



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

Third 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 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*)
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

Room 4401, 44/F, COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
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 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

www.chinainfotech.com.hk

SUMMARY

- Revenue for the nine months ended 30 September 2008 amounted to HK\$155,356,000, representing an increase of 103.4% from last year (2007: HK\$76,391,000).
- Profit attributable to equity holders of the Company for the nine months ended 30 September 2008 amounted to HK\$25,957,000 (2007: HK\$4,103,000).
- Earnings per share attributable to equity holders of the Company for the nine months ended 30 September 2008 was HK0.41 cents.
- The Board does not recommend the payment of an interim dividend for the period (2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and prospects

The principle activities of the Group are the provision of value-added services of business registration information query, software development and maintenance services. Set out below is the business analysis of the two segments:

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

Sales from this business for the period amounted to HK\$114,771,000, representing 73.9% of the overall sales. Revenue is substantially derived from the business registration information query services, which allow the public to make queries via the mobile based Internet, mobile short messages, Interactive Voice Responses (IVR) and Mingsuo online query (www.mingsuo.com). The Group will continue its focus on the development of Mingsuo, such as broadening its geographical coverage and establishing a nationwide information network. The Group will also expand its scope of services so as to strengthen the Group's bases of earnings.

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

Sales for the period amounted to HK\$38,418,000, representing 24.7% of the overall sales. Due to fierce competition, sales dropped by HK\$29,031,000 as compared with the corresponding period last year.

Financial review

The Group recorded a turnover of HK\$155,356,000 for the nine months ended 30 September 2008, an increase of 103.4% as compared with that of the corresponding period last year. Gross profit amounted to HK\$127,634,000, a growth of 216.2% over that of the same period last year. The increases in turnover and gross profit were attributable to the fact that since the completion of the acquisition of Run Tong Group on 18 September 2007 (the "Completion Date"), its significant results have been consolidated into the Group's accounts. As a result, the revenue and gross profit for this period recorded a substantial increase as compared to the corresponding period last year. Gross profit margin was 82.2%, representing an increase of 29.4% as compared with the corresponding period last year. The growth in gross profit

margin was due to the increase in contributions from the value-added service of business registration information query as the gross profit margin of which is higher than that of the software development and system integration business. Profit for the period amounted to HK\$23,551,000, an increase of 293.4% as compared with the corresponding period last year.

Administrative expenses for the period were HK\$71,582,000, increased by HK\$41,278,000 as compared with that of the corresponding period last year. The substantial increase was due to the inclusion of the share option cost amortization of HK\$25,432,000. It was also due to the fact that expenses of the Run Tong Group for the entire period were incorporated into the Group's accounts, while the expenses incorporated last year were only for the period from 18 September to 30 September.

During the period, interest on convertible bonds was HK\$5,286,000, an increase of HK\$4,969,000 over that of the same period last year. The increase was due to the fact that such expenses were incurred last year only since the completion of the acquisition.

Profit before interest, tax, depreciation and amortization for the period amounted to HK\$67,646,000.

Profit attributable to equity holders of the Company for the period amounted to HK\$25,957,000, representing a growth of 532.6% as compared with that of the corresponding period last year. Earnings per share for the period was HK0.41 cents.

By Order of the Board

China Information Technology Development Limited

Zhang Honghai

Chairman

Hong Kong, 13 November 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
REVENUE	3	60,478	44,097	155,356	76,391
Cost of sales and services		(11,425)	(17,443)	(27,722)	(36,020)
Gross profit		49,053	26,654	127,634	40,371
Other revenue and gains	4	2,689	3,329	4,460	4,436
Selling and distribution costs		(9,554)	(2,259)	(24,332)	(6,079)
Administrative expenses		(18,487)	(14,795)	(71,582)	(30,304)
Finance costs	5	(1,702)	(317)	(5,387)	(453)
PROFIT BEFORE TAX	6	21,999	12,612	30,793	7,971
TAX	7	(2,690)	(1,574)	(7,242)	(1,985)
PROFIT FOR THE PERIOD		19,309	11,038	23,551	5,986
ATTRIBUTABLE TO:					
Equity holders of the Company		21,707	8,018	25,957	4,103
Minority interests		(2,398)	3,020	(2,406)	1,883
		19,309	11,038	23,551	5,986
EARNINGS PER SHARE					
ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	8				
Basic (HK cents)		0.33	0.16	0.41	0.09
Diluted (HK cents)		N/A	N/A	N/A	N/A

NOTES TO CONDENSED CONSOLIDATED INCOME STATEMENT

1. Basis of preparation

The condensed 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 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.

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 nine months ended 30 September 2008 and 2007.

