



中國信息科技發展有限公司

China Information Technology Development Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8178)



2008

First Quarterly Report



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility of the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (“Directors”) of China Information Technology Development Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



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CORPORATE INFORMATION

Executive Directors

Mr. Zhang Honghai (*Chairman*)
Mr. Wang Zhenyu (*Chief Executive Officer*)
Mr. E Meng
Mr. Li Kangying
Dr. Yu Xiaoyang (*Vice President*)
Mr. Yan Qing
Mr. Zhang Zhihong (*Vice President*)
Mr. Cao Wei

Independent Non-executive Directors

Ms. Ma Yuhua
Ms. Liang Yeping
Dr. Zhou Chunsheng

Company Secretary

Ms. Ng Weng Sin

Qualified Accountant

Ms. Ng Weng Sin

Compliance Officer

Dr. Yu Xiaoyang

Authorised Representatives

Mr. Wang Zhenyu
Ms. Ng Weng Sin

Remuneration Committee

Ms. Ma Yuhua (*Chairman*)
Ms. Liang Yeping
Dr. Zhou Chunsheng
Mr. Zhang Honghai

Audit Committee

Ms. Ma Yuhua
Ms. Liang Yeping
Dr. Zhou Chunsheng

Auditors

Ernst & Young

Legal Advisors

Conyers Dill & Pearman

Principal Banker

The Hongkong and Shanghai Banking Corporation Limited

Head Office and Principal Place of Business

Room 3401, West Tower, Shun Tak Centre
200 Connaught Road Central, Sheung Wan
Hong Kong

Registered Office

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KYI-1111
Cayman Islands

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Ltd.
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman, Cayman Islands
British West Indies

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
17th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

GEM STOCK CODE

8178

WEB-SITE ADDRESS

Xteamlinux.com.hk

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

1. Internet, Mobile and Telecommunication Value-added Services

Sales for the period amounted to HK\$26,005,000, accounting for 74% of the overall sales. It is substantially derived from Mingsuo (www.mingsuo.com).

Mingsuo is a public service platform for querying various corporate information, such as name of corporate representative, scope of operation and registered capital. The service named “Integrated Corporate Information Query (企業信息綜合查詢)” is also introduced to provide more extensive and detailed information. Corporate information for Beijing, Tianjin, Shaanxi and Hebei is available to individual and corporate users on Mingsuo.

2. Software Development, System Integration, Technical Support and Maintenance Services


During the period, the Group recorded sales of HK\$8,890,000. Sales from this segment are subject to seasonal factors and are generally higher in the third and fourth quarters. Sales dropped by HK\$2,343,000 as compared with the corresponding period last year.

Business Prospects

The Group will continue to promote the Corporate Information Query service to other provinces and cities in China and has already developed new query services, such as “Integrated Corporate Information Query (企業信息綜合查詢)” and “Fawu New Space Time (法務新時空)”. The Group will also dedicate its efforts to expanding the scope and depth of information query of Mingsuo, thereby enhancing the popularity of Mingsuo. On the other hand, software development, system integration, technical support and maintenance services will remain as a stable income stream for the Group.

Financial Review

The Group recorded a turnover of HK\$35,184,000 and the cost was HK\$5,785,000. Gross profit amounted to HK\$29,399,000, representing a gross profit margin of 84%. Gross profit and gross profit margin recorded an increase of HK\$25,261,000 and 48% respectively as compared with the corresponding period last year. It was mainly attributable to the acquisition of Run Tong Group made by the Group on 18 September 2007. Sales of Run Tong Group for the period was HK\$28,931,000, representing 82% of the Group’s overall sales.



Administrative expenses for the period was HK\$33,578,000, increased by HK\$25,632,000 as compared with that of the corresponding period last year. The increase was mainly due to the substantial increase in accounting cost as a result of the share option amortization of HK\$19,560,000.

The increase in finance costs was mainly attributable to the interest expenses on convertible bonds of HK\$1,900,000 for the period.

Profit before interest, tax, amortization and depreciation to equity holders of the Company for the period amounted to HK\$8,210,000.

