
Buildings	-	18,712
Computer equipments	1,781	1,766
Furniture, fixtures and office equipments	980	2,113
Motor vehicles	445	429
Total	3,206	23,020
Less: accumulated depreciation	(2,500)	(2,687)
Add: construction in progress	-	15,438
	706	35,771

Depreciation for the year ended December 31, 2005, 2006 and 2007 amounted to Rmb376, Rmb693 and Rmb668 respectively.

10 Prepayment for acquisition of property

Prepayment for acquisition of property mainly represented prepayments of Rmb3,301 made for acquisition of four properties in Zhangzhou, China in cash during the year. These properties are still under construction and full payments have been made as of December 31, 2007. The prepayments will be transferred to buildings under property, plant and equipment upon the legal ownerships are obtained.

11 Intangible assets

The intangible assets represented the unamortized cost of the extraction of bamboo flavonoids and its related application patents obtained through the acquisition of the Zhejiang Innoessen on October 31, 2005. The fair values of intangible assets acquired in 2005 represented the core technology, completed technology and in-process research and development ("IPR&D") which amounted to Rmb624, Rmb6,134 and Rmb475, respectively.

The fair value of the core technology is determined by the relief from royalty approach. Under this approach, an asset is valued based upon the incremental after-tax cash flow accruing to the owner by virtue of the fact that the owner does not have to pay a "fair royalty" to a third party for the use of that asset. Accordingly, a portion of the owner's earnings, equal to the after-tax royalty that would have been paid for use of the asset can be attributed to that asset. The value of the asset depends on the present value of future after-tax royalties derived from ownership. Thus, indications of value are developed by discounting future after tax-royalties attributable to the asset to their present value at market-derived rates of return appropriate for the risks of that particular asset. The relevant royalty rate was determined by referring to the profit margin of the CNT and actual market transaction in biotechnology industry whose royalty rates ranged from 1% to 10% with median of approximately 4%. In calculating the royalty saving attributable to the core technology, the related R&D expenses for maintaining the core technology were deducted. The maintenance R&D expense was estimated based on 2% of the maintenance R&D expense to sale. Net cash flow was derived by deducting tax expense from net royalty saving. In arriving at net present value, the projected cash flow to the core technology was then discounted to present value at a discount rate of 25% until the end of the economic life in 2012.

The fair value of completed technology and IPR&D was determined by the estimation of its replacement cost because they are not unique and highly reproduced. The replacement cost of the completed technology and IPR&D include staff costs, equipment, sampling and testing costs, and overhead cost such as utility expense and rents for R&D center. The average development cost per technology was multiplied by total number of months required to complete the existing technology.

As disclosed in Note 6, the Group decided to exit from the nutraceutical business. Given the Group's decision to dispose of the investment in CNT and Zheijiang Innoessen and the Group's new strategy to pursue a different line of business principally engaging in development of eco-friendly technologies, the management of the Company decided to write off all intangible assets related to the nutraceutical business during the fiscal year ended December 31, 2006.

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(Amounts expressed in thousands, unless otherwise stated)

11 Intangible assets (continued)

The balance of the fair value, accumulated amortization/write off for the fiscal year ended December 31, 2005 and 2006 of the core technology and completed technology and IPR&D technology are summarized as follows:

	Balance as of December 31, 2005	Impairment loss for fiscal year ended December 31, 2006	Balance as of December 31, 2006
	Rmb	Rmb	Rmb
Core Technology	611	(611)	-
Completed technology			
Bamboo leaf extract for prostate disease	202	(202)	-
AOB antioxidant from bamboo leaf extract	1,668	(1,668)	-
EOB from bamboo leaf extract	1,899	(1,899)	-
Bamboo shoot extractive for dietary supplements and fertilixer	1,829	(1,829)	-
Zhukangning capsule from bamboo leaf extract	332	(332)	-
	5,930	(5,930)	-
Total	6,541	(6,541)	-

Amortization expense for the year ended December 31, 2005 amounted to Rmb217. All the intangible assets were fully impaired for the year ended December 31, 2006 and amounted to Rmb6,541.

12 Goodwill

The Group recorded goodwill of Rmb69,526 in connection with the acquisition of its Nutraceutical Operations in 2005. For the fiscal year ended December 31, 2006, the management of the Group performed impairment assessment for the carrying amount of the goodwill attributable to Nutraceutical operations. Following the disposal of the production base in Anji Bio (Note 6), the Group could not continue with production and sales of nutraceutical products. The Group gradually discontinued all sales relationships with customers of Nutraceutical operations towards the end of 2006. Furthermore, as disclosed in Note 6, the Group decided to exit the nutraceutical business and dispose of the interests in CNT and Zheijiang Innoessen. Accordingly, the goodwill determined from the forecasted discounted net cash flows of that reporting unit is zero, and hence Rmb69,526 which represented the entire carrying amount of goodwill of the Nutraceutical operations was impaired in the fiscal year ended December 31, 2006.

