



**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**  
**INTERIM REPORT**



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## CORPORATE INFORMATION

### Executive Directors

Mr. Zhang Honghai (*Chairman*)  
Mr. Wang Zhenyu (*Chief Executive Officer*)  
Dr. Yu Xiaoyang  
Mr. Zhang Zhihong

### 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**

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Hong Kong

**Registered Office**

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Hutchins Drive, P.O. Box 2681  
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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 KY1-1107  
Cayman Islands

**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**

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## SUMMARY

- Turnover for the six months ended 30 June 2008 amounted to HK\$94,878,000, representing an increase of 194% from last year (2007: HK\$32,294,000).
- Profit attributable to equity holders of the Company for the six months ended 30 June 2008 amounted to HK\$4,250,000 (2007: loss of HK\$3,915,000).
- Earnings per share attributable to ordinary equity holders of the Company for the six months ended 30 June 2008 was HK\$0.07 cents.
- The Board does not recommend the payment of an interim dividend for the period (2007: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

The board of directors (the "Board") of China Information Technology Development Limited (the "Company") announces that, for the six months ended 30 June 2008, the Company and its subsidiaries (collectively the "Group") recorded a turnover of HK\$94,878,000 and the cost was HK\$16,297,000. Gross profit amounted to HK\$78,581,000, representing a gross profit margin of 83%. Gross profit and gross profit margin recorded an increase of HK\$64,864,000 and 40% 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\$74,172,000 representing 78% of the Group's overall sales.

Administrative expenses for the period was HK\$48,635,000 increased by HK\$33,126,000 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\$22,426,000.

Finance cost for the period was HK\$3,685,000. The increase in finance costs was mainly attributable to the accounting interest expenses on convertible bonds.

Profit before interest, tax, amortization and depreciation to equity holders of the Company for the period amounted to HK\$38,200,000.

### Business review and prospects

The principle activities of the Group are mainly comprised of two segments: (1) the provision of information services involving internet, mobile and telecommunication value-added services; and (2) the provision of software development, system integration, technical support and maintenance services. Set out below is the business analysis of the two segments:

#### **(1) Internet, mobile and telecommunication value-added services**

Revenue for the period amounted to HK\$71,682,000, accounting for 75.6% of the overall revenue. It was substantially derived from the provision of corporation information enquiry services by way of the Internet, mobile communication, voice message and Mingsuo ([www.mingsuo.com](http://www.mingsuo.com)).

Information enquiry services, which are provided mainly on the platform of Mingsuo, will continue to be the main business line of the Group. During the period, in light of the trend of open administration, apart from the free enquiry of information listed in business licenses, the scope of free information search of Mingsuo available for the public was extended to previously charged items such as the name of corporation representative, date of establishment, term of operation, year and result of annual inspection and registered capital.

Such free information enquiry services have attracted more browsers to Mingsuo, thus boosting click rates and facilitating the promotion of consolidated corporate reports which are available at a fee. With the increasing publicity of Mingsuo, corporations were solicited for registration on Mingsuo, which facilitated the development of Mingsuo Verification, a new service offered on the platform of Mingsuo. Though Mingsuo Verification is still under preliminary development, Mingsuo is moving to a new stage, providing not only basic but also advanced corporation information as well as corporate verification services.

Corporate information enquiry services, which are provided mainly on the platform of Mingsuo, also aimed to extend its geographical coverage. The corporate information enquiry service is currently available in Beijing, Tianjin, Hebei, Harbin and Shaanxi. The Group will further endeavor to expand its coverage to more locations, so as to allow the public to enquire into both basic and advanced information. Our ultimate goal is to have a national coverage for Mingsuo's corporate information enquiry services. The successful geographical expansion can also support the development of Mingsuo verification services.

## **(2) Software development, system integration, technical support and maintenance services**

Revenue for the period amounted to HK\$21,559,000. It is subject to seasonal factors and is generally higher in the third and fourth quarters. However, sales dropped by HK\$9,761,000 as compared with the corresponding period last year.

The strategy of the Group is to shift its focus from system integration and software development to system operation maintenance. With the software development and system integration services, the Group extends into the field of system operation maintenance and modifies the revenue pattern from a one-off nature to a recurring and rising income trend in order to secure stable income and cash flow. The Group will continue the deployment of resources in software development and system integration as they are fundamental for the development of system operation maintenance services.



## Financial position

As at 30 June 2008, the Group had cash and bank balances of HK\$127,920,000 (31 December 2007: HK\$235,808,000) and had no outstanding bank loan (31 December 2007: Nil).

The gearing ratio (defined as total liabilities over total equity) of the Group as at 30 June 2008 was approximately 12% (31 December 2007: 22%).

The debt ratio (defined as total liabilities over total assets) of the Group as at 30 June 2008 was approximately 10% (31 December 2007: 18%).

As substantial part of the turnover, cost of sales and expenses of the Group are transacted in Renminbi, the Board considers that the potential foreign exchange exposure of Group is limited.

## Capital expenditure and contingent liabilities

During the six months ended 30 June 2008, the Group incurred capital expenditure of HK\$33,479,000. As at 30 June 2008, the Group have capital commitments amounted to HK\$3,985,000, and did not have any material contingent liabilities.

## Employee

As at 30 June 2008, the Group employed approximately 520 employees, including Directors (31 December 2007: approximately 470 employees), at market remuneration and benefits such as defined retirement contribution, employee share options and medical insurance.

## Appreciation

The Directors would like to take this opportunity to express our sincere thanks to our shareholders and business partners of the Group for their continuous support and to all employees of the Group for their valuable contribution.

By Order of the Board  
**China Information Technology Development Limited**  
**Zhang Honghai**  
*Chairman*

Hong Kong, 14 August 2008

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 June		Six months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
REVENUE	3	<b>59,694</b>	19,547	<b>94,878</b>	32,294
Cost of sales and services		<b>(10,512)</b>	(10,925)	<b>(16,297)</b>	(18,577)
Gross profit		<b>49,182</b>	8,622	<b>78,581</b>	13,717
Other revenue and gains	4	<b>1,319</b>	818	<b>1,771</b>	1,107
Selling and distribution costs		<b>(9,405)</b>	(2,061)	<b>(14,778)</b>	(3,820)
Administrative expenses		<b>(15,057)</b>	(7,563)	<b>(48,635)</b>	(15,509)
Other expenses		–	–	<b>(4,460)</b>	–
Finance costs	5	<b>(1,736)</b>	–	<b>(3,685)</b>	(136)
PROFIT/(LOSS) BEFORE TAX	6	<b>24,303</b>	(184)	<b>8,794</b>	(4,641)
TAX	7	<b>(2,809)</b>	(269)	<b>(4,552)</b>	(411)
PROFIT/(LOSS) FOR THE PERIOD		<b>21,494</b>	(453)	<b>4,242</b>	(5,052)
ATTRIBUTABLE TO:					
Equity holders of the Company		<b>20,283</b>	623	<b>4,250</b>	(3,915)
Minority interests		<b>1,211</b>	(1,076)	<b>(8)</b>	(1,137)
		<b>21,494</b>	(453)	<b>4,242</b>	(5,052)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8				
Basic (HK cents)		<b>0.31</b>	0.01	<b>0.07</b>	(0.09)
Diluted (HK cents)		<b>N/A</b>	N/A	<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>47,106</b>	15,370
Goodwill		<b>1,142,481</b>	1,142,481
Other intangible assets		<b>5,042</b>	5,322
Interest in an associate		<b>20,000</b>	–
Prepayments		<b>9,376</b>	26,887
<b>Total non-current assets</b>		<b>1,224,005</b>	1,190,060
<b>CURRENT ASSETS</b>			
Inventories		<b>13,409</b>	3,001
Trade receivables	10	<b>132,230</b>	96,480
Prepayments, deposits and other receivables		<b>37,444</b>	40,709
Financial assets designed at fair value through profit or loss		<b>4,541</b>	8,547
Cash and bank balances		<b>127,920</b>	235,808
<b>Total current assets</b>		<b>315,544</b>	384,545
<b>CURRENT LIABILITIES</b>			
Trade payables	11	<b>4,292</b>	6,045
Other payables and accruals		<b>14,751</b>	23,867
Due to shareholders		<b>1,205</b>	68,816
Tax payable		<b>3,917</b>	9,163
<b>Total current liabilities</b>		<b>24,165</b>	107,891
<b>NET CURRENT ASSETS</b>		<b>291,379</b>	276,654
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,515,384</b>	1,466,714
<b>NON-CURRENT LIABILITIES</b>			
Convertible bonds		<b>137,273</b>	177,493
<b>Net assets</b>		<b>1,378,111</b>	1,289,221
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Issued capital	12	<b>64,949</b>	62,339
Reserves		<b>1,299,398</b>	1,214,080
		<b>1,364,347</b>	1,276,419
<b>Minority interests</b>		<b>13,764</b>	12,802
<b>Total equity</b>		<b>1,378,111</b>	1,289,221

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Attributable to equity holders of the Company									
	Equity				PRC reserve funds	Exchange fluctuation reserve	Retained profits/ (accumulated loss)	Total	Minority interests	Total equity
	Issued capital (Unaudited)	Share premium account (Unaudited)	component of convertible bonds (Unaudited)	Share option reserve (Unaudited)						
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	10,366	140,393
Exchange realignment	-	-	-	-	-	1,740	-	1,740	297	2,037
Loss for the period	-	-	-	-	-	-	(3,915)	(3,915)	(1,137)	(5,052)
Total income and expense for the period	-	-	-	-	-	1,740	(3,915)	(2,175)	(840)	(3,015)
Transfer to PRC reserve funds	-	-	-	-	2,426	-	(2,426)	-	-	-
Issue of shares	8,253	168,637	-	-	-	-	-	176,890	-	176,890
Equity-settled share option arrangements	-	-	-	-	-	-	394	394	-	394
At 30 June 2007	46,679	505,887	-	-	5,769	5,478	(258,677)	305,136	9,526	314,662
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	-	-	-	-	-	17,448	-	17,448	970	18,418
Profit for the period	-	-	-	-	-	-	4,250	4,250	(8)	4,242
Total income and expense for the period	-	-	-	-	-	17,448	4,250	21,698	962	22,660
Transfer to PRC reserve funds	-	-	-	-	494	-	(494)	-	-	-
Issue of shares upon conversion of convertible bonds	2,610	47,542	(6,348)	-	-	-	-	43,804	-	43,804
Equity-settled share option arrangements	-	-	-	22,426	-	-	-	22,426	-	22,426
At 30 June 2008	64,949	1,175,714*	18,997*	46,196*	19,597*	28,641*	10,253*	1,364,347	13,764	1,378,111

\* These reserve accounts comprise the reserves of HK\$1,299,398,000 (31 December 2007: HK\$1,214,080,000) in the condensed consolidated balance sheet.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	<b>(1,822)</b>	(7,171)
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>	<b>(42,980)</b>	(979)
<b>NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES</b>	<b>(67,712)</b>	164,032
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(112,514)</b>	155,882
Cash and cash equivalents at beginning of the period	<b>235,808</b>	39,655
Effect of foreign exchange rate changes, net	<b>4,626</b>	383
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>127,920</b>	195,920
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>108,622</b>	195,920
Non-pledged time deposits with original maturity of less than three months when acquired	<b>19,298</b>	–
	<b>127,920</b>	195,920

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of presentation

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of the Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies and basis of preparation adopted in the preparation of these condensed consolidated financial statements are consistent with those used in the Company's annual financial statements for the year ended 31 December 2007.

The condensed consolidated financial statements are unaudited but have been reviewed by the Company's audit committee.

## 2. Segment information

The Group's operations are situated in the PRC in which revenue was derived principally therefrom. Accordingly, no geographical segments were presented. The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

The following table presents revenue and profit/(loss) for the Group's business segments for the six months ended 30 June 2008 and 2007.