By order of the Board

China Information Technology Development Limited

Zhang Honghai

Chairman

Hong Kong, 14 May 2008

The board of Directors (the "Board") of the Company announces the unaudited results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31 March 2008, together with the unaudited comparative figures for the corresponding period in 2007, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Three months ended	
		31 March	
		2008	2007
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	3	35,184	11,790
Cost of sales and services		(5,785)	(7,652)
Gross profit		29,399	4,138
Other income and gains	3	452	1,246
Selling and distribution costs		(5,373)	(1,759)
Administrative expenses		(33,578)	(7,946)
Other expenses		(4,460)	–
Finance costs	4	(1,949)	(136)
LOSS BEFORE TAX	5	(15,509)	(4,457)
TAX	6	(1,743)	(142)
LOSS FOR THE PERIOD		(17,252)	(4,599)
ATTRIBUTABLE TO:			
Equity holders of the Company		(16,033)	(4,538)
Minority interests		(1,219)	(61)
		(17,252)	(4,599)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	7		
Basic (cents)		(0.25)	(0.11)
Diluted (cents)		N/A	N/A

NOTES TO CONDENSED CONSOLIDATED INCOME STATEMENT

1. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the financial assets designated at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and method of computation used in preparing the unaudited consolidated results are consistent with those used in the audited financial statements for the year ended 31 December 2007.

The condensed consolidated results are unaudited but have been reviewed by the Company’s audit committee.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the three months ended 31 March 2008. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries.

2. Segment information

The following table presents revenue and profit/(loss) for the Group's business segments for the three months ended 31 March 2008 and 2007. No further geographical segment information is presented as the Group's customers and operations are located in Mainland China.

Business segments

	Software development and system integration		Internet, mobile and telecommunication		In-house developed products		Elimination		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	8,890	11,233	26,005	-	289	557	-	-	35,184	11,790
Intersegment sales	-	1,526	-	-	-	1,129	-	(2,655)	-	-
Total	8,890	12,759	26,005	-	289	1,686	-	(2,655)	35,184	11,790
Segment results	(6,882)	(2,511)	21,174	-	(579)	(1,802)	-	-	13,713	(4,313)
Bank interest income and unallocated gains									452	1,246
Unallocated corporate expenses, net									(27,725)	(1,254)
Finance costs									(1,949)	(136)
Loss before tax									(15,509)	(4,457)
Tax									(1,743)	(142)
Loss for the period									(17,252)	(4,599)

3. Revenue, other income and gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; and the value of services rendered during the period.

An analysis of revenue, other income and gains is as follows:

	Three months ended	
	31 March	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Sale of computer software and hardware	289	557
Provision of software development and system integration services	6,911	10,520
Provision of technical support and maintenance services	1,979	713
Provision of internet, mobile and telecommunication value-added services	26,005	–
	<u>35,184</u>	<u>11,790</u>
	Three months ended	
	31 March	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income and gains		
Bank interest income	452	58
PRC tax subsidies	–	979
Others	–	209
	<u>452</u>	<u>1,246</u>

4. Finance costs

	Three months ended	
	31 March	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank overdrafts	48	–
Interest on convertible bonds	1,900	–
Interest expenses on an amount due to a substantial shareholder	1	136
	<u>1,949</u>	<u>136</u>

5. Loss before tax

Loss before tax was arrived at after charging the following:

	Three months ended	
	31 March	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of fixed assets	710	366
Amortization of intangible assets	281	44
	<u>991</u>	<u>410</u>

6. Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2007: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's PRC subsidiaries enjoy income tax exemptions and reductions. Certain PRC subsidiaries are subject to income tax rates ranging from 0% to 15%.

	Three months ended	
	31 March	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Hong Kong	–	–
Current – PRC	1,743	142
Total tax charge for the period	1,743	142

7. Loss per share attributable to equity holders of the company

Basic

The calculation of basic loss per share for the three months ended 31 March 2008 is based on the Group's unaudited loss attributable to equity holders of the Company of approximately HK\$16,033,000 (2007: HK\$4,538,000), and on the weighted average number of 6,314,214,060 ordinary shares in issue during the period (2007: 3,989,883,035 shares).

Diluted

Diluted loss per share for the period ended 31 March 2008 has not been disclosed as the outstanding options and convertible bonds had an anti-dilutive effect on the basic loss per share.

Diluted loss per share for the period ended 31 March 2007 had not been disclosed as the outstanding options had an anti-dilutive effect on the basic loss per share.

8. Dividend

The Board does not recommend the payment of an interim dividend for the period (2007: Nil).