(Amounts expressed in thousands, unless otherwise stated)

13 Other liabilities and accrued expenses

	December 31, 2006	December 31, 2007
	Rmb	Rmb
Deposits received	887	531
Accrued salaries and staff benefits	2,202	1,350
Accrued liability for purchase of property, plant and equipment	1,198	14,767
Accrued filing fee	365	107
Accrued courier charges	763	327
Temporary receipt*	-	1,308
Others	527	299
	5,942	18,689

***** ***The amount represented the contract sums received on behalf of BEDC, by BHL Networks Technology Company Limited ("BHLHK") in Hong Kong as the customer of BEDC paid in Hong Kong dollars whereas BEDC did not maintain a Hong Kong dollar bank account in Hong Kong. BEDC is not a related party as BEDC is the sole shareholder of China Internet Technology Company Limited, which was a shareholder of the Company in 2005 and 2006, and was not a shareholder of the Company in 2007.***

14 Stock-based compensation

(a) Stock Option

On October 10, 1996, the Company's shareholders approved a stock option plan to grant options for a maximum of 200,000 shares (the "1996 Plan"). The 1996 Plan provides for a grant of options to employees, officers, directors and consultants of the Group. The 1996 Plan is administered by the board of directors (the "Board") or a committee appointed by the Board, which determines the terms of an option's grant, including the exercise price, the number of shares underlying the option and option's exercisability. The exercise price of all options granted under the 1996 Plan must be at least equal to the fair market value of such shares on the date of grant. The maximum term of options granted under the 1996 Plan is ten years.

On September 20, 2000, the Company's shareholders approved a stock option plan to grant options for a maximum of 400,000 shares (the "2000 Plan"). The 2000 Plan provides for a grant of options to employees, officers, directors and consultants of the Group. The 2000 Plan is administered by the Board or a committee appointed by the Board, which determines the terms of an option's grant, including the exercise price, the number of shares subject to the option and option's exercisability. The exercise price of all options granted under the 2000 Plan must be at least equal to the fair market value of such shares on the date of grant. The maximum term of options granted under 2000 Plan is ten years.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

14 Stock-based compensation (continued)

On October 21, 2005, the Company's shareholders approved a stock option plan to grant options for a maximum of 1,000,000 shares (the "2005 Plan"). The 2005 Plan provides for a grant of options to employees, officers, directors and consultants of the Group. The 2005 Plan is administered by the Company's compensation committee (the "Compensation Committee"), which determines the terms of an option's grant, including the exercise price, the number of shares subject to the option and option's exercisability. The exercise price of all options granted under the 2005 Plan must be at least equal to the fair market value of such shares on the date of grant. The maximum term of options granted under the 2005 Plan is ten years.

On December 22, 2006, the Company's shareholders approved a stock option plan to grant options for a maximum of 1,000,000 shares (the "2006 Plan"). The 2006 Plan provides for a grant of options to employees, officers, directors and consultants of the Group. The 2006 Plan is administered by the Compensation Committee, which determines the terms of an option's grant, including the exercise price, the number of shares subject to the option and option's exercisability. The exercise price of all options granted under the 2006 Plan must be at least equal to the fair market value of such shares on the date of grant. The maximum term of options granted under the 2006 Plan is five years.

On October 19, 2007, the Company's shareholders approved a stock option plan to grant options for a maximum of 1,000,000 shares (the "2007 Plan"). The 2007 Plan provides for a grant of options to employees, officers, directors and consultants of the Group. The 2007 Plan is administered by the Compensation Committee, which determines the terms of an option's grant, including the exercise price, the number of shares subject to the option and option's exercisability. The exercise price of all options granted under the 2007 Plan must be at least equal to the fair market value of such shares on the date of grant. The maximum term of options granted under the 2007 Plan is five years.