	Six months ended 30 June									
	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) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
<b>Segment revenue:</b>										
Sales to external customers	21,559	31,320	71,682	-	1,637	974	-	-	94,878	32,294
Intersegment sales	-	-	-	-	-	1,140	-	(1,140)	-	-
<b>Total</b>	<b>21,559</b>	<b>31,320</b>	<b>71,682</b>	<b>-</b>	<b>1,637</b>	<b>2,114</b>	<b>-</b>	<b>(1,140)</b>	<b>94,878</b>	<b>32,294</b>
<b>Segment results</b>	<b>(8,633)</b>	<b>4,652</b>	<b>53,599</b>	<b>-</b>	<b>(286)</b>	<b>(3,283)</b>	<b>-</b>	<b>-</b>	<b>44,680</b>	<b>1,369</b>
Bank interest income and unallocated gains									1,771	1,107
Unallocated corporate expenses, net									(33,972)	(6,981)
Finance costs									(3,685)	(136)
Profit/(loss) before tax									8,794	(4,641)
Tax									(4,552)	(411)
Profit/(loss) for the period									4,242	(5,052)

### 3. Revenue

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 is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Sale of computer software and hardware	1,347	417	1,637	974
Provision of software development and system integration services	8,547	14,679	15,457	26,156
Provision of technical support and maintenance services	4,123	4,451	6,102	5,164
Provision of internet, mobile and telecommunication value-added services	45,677	–	71,682	–
	<b>59,694</b>	19,547	<b>94,878</b>	32,294

### 4. Other revenue and gains

	Three months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Bank interest income	970	756	1,422	814
PRC tax subsidies	–	62	–	293
Others	349	–	349	–
	<b>1,319</b>	818	<b>1,771</b>	1,107



**5. Finance costs**

	Three months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on bank overdrafts	52	–	100	–
Interest on convertible bonds	1,684	–	3,584	–
Interest expenses on amount due to a substantial shareholder	–	–	1	136
	<b>1,736</b>	–	<b>3,685</b>	136

**6. Profit/(Loss) before tax**

Profit/(Loss) before tax was arrived at after charging the following:

	Three months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Depreciation of property, plant and equipment	2,175	318	2,885	684
Amortisation of other intangible assets*	129	44	410	88

\* These amounts are included in "Selling and distribution costs", "Cost of sales and services" and "Administrative expenses" on the face of the condensed consolidated income statement.

**7. 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%.

## 8. Earnings/(loss) per share attributable to ordinary equity holders of the Company

The calculation of basic earnings per share for the three months ended 30 June 2008 is based on the unaudited profit attributable to equity holders of the Company of HK\$20,283,000 (2007: HK\$623,000) and the weighted average number of 6,438,433,840 (2007: 4,464,807,468) ordinary shares in issue during the period.

The calculation of basic earnings/(loss) per share for the six months ended 30 June 2008 is based on the unaudited profit attributable to equity holders of the Company of HK\$4,250,000 (2007: loss of HK\$3,915,000) and the weighted average number of 6,398,106,917 (2007: 4,231,947,252) ordinary shares in issue during the period.

Diluted earnings per share for the three months and six months ended 30 June 2008 have not been disclosed as the average share price of the Company for the relevant periods are lower than the exercise price of the share options outstanding during the period and convertible bonds outstanding during the period had an anti-dilutive effect on the basic earnings per share.

Diluted loss per share for the three months and six months ended 30 June 2007 had not been disclosed as the outstanding options had an anti-dilutive effect on the basic loss per share for the relevant periods.

## 9. Interim dividend

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

## 10. Trade receivables

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Within 1 month	<b>36,813</b>	44,170
1 to 2 months	<b>16,289</b>	13,256
2 to 3 months	<b>9,693</b>	19,079
Over 3 months	<b>69,435</b>	19,975
	<b>132,230</b>	96,480

Generally, the Group has granted credit terms to its customers, ranging from 30 to 90 days. In certain cases, the Group would request payment in advance from the customers.

Included in the Group's trade receivables are amounts due from subsidiaries of the Company's substantial shareholder of HK\$7,413,000 (2007: HK\$13,449,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

## 11. Trade payables

An aged analysis of the Group's trade payables as the balance sheet date, based on the invoice date, is as follows:

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Within 1 month	479	3,356
1 to 2 months	95	528
2 to 3 months	66	296
Over 3 months	3,652	1,865
	<b>4,292</b>	6,045

The trade payables are non-interest-bearing and are normally settled within 30 to 90 days.

## 12. Issued capital

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.01 each	100,000	100,000
<i>Issued and fully paid:</i>		
6,494,906,368 (2007: 6,233,906,368) ordinary shares of HK\$0.01 each	64,949	62,339

During the six months ended 30 June 2008, part of the convertible bonds, amounting to HK\$50,151,000, were exercised by bondholders in exchange for 261,000,000 ordinary shares of the Company at the conversion price of HK\$0.19215 per share.

A summary of the transaction during the six months ended 30 June 2008 with reference to the above movement in the issued ordinary share capital of the Company is as follows:

	<b>Number of shares in issue</b>	<b>Issued share capital <i>HK\$'000</i></b>	<b>Share premium account <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
At 1 January 2007	3,842,606,368	38,426	326,383	364,809
Issue of shares for acquisition of subsidiaries	1,560,000,000	15,600	879,988	895,588
Allotment of new shares	768,000,000	7,680	169,140	176,820
Share option exercised	63,300,000	633	6,492	7,125
Share issue expenses	–	–	(6,021)	(6,021)
Transfer to accumulated losses	–	–	(258,677)	(258,677)
At 31 December 2007 and 1 January 2008	6,233,906,368	62,339	1,117,305	1,179,644
Issue of shares upon conversion of convertible bonds	261,000,000	2,610	47,542	50,152
At 30 June 2008	6,494,906,368	64,949	1,164,847	1,229,796

### 13. Related party transactions

(a) Transactions with a related party:

	<b>Six months ended 30 June</b>	
	<b>2008 (Unaudited) <i>HK\$'000</i></b>	<b>2007 (Unaudited) <i>HK\$'000</i></b>
Sales to a subsidiary of the Company's substantial shareholder	<b>1,459</b>	11,421

(b) Outstanding balances with related parties:

	<b>30 June 2008</b>	31 December 2007
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Amount due from subsidiaries of the Company's substantial shareholder	<b>11,484</b>	15,626

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

#### 14. Contingent liabilities

At 30 June 2008, the Group did not have any material contingent liabilities.

#### 15. Capital commitments

At 30 June 2008, the Group had the following capital commitments:

	<b>30 June 2008</b>	31 December 2007
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Contracted, but not provided for the purchase of information systems	<b>3,985</b>	11,090

#### 16. Approval of the condensed consolidated interim financial statements

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 14 August 2008.

## GENERAL INFORMATION

### 1. Directors' service contracts

At 30 June 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

None of the Directors had any direct or indirect material interest in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries and fellow subsidiaries was a party during the six months ended 30 June 2008.

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

At 30 June 2008, the interests and short positions of the directors in the share capital and underlying shares capital 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
Mr. Wang Zhenyu	600,000,000 (Note)	Directly beneficially owned	9.24%
Dr. Zhou Chunsheng	600,000	Directly beneficially owned	0.01%

*Note:*

On 24 June 2008, Prime Technology Group Limited (“Prime Technology”), a wholly-owned subsidiary of Beijing Development and Mr. Wang Zhenyu had entered into a share disposal agreement. Pursuant to the Agreement, Mr. Wang Zhenyu conditionally agreed to purchase and Prime Technology conditionally agreed to sell 600,000,000 shares of the Company, representing approximately 9.24% of the entire issued share capital of the Company as at 30 June 2008. The transaction has not been completed on the date of this report.