	Nine months ended 30 September							
	Software development and system integration		Internet, mobile and telecommunication		In-house developed products		Consolidated	
	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
Segment revenue:								
Sales to external customers	38,418	67,449	114,771	6,461	2,167	2,481	155,356	76,391
Segment results	(10,905)	18,465	84,070	6,243	(436)	(3,326)	72,729	21,382
Bank interest income and unallocated gains							4,460	4,436
Unallocated corporate expenses, net							(41,009)	(17,394)
Finance costs							(5,387)	(453)
Profit before tax							30,793	7,971
Tax							(7,242)	(1,985)
Profit for the period							23,551	5,986

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		Nine months ended	
	30 September 2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	30 September 2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Sale of computer software and hardware	530	1,507	2,167	2,481
Provision of software development and system integration services	2,945	33,335	18,401	59,491
Provision of technical support and maintenance services	13,915	2,794	20,017	7,958
Provision of internet, mobile and telecommunication value-added services	43,088	6,461	114,771	6,461
	60,478	44,097	155,356	76,391

4. Other revenue and gains

	Three months ended		Nine months ended	
	30 September 2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	30 September 2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Bank interest income	648	1,521	2,070	2,335
PRC tax subsidies	–	1,690	–	1,983
Others	2,041	118	2,390	118
	2,689	3,329	4,460	4,436

5. Finance costs

	Three months ended		Nine months ended	
	30 September 2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	30 September 2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest on bank overdrafts	–	–	100	–
Interest on convertible bonds	1,702	317	5,286	317
Interest expenses on amount due to a substantial shareholder	–	–	1	136
	1,702	317	5,387	453

6. Profit before tax

Profit before tax was arrived at after charging the following:

	Three months ended		Nine months ended	
	30 September 2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	30 September 2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	2,606	380	5,491	1,064
Amortisation of other intangible assets*	133	59	543	147

* These amounts are included in "Cost of sales and services", "Selling and distribution costs" 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 per share attributable to equity holders of the Company

The calculation of basic earnings per share for the three months ended 30 September 2008 is based on the unaudited profit attributable to equity holders of the Company of HK\$21,707,000 (2007: HK\$8,018,000) and the weighted average number of 6,494,906,368 (2007: 4,979,123,759) ordinary shares in issue during the period.

The calculation of basic earnings per share for the nine months ended 30 September 2008 is based on the unaudited profit attributable to equity holders of the Company of HK\$25,957,000 (2007: HK\$4,103,000) and the weighted average number of 6,407,381,162 (2007: 4,483,259,483) ordinary shares in issue during the period.

Diluted earnings per share for the three months and nine months ended 30 September 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 earnings per share for the three months and nine months ended 30 September 2007 had not been disclosed as the outstanding options had an anti-dilutive effect on the basic earnings 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. Reserves

	Attributable to equity holders of the Company									
	Issued capital	Equity			PRC reserve funds	Exchange fluctuation reserve	Retained profits/ (accumulated losses)	Total	Minority interests	Total equity
		Share premium	component of convertible bonds	Share option reserve						
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000						
At 1 January 2007	38,426	337,250	-	-	3,343	3,738	(252,730)	130,027	10,366	140,393
Exchange realignment	-	-	-	-	-	2,799	-	2,799	2,749	5,548
Profit for the period	-	-	-	-	-	-	4,103	4,103	1,883	5,986
Total income and expense for the period	-	-	-	-	-	2,799	4,103	6,902	4,632	11,534
Transfer to PRC reserve funds	-	-	-	-	2,479	-	(2,479)	-	-	-
Set off of accumulated losses with share premium	-	(258,676)	-	-	-	-	258,676	-	-	-
Issue of convertible bonds	-	-	28,082	-	-	-	-	28,082	-	28,082
Issue of shares	23,913	1,589,016	-	-	-	-	-	1,612,929	-	1,612,929
Equity-settled share options arrangement	-	-	-	5,416	-	-	-	5,416	-	5,416
At 30 September 2007	62,339	1,667,590	28,082	5,416	5,822	6,537	7,570	1,783,356	14,998	1,798,354
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	-	-	-	-	-	17,160	-	17,160	1,606	18,766
Profit for the period	-	-	-	-	-	-	25,957	25,957	(2,406)	23,551
Total income and expense for the period	-	-	-	-	-	17,160	25,957	43,117	(800)	42,317
Transfer to PRC reserve funds	-	-	-	-	493	-	(493)	-	-	-
Issue of shares upon conversion of convertible bonds	2,610	47,542	(6,348)	-	-	-	-	43,804	-	43,804
Equity-settled share options arrangement	-	-	-	12,623	-	-	12,809	25,432	-	25,432
At 30 September 2008	64,949	1,175,714	18,997	36,393	19,596	28,353	44,770	1,388,772	12,002	1,400,774

GENERAL INFORMATION

1. Directors' service contracts

At 30 September 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 subsidiaries or fellow subsidiaries was a party during the nine months ended 30 September 2008.

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

At 30 September 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 (Hong Kong) Limited ("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 September 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 September 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 nine months ended 30 September 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 September 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)	Interest of spouse	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 September 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 nine months ended 30 September 2008:

Name or category of participant	Notes	Number of Share Options			
		At 1 January 2008	Granted during the period**	Lapsed/ forfeited during the period	At 30 September 2008
Executive directors:					
Mr. Li Kangying	(a)/(d)	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)/(d)	32,400,000	–	(32,400,000)	–
Mr. Zhang Zhihong	(a)	32,400,000	–	–	32,400,000
Mr. E Meng	(a)/(d)	32,400,000	–	(32,400,000)	–
Mr. Cao Wei	(a)/(d)	32,400,000	–	(32,400,000)	–
Mr. Zhang Honghai	(b)/(e)	–	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	–	(44,400,000)	49,600,000
	(c)	6,500,000	–	(6,125,000)	375,000
Advisers and consultants					
	(a)	14,000,000	–	(10,000,000)	4,000,000
		359,500,000	20,000,000	(193,725,000)	185,775,000

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 exercise, 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 nine months ended 30 September 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 nine months ended 30 September 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 Zhenyu. 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 nine months ended 30 September 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 nine months ended 30 September 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 system of the Group.