The Company grants stock options to its employees and certain non-employees under the Company's stock option plans.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

14 Stock-based compensation (continued)

A summary of the stock option activity for both employees and non-employees is as follows:

	Year Ended December 31,					
	2005		2006		2007	
	Number of options	Weighted average exercise price (US$ per option)	Number of options	Weighted average exercise price (US$ per option)	Number of options	Weighted verage exercise price
Outstanding at beginning of year	140,000	1.15	570,000	1.68	1,565,000	2.66
Granted	430,000	1.85	1,030,000	3.18	1,000,000	3.25
Exercised	-	-	(35,000)	1.85	(437,000)	2.44
Cancelled	-	-	-	-	(75,000)	3.01
Outstanding at end of year	570,000	1.68	1,565,000	2.66	2,053,000	2.98

The following table summarizes information with respect to stock options outstanding and exercisable as at December 31, 2005:

	Options outstanding			Options exercisable	
Date of grant	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price (US$ per share)	Number exercisable	Weighted average exercise price (US$ per share)
December 28, 1999	140,000	4 years	1.15	140,000	1.15
September 20, 2005	430,000	9.72 years	1.85	430,000	1.85
	570,000			570,000	

The following table summarizes information with respect to stock options outstanding and exercisable as at December 31, 2006:

	Options outstanding			Options exercisable	
Date of grant	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price (US$ per share)	Number exercisable	Weighted average exercise price (US$ per share)
December 28, 1999	140,000	3 years	1.15	140,000	1.15
September 20, 2005	395,000	8.72 years	1.85	395,000	1.85
September 18, 2006	1,030,000	9.28 years	3.18	1,030,000	3.18
	1,565,000			1,565,000	

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14 Stock-based compensation (continued)

The following table summarizes information with respect to stock option outstanding and exercisable as at December 31, 2007:

	Options outstanding			Options exercisable	
Date of grant	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price (US$ per share)	Number exercisable	Weighted average exercise price (US$ per share)
December 28, 1999	50,000	2 years	1.15	50,000	1.15
September 20, 2005	278,000	7.72 years	1.85	278,000	1.85
September 18, 2006	770,000	8.28 years	3.18	770,000	3.18
May 23, 2007	740,000	4.39 years	3.13	-	-
August 3, 2007	80,000	4.59 years	3.53	-	-
August 20, 2007	135,000	4.64 years	3.74	-	-
	2,053,000			1,098,000	

The aggregate intrinsic values for the share options outstanding and share options exercisable was Rmb89, 362 and Rmb49, 652 respectively as of December, 31, 2007.

The options granted on December 28, 1999 were made pursuant to the 1996 Plan and were immediately exercisable. The options granted on September 20, 2005 included 60,000 options made pursuant to the 1996 Plan and 370,000 options made under the 2000 Plan, all of which were immediately exercisable. The options granted on September 18, 2006 included 30,000 options made pursuant to the 2000 Plan and 1,000,000 options made under the 2005 Plan and all of which were immediately exercisable. The options granted on May 23, 2007, August 3, 2007 and August 20, 2007, respectively, were made pursuant to the 2006 Plan, one-third (1/3) of the options granted and the remaining two-third (2/3) could not be exercisable until the one year after the date of grant and could not be exercisable until two years after the date of grant, respectively.

The Company had granted three groups of options to employees during the year ended December 31, 2005. The options of the chairman and the chief executive officer of the Company were deemed granted on February 8, 2005 and March 29, 2005, respectively, upon their appointment. These options were granted under the 1996 Plan pursuant to a board resolution passed on December 28, 1999. This resolution had passed that 50,000 options were granted to each of the respective positions. In case the person holding the position has not exercised the options during his service with the Group, the person who was appointed can succeed the options at the same terms.

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(Amounts expressed in thousands, unless otherwise stated)

14 Stock-based compensation (continued)

Upon the new appointment of the chairman and the chief executive office in 2005, their predecessors had not exercised any of the options granted and therefore, the remaining options were succeeded by the newly appointed persons. Pursuant to resolutions passed on September 20, 2005 and September 18, 2006, respectively, another 430,000 options and 1,030,000 options were granted to other employees and certain consultants of the Group.

The Company had granted three groups of options to employees during the year ended December 31, 2007. Pursuant to resolutions passed on May 23, 2007, August 3, 2007 and August 20, 2007, respectively, 780,000 options, 80,000 options and 140,000 options, respectively, were granted to certain directors and employees and certain consultants of the Group under the 2006 Plan.

No options were granted under the 2007 Plan in the fiscal year ended December 31, 2007.

Stock-based compensation to non-employees

The Company granted 65,000 stock options under the 2000 Plan to certain consultants on September 20, 2005 for their advisory services provided to the Group. The options were fully vested and non-forfeitable. Accordingly, the Group recorded compensation expenses of Rmb701 for the fiscal year ended December 31, 2005, estimated using the Black Scholes option pricing model. All options granted to consultants were immediately exercisable after being granted.

The Company granted 150,000 stock options under the 2005 Plan to certain consultants on September 18, 2006 for their advisory services provided to the Group. The options were fully vested and non-forfeitable. Accordingly, the Group recorded compensation expenses of Rmb2,393 for the fiscal year ended December 31, 2006, estimated using the Black Scholes option pricing model. All options granted to consultants were immediately exercisable after being granted.

(Amounts expressed in thousands, unless otherwise stated)

14 Stock-based compensation (continued)

The Company granted 140,000 options, 80,000 options and 30,000 options, respectively, under the 2006 Plan to certain consultants on May 23, 2007, August 3, 2007 and August 20, 2007, respectively, for their advisory services provided to the Group. Pursuant to the option agreement of the 2006 Plan, the vesting schedule is as follows: i) the 1/3 of options granted will vest on the 1st anniversary of the grant date, ii) The remaining 2/3 will vest on the 2nd anniversary of the grant date in the continuous service with the Group from the grant date through the applicable date upon which vesting is scheduled to occur. No options under the 2006 Plan were exercisable until May 23, 2008, August 3, 2008 and August 20, 2008, respectively. The Company recorded a compensation expenses of Rmb1,204 for the fiscal year ended December 31, 2007, estimated using the Binominal option pricing model.

The following assumptions were used in the Black-Scholes option pricing model in assessing the fair value of options granted to directors, employees or non-employees for the fiscal year ended December 31, 2006 and were used in the Binominal option pricing model in assessing the fair value of options granted to non-employees for the fiscal year ended December 31, 2007 and for 2006 Plan. The assumption for selecting several comparable from the market devoted to solar energy as reference to determine the volatility rate of the Company as the Group changed the business operation to development on solar energy business in 2007.

	2006	2007		
	Granted on	Granted on		
		May 23, 2007	August 3, 2007	August 20, 2007
Average risk-free rate of return	4.833%	4.480%	4.422%	4.269%
Weighted average expected option life	2 years	1year	1year	1year
Volatility rate	121.62%	72.33%	71.98%	74.97%
Dividend yield	-	-	-	-

(b) Stock Purchase Warrants

On July 2, 2007, the Company issued 100,000 and 100,000 stock purchase warrants to two consultants for their advisory services provided to the Group, at an exercise price of US$4.00 and US$5.00 per share respectively. With reference to the term of warrant certificate, the exercisable period shall be 4 years commencing on the issue of the warrants. The warrants issued are fully vested immediately.

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14 Stock-based compensation (continued)

On August 31, 2007, the Company issued 200,000 warrants to a consultant for its advisory services provided to the Group, at an exercise price US$5.00 per share. The warrants issued are fully vested immediately with an expiry date on August 30, 2008.

The fair value of above-mentioned warrants is estimated on the date of grant using the Binomial Model and is recognized as service expenses amounted to Rmb4,584 in 2007, i.e. over the requisition service period, based on a graded vesting attribution method with a corresponding impact reflected in additional paid-in-capital.

	Granted on July 2, 2007	Granted on August 31, 2007
Average risk-free rate of return	4.584%	4.06%
Weighted average expected option life	1year	1year
Volatility rate	67.81%	76.51%
Dividend yield	-	-

15 Net (loss) income per share

Net (loss) income per share is calculated based on the weighted average number of shares of Common Stock issued and, as appropriate, diluted shares of Common Stock equivalents outstanding for each of the relevant years and the related loss amount. The number of incremental shares from assumed exercise of share options and warrants has been determined using treasury stock method. Under the treasury stock method, the proceeds from the assumed conversion of options and warrants are used to repurchase Common Stock using the average fair value of those years.

Basic and diluted net (loss) income per share has been calculated in accordance with SFAS No. 128 for the years ended December 31, 2005, 2006 and 2007 as follows:

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(Amounts expressed in thousands, unless otherwise stated)

15 Net (loss) income per share (continued)

	Year ended December 31,		
	*2005	* 2006	2007
	Rmb	Rmb	Rmb
Net loss for the year	(19,532)	(114,586)	(7,111)
Net loss from continuing operations attributable to holders of Common Stock, basic and diluted shares	(18,933)	(30,996)	(8,840)
Net (loss) income from discontinued operations attributable to holders of Common Stock, basic and dilutive shares	(599)	(83,590)	1,729
Weighted-average shares used in computing basic and diluted net loss per share from continuing operation	7,327	11,312	14,249
Incremental shares from assumed conversions of stock options and warrants	-	-	1,079
Weighted-average shares used in computing net diluted loss per share from discontinued operation	7,327	11,312	15,328
Net loss per share (in Rmb)			
- Basic and dilutive	(2.67)	(10.13)	(0.50)
Net loss per share from continuing operations (in Rmb)			
- Basic and dilutive	(2.58)	(2.74)	(0.62)
Net (loss) income per share from discontinued operations (in Rmb)			
- Basic	(0.08)	(7.39)	0.12
- Dilutive	(0.08)	(7.39)	0.11

* Certain revenues and expenses were reclassified to discontinued operations for comparative purposes (see Note 6).