## **(2) Interest in underlying shares**

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

Save as disclosed above, as at 30 June 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 below, at no time during the six months ended 30 June 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 30 June 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	Notes	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	29.18%
Beijing Enterprises Holdings Limited	(b)	Through controlled corporations	1,895,513,445	29.18%
Beijing Enterprises Group Company Limited	(c)	Through controlled corporations	1,895,513,445	29.18%
Mr. Li Kecheng		Directly beneficially owned	1,122,000,000	17.28%
Mr. Wang Zhenyu	(d)	Directly beneficially owned	600,000,000	9.24%
Ms. Zhao Hongxia	(e)	Directly beneficially owned	600,000,000	9.24%

#### Notes:

- (a) Beijing Development was deemed to be interested in the 1,895,513,445 Shares by virtue of its controlling interests in its wholly owned subsidiaries, 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 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.
- (d) The details of the interest of Mr. Wang Zhenyu is disclosed in the note under paragraph 3(1) above.
- (e) Under Part XV of the SFO, Ms. Zhao Hongxia, the spouse of Mr. Wang Zhenyu, is deemed to be interested in the same parcel of 600,000,000 shares held by Mr. Wang Zhenyu.

Save as disclosed above, as at 30 June 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 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 six months ended 30 June 2008:

Name or category of participant	Notes	Number of share options			At 30 June 2008
		At 1 January 2008	Granted during the period**	Lapsed/ forfeited during the period	
<b>Executive Directors:</b>					
Mr. Li Kangying	(a)/(d)	36,000,000	–	(27,000,000)	9,000,000
Mr. Wang Zhenyu	(a)	35,000,000	–	–	35,000,000
Dr. Yu Xiaoyang	(a)	32,400,000	–	–	32,400,000
Mr. Yan Qing	(a)/(d)	32,400,000	–	(24,300,000)	8,100,000
Mr. Zhang Zhihong	(a)	32,400,000	–	–	32,400,000
Mr. E Meng	(a)/(d)	32,400,000	–	(24,300,000)	8,100,000
Mr. Cao Wei	(a)/(d)	32,400,000	–	(24,300,000)	8,100,000
Mr. Zhang Honghai	(b)/(e)	–	20,000,000	–	20,000,000
<b>Independent Non-executive Directors:</b>					
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) (c)	94,000,000 6,500,000	– –	(44,325,000) (5,000,000)	49,675,000 1,500,000
Advisers and consultants	(a)	14,000,000	–	(7,500,000)	6,500,000
		359,500,000	20,000,000	(156,725,000)	222,775,000

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 option 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.
- d. Mr. Li Kangying, Mr. Yan Qing, Mr. E Meng and Mr. Cao Wei resigned as executive directors on 5 June 2008.
- e. The fair value of equity-settled share options granted under the Share Option Scheme on 11 February 2008, was estimated as at the date of grant using the Black-Scholes-Merton option price model, at approximately HK\$6,155,000. The significant inputs into the model were dividend yield of 0%, expected volatility of 80.15%, risk-free interest rate ranging from 1.605% to 1.911%, expected life of options ranging from 2.75 to 4.5 years and the weighted average share price of HK\$0.53.

*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 share 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 six months ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of 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

### **Corporate governance practices**

During the six months ended 30 June 2008, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

### **Board of directors**

#### ***Chairman and chief executive officer***

The chairman of the Company is Mr. Zhang Honghai and the chief executive officer of the Company is Mr. Wang Zhengyu. The Company has complied with code provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

#### ***Non-executive directors***

The Non-executive directors of the Company (all are Independent Non-executive Directors) are not appointed for specific terms, which deviates from the requirement of code provision A.4.1. However, in view of the fact that they are subject to retirement by rotation in accordance with the Company's Articles of Association, the Company considers sufficient measures to ensure that the corporate governance standard of the Company is not less exacting than that of the code provisions.

### **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 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 six months ended 30 June 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 six months ended 30 June 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.

### **Remuneration committee**

The remuneration committee of the Company was established in accordance with the Code Provisions. The role and function of the remuneration committee include the determination of the specific remuneration packages of all executive directors. Members of the remuneration committee include three independent non-executive directors, Ms. Ma Yuhua (Chairman of remuneration committee), Ms. Liang Yeping, Dr. Zhou Chunsheng and Mr. Zhang Honghai (Chairman of the Board).

### **Internal control**

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board will conduct regular review regarding internal control systems of the Group.