9. Reserves

	Attributable to equity holders of the Company										
	Equity							Retained profits/ losses	Total	Minority interests	Total equity
	Issued capital	Share premium account	component of convertible bonds	Share option reserve	PRC reserve funds	Exchange fluctuation reserve	(accumulated)				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2007	38,426	337,250	-	-	3,343	3,738	(252,730)	130,027	12,802	142,829	
Exchange realignment	-	-	-	-	-	(1,249)	-	(1,249)	561	(688)	
Loss for the period	-	-	-	-	-	-	(4,538)	(4,538)	(5,373)	(9,911)	
Total income and expense for the period	-	-	-	-	-	(1,249)	(4,538)	(5,787)	(4,812)	(10,599)	
Transfer to PRC reserve funds	-	-	-	-	1,818	-	(1,818)	-	-	-	
Issue of shares	3,050	25,720	-	-	-	-	-	28,770	-	28,770	
Equity-settled share option arrangement	-	-	-	393	-	-	-	393	-	393	
At 31 March 2007	41,476	362,970	-	393	5,161	2,489	(259,086)	153,403	7,990	161,393	
At 1 January 2008	62,339	1,128,172	25,345	23,770	19,103	11,193	6,497	1,276,419	12,802	1,289,221	
Exchange realignment	-	-	-	-	-	10,300	-	10,300	561	10,861	
Loss for the period	-	-	-	-	-	-	(16,033)	(16,033)	(1,219)	(17,252)	
Total income and expense for the period	-	-	-	-	-	10,300	(16,033)	(5,733)	(658)	(6,391)	
Transfer to PRC reserve funds	-	-	-	-	715	-	(715)	-	-	-	
Conversion of convertible bonds	1,305	23,771	(3,174)	-	-	-	-	21,902	-	21,902	
Equity-settled share option arrangement	-	-	-	19,564	-	-	-	19,564	-	19,564	
At 31 March 2008	63,644	1,151,943	22,171	43,334	19,818	21,493	(10,251)	1,312,152	12,144	1,324,296	

GENERAL INFORMATION

1. Directors' service contracts

At 31 March 2008, none of the Directors had any existing or proposed service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

2. Directors' interests in contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries and fellow subsidiaries was a party during the three months ended 31 March 2008.

3. Directors' interests and short positions in shares and underlying shares

At 31 March 2008, the interests and short positions of the Directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(1) Long positions in ordinary shares of the Company:

Name of director	Number of shares held	Capacity and nature of interest	Percentage of the Company's issued share capital
Dr. Zhou Chunsheng	600,000	Directly beneficially owned	0.01%

(2) Long positions in shares of associated corporations:

Name of director	Name of associated corporation	Relationship with the Company	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Cao Wei	Beijing Development (Hong Kong) Limited ("Beijing Development")	Company's substantial shareholder	190,000	Directly beneficially owned	0.03%
Mr. Li Kangying	Beijing Development	Company's substantial shareholder	304,000	Directly beneficially owned	0.04%
Dr. Yu Xiaoyang	Beijing Development	Company's substantial shareholder	2,124,000	Directly beneficially owned	0.31%
Mr. E Meng	Beijing Development	Company's substantial shareholder	601,000	Directly beneficially owned	0.09%
Mr. Zhang Honghai	Beijing Development	Company's substantial shareholder	600,000	Directly beneficially owned	0.09%
Mr. E Meng	Beijing Enterprises Holdings Limited	Company's substantial shareholder	50,000	Directly beneficially owned	0.01%

(3) Interests in underlying shares of associated corporations:

At 31 March 2008, the interests of directors in options to subscribe for shares of Beijing Development, under the share option scheme of Beijing Development were as follows:

Name of director	Number of options held		
	Note (a)	Note (b)	Note (c)
Mr. Zhang Honghai	3,400,000	6,800,000	–
Mr. Li Kangying	–	4,500,000	–
Mr. Cao Wei	–	4,000,000	–
Mr. E Meng	–	4,500,000	1,500,000
Mr. Yan Qing	–	3,200,000	–
Dr. Yu Xiaoyang	300,000	–	–

Notes:

- (a) These options were granted on 27 June 2006 at an exercise price of HK\$1.00 per share. The options may be exercised at any time commencing on 27 June 2006 and, if not otherwise exercised, will lapse on 17 June 2011.
- (b) These share options were granted on 30 October 2007 at an exercise price of HK\$4.03 per share. The share options may be exercised in two equal portions. The first portion is exercisable at any time commencing on 1 May 2008, and the other portion is exercisable from 1 May 2009 and if not otherwise exercised, will lapse on 17 June 2011.
- (c) These share options were granted on 4 February 2008 at an exercise price of HK\$3.17 per share. The options may be exercised at any time commencing on 1 May 2008 and, if not otherwise exercised, will lapse on 17 June 2011.

In addition to the above, Mr. Li Kangying has a non-beneficial personal equity interest in a subsidiary held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

The interests of the directors in the share options of the Company are separately disclosed in paragraph 6 to the general information.