(Amounts expressed in thousands, unless otherwise stated)

15 Net (loss) income per share (continued)

For the three years ended December 31, 2005, 2006 and 2007, the number of shares used in the calculation of diluted net (loss) income per share is equal to the number of shares used to calculate basic earning (loss) per share as the incremental effect of share options would be antidilutive. The weighted average number of stock options which have not been included in the calculation of diluted net loss for continuing and discontinued operation per share for the years ended December 31, 2005 and 2006 were 274 and 1,150 respectively.

16 Related party transactions

The transactions with related parties are analyzed as follows:-

	Year ended December 31,		
	2005	2006	2007
	Rmb	Rmb	Rmb
Transactions with related parties			
Disposal of Zhuhai branch of BBHL to BEDC (Note a)	1,300	-	-
Net operating cash outflows of Zhuhai branch reimbursed (Note a)	(1,300)	-	-
Acquisition of CNT from Beijing Holdings by issuance of 2,233,800 new shares at US$2.41 per share and 2,146,200 new shares at US$2.1 per share respectively (Note b)	79,928	-	-
Disposal of available-for-sale securities to Beijing Holdings (Note c)	2,167	-	-
Subscription proceeds receivable from China Biotech (Note d)	-	29,422	-
Acquisition of Faster Group from China Biotech (Note e)	-	-	20,700
Prepayment for acquisition of property from ZMRE (Note f)	-	-	3,301

Note

(a) On March 31, 2005, BBHL entered into an agreement with BEDC, the sole shareholder of China Internet Technology Company Limited ("China Internet"), the then 17.21% shareholder of the Company, to sell its Zhuhai branch for a consideration of Rmb1,300. The consideration was determined based on the operating cash flow generated by Zhuhai branch from May 1, 2002 to March 31, 2005, the period for which Zhuhai branch was managed and controlled by the Group. Upon disposal, the Group agreed to reimburse the same aggregated net operating cash outflows of Rmb1,300 to the Zhuhai branch as part of the conditions of disposal. The consideration of the transaction was zero as the Group received Rmb1,300 from BEDC and at the same time the Group transferred Rmb1,300 to Zhuhai branch. The transaction was closed on March 31, 2005 and resulted in a disposal loss of Rmb509.

16 Related party transactions (continued)

(b) On September 13, 2005, the Group entered into agreements with Beijing Holdings, the then 47.18% shareholder of the Company, to (i) acquire a 51% equity interest in CNT in exchange for 2,233,800 shares of Common Stock and (ii) obtain an option to acquire the remaining 49% equity interest in CNT in exchange for 2,146,200 shares of Common Stock. Effective from October 31, 2005, the acquisition of 51% of CNT was completed. Effective from December 22, 2005, the option was exercised and the remaining 49% equity interest in CNT was acquired by the Group.

(c) On November 17, 2005, the Group entered into a sale and purchase agreement with Beijing Holdings to dispose of all of the 6,312,000 shares invested in Xi'an Haitian Antenna Company Limited ("Xi'an Haitian") for a cash consideration of Rmb2,167. These shares were previously held as available-for-sale securities by the Group and it represented approximately 0.975% of the outstanding shares of Xi'an Haitian. The sale consideration was determined by the quoted closing stock price of Xi'an Haitian at HK$0.33 per share at the date of the agreement. Xi'an Haitian is a company engaged in research, development, production, sales, installation, services and wireless communication network optimization of base station antennas and is also listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. The shares were acquired upon the initial public offering ("IPO") of Xi'an Haitian. Its stock price dropped continuously after the IPO due to poorer operating results as a result of the keen competition in the market. Beijing Holdings is also a passive investor of Xi'an Haitian who owns approximately 8% equity interest of Xi'an Haitian after its IPO. Beijing Holdings currently nominates one non-executive director to the board of Xi'an Haitian and does not participate in the management or operations of Xi'an Haitian.

(d) On November 27, 2006, the Company entered into a subscription agreement with China Biotech to issue 1,500,000 new shares of Common Stock and 2,000,000 warrants at US$2.50 each and US$0.01 each, respectively. The total consideration was Rmb29,422. The transaction was completed on January 12, 2007 and the subscription proceeds were fully received by the Company at the same date. Following the completion of the transaction, China Biotech became the major shareholder of the Company by owning 24.74% of the total outstanding shares of the Company.

(e) On November 8, 2007, the Group entered into a sale and purchase agreement with China Biotech to acquire the entire equity interest in Faster Group held by China Biotech at a consideration of Rmb20,700. The consideration was settled by issuance of 782,168 shares of Common Stock and 1,000,000 shares of Preferred Stock on December 10, 2007.

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

16 Related party transactions (continued)

(f) Zhangzhou Trendar Tech and Broad Shine, the two wholly-owned subsidiaries of the Company, acquired four properties with Rmb3,301 in total from Zhangzhou Merchants Real Estate Ltd. ("ZMRE"), a subsidiary of China Merchant Group ("CMG"), on July 3, 2007 and October 22, 2007, respectively. CMG is the ultimate holding company of China Biotech (see Note 10).

(g) China Biotech has been the major shareholder of the Company since January 12, 2007. China Biotech has experience in acquisitions in China. In view of China Biotech's experience, the Group deposited Rmb6,242 with China Biotech for the purpose of making potential acquisitions (with the assistance of China Biotech) of technology and businesses in China. There was no agreement signed for the funds deposited with China Biotech and the Group can withdraw the funds without any restrictions.

As of December 31, 2006 and 2007, the balances with related parties were as follows:-

	December 31,	
	2006	2007
	Rmb	Rmb
Balances with related parties:		
Due from related parties		
Subscription proceeds receivable from China Biotech (Note d)	29,422	-
Funds held by China Biotech for potential acquisition of technology and business in China (Note g)	6,242	5,612
Due from China Biotech (Note h)	500	-
	36,164	5,612
Due to related parties:		
Due to BEDC, the holding company of a shareholder (Note i)	59	-
Due to China Biotech (Note j)	890	908
Due to CMZDZ (Note k)	-	5,783
	949	6,691

(h) The amount represented the loan repayment on behalf of China Biotech by Zhejiang Innoessen.

(i) The amount represented the contract sums received on behalf of BEDC by BHLHK in Hong Kong as the customer of BEDC paid in Hong Kong dollars whereas BEDC did not maintain a Hong Kong dollar bank account in Hong Kong.

16 Related party transactions (continued)

(j) The amount represented administrative expenses paid on behalf of Faster Assets and Shenzhen Innoessen by China Biotech in China.

(k) The amount represented the amount payable to China Merchant Zhangzhou Development Zone Ltd. ("CMZDZ"), a subsidiary of CMG, for the cash of Faster Group acquired (see Note 3(b) for details of acquisition of Faster Group).

The balances with related parties are unsecured and interest-free, and have no fixed terms of repayment.

17 Retirement benefits

As stipulated by the regulations of PRC, the PRC subsidiary is required to make contributions to the retirement fund organized by the PRC government at the rate of 20% of the base salaries of their staff. Contributions made in connection with the mandatory fund, which are expensed as incurred, were Rmb401, Rmb546 and Rmb390 for the years 2005, 2006 and 2007, respectively. The PRC subsidiary has no obligation for the payment of pension benefits beyond the annual contributions described above.

18 Common stock

On November 8, 2007, the Group entered into a sale and purchase agreement with China Biotech to acquire the entire equity interest of Faster Group held by China Biotech at a consideration of Rmb20,700. The consideration was settled by issuance of 782,168 shares of Common Stock and 1,000,000 shares of Preferred Stock (see Note 19 for details of Preferred Stock) on December 10, 2007. The value of the Common Stock was determined using the average Company closing price of beginning thirty days prior to July 5, 2007, the date when the acquisition was agreed.

During the year, 1,000,000,000 authorized shares of Common Stock are re-designed as Preferred Stock.

Other than the above, 437,000 shares of Common Stock were issued upon exercise of stock options.

19 Series A non-convertible and non-redeemable Preferred Stock

The 1,000,000 shares of Series A non-convertible and non-redeemable Preferred Stock issued during the year were recorded at the par value of Rmb77 which was determined based on the difference between Rmb20,700 and fair value of Common Stock.

The rights, preferences and privileges with respect to the Preferred Stock are as follows:

- *Voting right*
  The 1,000,000 shares of Preferred Stock shall have an aggregate voting power of 25% of the combined voting power of the entire issuer's shares, Common Stock and Preferred Stock.

- *Dividends*
  The holder shall be entitled to receive dividends only as, when and if such dividends are declared by the Board with respect to shares of Preferred Stock.

- *Liquidation preference*
  In the event of any distribution of assets upon any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, after payment or provision for payments of the debts and other liabilities of the Company, the holder shall be entitled to receive out of assets of the Company, whether such assets are capital, surplus or earnings, an amount equal to the consideration paid by him for each such share plus any accrued and unpaid dividends with respect to such shares of Preferred Stock through the date of such liquidation, dissolution or winding up.

- *Redemption*
  The issuer shall have no right to redeem the Preferred Stock.

- *Non-convertible*

20 Available-for-sale securities

The available-for-sale securities as at December 31, 2007 were Hong Kong marketable equity securities. The cost and estimated fair value of the available-for-sale securities as at December 31, 2007 were Rmb37,235 and Rmb44,808, respectively, with unrealized gain of Rmb7,573.

(Amounts expressed in thousands, unless otherwise stated)

21 Contingencies and commitments

(a) Operating lease commitments

As of December 31, 2007, the Group had future aggregate minimum lease payments under non-cancelable operating leases as follows:

As of December 31,	Rmb
2008	1,292
2009	335
2010	120
2011 and thereafter	-
Total	1,747

Lease rental costs incurred by the Group for the year ended December 31, 2005, 2006 and 2007 amounted to Rmb1,052, Rmb759 and Rmb1,439 respectively.

(b) Capital commitments for construction in progress

On September 7, 2007, China Merchants Zhangzhou Development Zone Trenda Solar Ltd. ("Zhangzhou Trenda "), a wholly-owned subsidiary of the Group, entered into a cooperation contract with China Solar Energy Group Limited, an independent third party, to purchase the SnO2 solar base plates production lines at an aggregate price of US$8,000 equivalent to Rmb58,357 for four SnO2 production lines. Half of the price for the production lines shall be paid in accordance with each delivery. The remaining 50% payment of each production line will be made by the Group upon successful installation of the production lines as well as meeting the requirements for production. As at the date of this report, the first SnO2 solar base plate production line in the factory concluded its installation and testing.

22 Segment information

Prior to the discontinuation of the Nutraceutical Operations in 2007, the Group was operating two business segments, i.e. IT Operations and Nutraceutical Operations. The business segment is determined based on the nature of the business engaged. The board and the management evaluate the net income of each segment in assessing performance and allocating resources between segments. Following the disposal of CNT (Note 6), the Group could not continue with production and sales of nutraceutical products. The Group gradually discontinued all sales relationships with customers of Nutraceutical Operations towards the end of 2007. Since then, the IT Operations were the sole business of the Group. The Solar Energy Operations were still under development stage in 2007 and hence, no revenue has been generated in 2007.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

22 Segment information(continued)

The board and the management evaluate the segment's performance based upon, operating income or loss and allocate resources between segments. Such measure is then adjusted to exclude items that are of a non-recurring or unusual nature. The management believes such discussions are the most informative representation of how the management evaluates performance.

Summarized financial information for the IT Operations and Solar Energy Operations which represent the Group's continuing operations for 2007, 2006 and 2005 and Nutraceutical Operations represent the discontinued operation of the Group:

	Revenues Rmb	Operating loss Rmb	Net identifiable assets/ (liabilities) Rmb	Depreciation and amortization Rmb	Capital expenditures Rmb
Year 2007					
IT Operations	7,680	(907)	1,034	106	74
Solar Energy Operations	-	(1,073)	32,007	138	36,873
Total operating segments	7,680	(1,980)	33,041	244	36,947
Corporate*	-	(23,435)	47,148	326	960
Group	7,680	(25,415)	80,189	570	37,907
Year 2006					
IT Operations	9,291	65	1,822	139	81
Corporate	-	(30,785)	49,607	283	77
Sub-total	9,291	(30,720)	51,429	422	158
Discontinued operation –Nutraceutical Operations	-	-	(789)	-	968
Group	9,291	(30,720)	50,640	422	1,126
Year 2005					
IT Operations	6,468	(3,269)	2,579	67	221
Corporate	-	(13,407)	14,713	128	454
Sub-total	6,468	(16,676)	17,292	195	675
Discontinued operation - Nutraceutical Operations	-	-	11,890	-	16,584
Group	6,468	(16,676)	29,182	195	17,259

CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands, unless otherwise stated)

22 Segment information (continued)

* The detail of corporate/unallocated items including mainly staff costs, legal and professional fees are as follows:

	2007
	Rmb
Selling expenses	-
Unallocated general and administrative expenses	(23,435)
Operating loss	(23,435)
Cash and cash equivalents	5,129
Short-term investments-security trust account	44,808
Due from related parties	5,612
Other assets	1,470
Due to related parties	(6,008)
Deferred tax liabilities	(1,325)
Other liabilities	(2,538)
Net identifiable assets/ (liabilities)	47,148

The Group was engaged in the provision of information technology and network security services and the sale and marketing of nutraceutical products to a wide range of industries and end users within the PRC. All the Group's revenue is derived from sales to customers located in the PRC. Approximately, 20.5%, 19.8% and 10.4% of the total revenues were contributed by 3 major customers during the year ended December 31, 2007. Approximately, 6.3%, 18.6% and 33.0% of total revenues and 25.8%, 25.0% and 20.0% of the total revenues were contributed by 3 major customers during the year ended December 31, 2005 and 2006, respectively.

The Group operates mainly in the PRC as such, all long-lived assets are located in the PRC and all revenues are generated with the PRC.

Segment assets consist primarily of cash and cash equivalents, inventories, trade receivables, other assets and fixed assets. Segment liabilities comprise of operating liabilities.

23 Subsequent events

1. Assignment agreement relating to CNT between Total Trump and China Biotech

On December 18, 2007, the Group entered into the Sale and Purchase agreement with Total Trump, an independent party, to dispose of its entire interests in CNT at a consideration of HK$10,000 and a deposit of HK$1,000 was received on the same date. As of December 31, 2007, Total Trump was legally entitled to all rights, titles and interests of CNT. In April 2008, Total Trump informed the Company its financial inability to settle the remaining balance of the consideration amount of HK$9,000 (the "Unpaid Consideration") on or before June 30, 2008 as required under the Sales and Purchase Agreement entered into between Total Trump and the Group and to consider the termination of the transaction. China Biotech, the Company's major shareholder, signed a memorandum with the Company to further commit its contribution of resources, at its unconditional best efforts basis, in streamlining the Company's core business to the solar energy business and agreed to assume all payment obligations of the Unpaid Consideration due from Total Trump by entering into an Assignment Agreement with Total Trump on May 8, 2008.The Unpaid Consideration assumed by the China Biotech was fully paid on June 16, 2008. Management of the Company considered the above transactions as two separate transactions provided that it was related to the same disposed business unit due to the fact that Total Trump and China Biotech were two separated parties. The HK$1,000 deposit received from Total Trump was considered as forfeited by Total Trump. The HK$9,000 received from China Biotech on June 16, 2008 will be recorded as shareholders' contribution in the additional paid-in capital in shareholders equity for the fiscal year ending December 31, 2008. The additional paid-in capital will not have any dilution to shareholders.

2. Discontinuation of IT Operations

The Group decided to focus on the strategic expansion in the solar business and proposed to dispose of its equity interest of Jingle Technology Co Ltd. (”Jingle”) and its subsidiaries, BHLNet and BBHL, to Beijing Holdings, one of shareholders of the Company, for a cash consideration HK$1,000. The disposal of Jingle was approved by the written resolution of the Board passed on May 9, 2008. A definitive sale and purchase agreement relating to the proposed disposal of Jingle has not been entered into by the Group and Beijing Holdings. The Group does not expect the discontinuation of IT Operations to have a material impact on the Group’s consolidated financial statement.

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CHINA TECHNOLOGY DEVELOPMENT GROUP CORPORATION

CORPORATE INFORMATION

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Stock Code	CTDC
Website	http://www.chinactdc.com
Board of Directors	
Executive Directors	Alan Li (Chairman of the Board of Directors), Zhenwei Lu, Kang Li, Xu Qian and Ju Zhang
Independent Directors	Loong Cheong Chang, Xiaoping Wang, Xinping Shi, Yezhong Ni, Weidong Wang and Yu Keung Poon
Committees and Members	
Audit Committee	Loong Cheong Chang, Yu Keung Poon and Yezhong Ni
Compensation Committee	Xinping Shi, Weidong Wang and Yu Keung Poon
Nominating Committee	Loong Cheong Chang, Xinping Shi and Weidong Wang
Executive Management	
Chief Executive Officer	Alan Li
Co-Chief Executive Officer	Xu Qian
Chief Financial Officer	Charlene Hua
Chief Investment Officer	Kang Li
Chief Operating Officer	Zhenwei Lu
Transfer Agent	American Stock Transfer & Trust Company 59 Maiden Lane, New York, NY 10038 Phone Number for shareholder services: (800) 937-5449
Independent Registered Public Accounting Firm	Deloitte Touche Tohmatsu CPA Ltd. Shenzhen, China
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Principal Bankers

In Hong Kong	China Merchants Bank, Hong Kong Branch Bank of Communications, Hong Kong Branch Bank of China (Hong Kong) Limited
In China	China Construction Bank, Fujian Branch China Merchants Bank, Shenzhen Branch DBS Bank Limited, Shanghai Branch