Save as disclosed above, as at 31 March 2008, none of the directors or chief executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

4. Directors' rights to acquire shares or debentures

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and the share option scheme disclosures in paragraph 6, at no time during the three months ended 31 March 2008 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

5. Substantial shareholders' interests in shares and underlying shares

At 31 March 2008, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name	<i>Notes</i>	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Beijing Development	(a)	Through controlled corporations	1,895,513,445	29.78%
Beijing Enterprises Holdings Limited	(b)	Through controlled corporations	1,895,513,445	29.78%
Beijing Enterprises Investments Limited	(c)	Through controlled corporations	1,895,513,445	29.78%
Beijing Enterprises Group Company Limited	(d)	Through controlled corporations	1,895,513,445	29.78%
Mr. Li Kecheng		Directly beneficially owned	1,520,500,000	23.89%

Notes:

- (a) Beijing Development was deemed to be interested in the 1,895,513,445 shares by virtue of its controlling interests in Prime Technology Group Limited and E-tron Limited.
- (b) Beijing Enterprises Holdings Limited was deemed to be interested in the 1,895,513,445 shares by virtue of its controlling interests in Beijing Development.
- (c) Beijing Enterprises Investments Limited was deemed to be interested in the 1,895,513,445 shares by virtue of its controlling interests in Beijing Enterprises Holdings Limited.
- (d) Beijing Enterprises Group Company Limited was deemed to be interested in the 1,895,513,445 shares by virtue of its controlling interests in Beijing Enterprises Investments Limited and Beijing Enterprises Holdings Limited.

Save as disclosed above, as at 31 March 2008, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

6. Share options scheme

The following share options were outstanding under the Share Option Scheme during the three months ended 31 March 2008:

Name or category of participant	Notes	Number of share options		
		At 1 January 2008	Granted during the period**	At 31 March 2008
Executive directors:				
Mr. Li Kangying	(a)	36,000,000	–	36,000,000
Mr. Wang Zhenyu	(a)	35,000,000	–	35,000,000
Dr. Yu Xiaoyang	(a)	32,400,000	–	32,400,000
Mr. Yan Qing	(a)	32,400,000	–	32,400,000
Mr. Zhang Zhihong	(a)	32,400,000	–	32,400,000
Mr. E Meng	(a)	32,400,000	–	32,400,000
Mr. Cao Wei	(a)	32,400,000	–	32,400,000
Mr. Zhang Honghai	(b)	–	20,000,000	20,000,000
Independent non-executive directors:				
Ms. Ma Yuhua	(a)	4,000,000	–	4,000,000
Ms. Liang Yeping	(a)	4,000,000	–	4,000,000
Dr. Zhou Chunsheng	(a)	4,000,000	–	4,000,000
Other employees				
	(a)	94,000,000	–	94,000,000
	(c)	6,500,000	–	6,500,000
Advisers and consultants				
	(a)	14,000,000	–	14,000,000
		<u>359,500,000</u>	<u>20,000,000</u>	<u>379,500,000</u>

Notes:

- (a) These options were granted on 13 September 2007 at an exercise price of HK\$0.79* per share. The options may be exercised at any time commencing on 13 March 2008 and, if not otherwise exercised, will lapse on 12 September 2012. The exercise of the option is subject to an annual cap of 25% of the share options granted. Subject to the approval of the Share Option Committee and the Remuneration Committee, executive directors and independent non-executive directors are entitled to exercise all the share options within three months from the date of termination of their employment.
- (b) These options were granted on 11 February 2008 at an exercise price of HK\$0.53* per share. The options may be exercised at any time commencing on 11 August 2008 and, if not exercised, will lapse on 10 February 2013.
- (c) These options were granted on 31 October 2007 at an exercise price of HK\$0.79* per share. The options may be exercised at any time commencing on 30 April 2008 and, if not otherwise exercised, will lapse on 31 October 2012. The exercise of the options is subject to an annual cap of 25% of the share options granted.

Notes to the reconciliation of share options outstanding during the period:

- * *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*
- ** *The closing price of the Company's shares immediately before the date on which the options were granted during the period was HK\$0.52.*



7. Purchase, sale or redemption of the Company's listed securities

During the three months ended 31 March 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

8. Competing interests

During the period under review, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

During the three months ended 31 March 2008, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

Code of conduct regarding securities transactions by directors

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the directors during the three months ended 31 March 2008.

Audit Committee

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, including Ms. Ma Yuhua, Ms. Liang Yeping and Dr. Zhou Chunsheng. All of them are independent non-executive directors. The chairman of the audit committee is Ms. Ma Yuhua.

The Group's unaudited results for the three months ended 31 March 2008 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards.