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)

ANNUAL REPORT 2008

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 than other companies listed on the Exchange. 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.

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

CHAIRMAN OF THE BOARD AND NON-EXECUTIVE DIRECTOR

Mr. Zhang Honghai

EXECUTIVE DIRECTORS

Mr. Hu Zhuoer *(Chief Executive Officer)*
Dr. Yu Xiaoyang

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Wong Kwok Ho

COMPLIANCE OFFICER

Dr. Yu Xiaoyang

AUTHORISED REPRESENTATIVES

Mr. Hu Zhuoer
Mr. Wong Kwok Ho

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

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

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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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 Fulcrum Group (Cayman) Limited
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

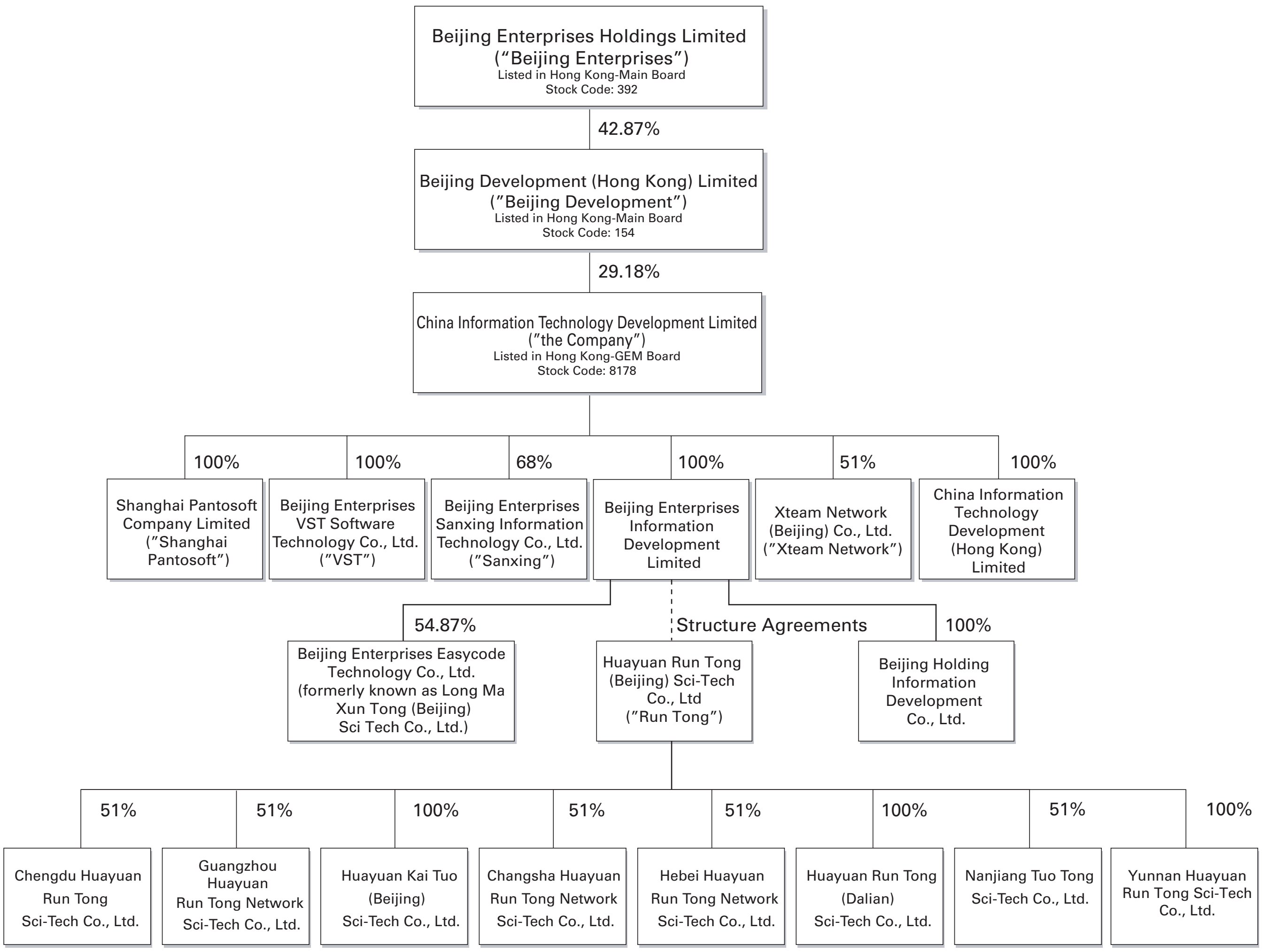
GEM STOCK CODE

8178

WEB-SITE ADDRESS

www.chinainfotech.com.hk

Corporate Structure



Note: Place of operations:

Huayuan Run Tong (Beijing) Sci-Tech Co., Ltd	:	Beijing
Beijing Enterprises VST Software Technology Co., Ltd.	:	Beijing
Beijing Enterprises Sanxing Information Technology Co., Ltd	:	Beijing
Shanghai Pantosoft Company Limited	:	Shanghai
Xteam Network (Beijing) Co., Ltd.	:	Beijing
China Information Technology Development (Hony Kong) Limited	:	Hong Kong
Beijing Enterprises Easycode Technology Co., Ltd	:	Beijing
Beijing Holding Information Development Co., Ltd	:	Shenzhen

As at 31 March 2010

Chairman's Statement

I am presenting to the shareholders the annual report of China Information Technology Development Limited (the "Company") and its subsidiaries (thereinafter collectively referred to as the "Group") for the year ended 31 December 2008. The directors are aware of the non-compliance of passing the annual report after the statutory deadline. Due to the additional time required to verify financial data and to clarify the outstanding issues with the regulatory authorities, this annual report is now published and distributed to the shareholders the soonest practicable after the final results announcement was released on 31 March 2010.

Trading in the shares of the Company has been suspended since 29 January 2009. The Company's decision of suspension of trading was based on concerns about the genuiness of the results of one of the Group's subsidiaries. Directed by Section 8 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the Hong Kong Stock Exchange requires the Company to fully address these matters fully before a resumption of trading of shares can be considered. In response, the Company has engaged Tanrich Capital Limited as its financial adviser in respect of the resumption of a share trading status of the Company.

In 2009, the Company took the following measures to meet to the challenges in front of the Company:

(1) To further standardize and improve the Company's internal control measures, emphasizing on an effective and efficient internal control and monitoring system.

(2) To enhance the Company's level of maturity in its operations management level and its ability of risk prevention.

(3) To stabilize the profitability in the Company's software development and system integration businesses.

During the year under review and up to the date of this annual report, there have been certain changes to the members of the board of directors.

On behalf of the board of directors of the Company, I would like to express the sincere gratitude to the community and the staff for their continuous supports to the Group.

By the order of the Board
Zhang Honghai
Chairman

Hong Kong, 31 March 2010

Management Discussion and Analysis

BUSINESS REVIEW

During the financial year ended 31 December 2008, unusual transaction data was found in the revenue recording system of Mingsuo internet platform. The Group promptly established a special committee and appointed an independent professional adviser to investigate into the matter. After careful consideration on the investigation results, the revenue and net assets value of the Group were adjusted down by approximately HK$149 million and HK$1,177 million respectively. In view of the results of the investigation, the directors of the Company have made tremendous efforts to improve the Company's account reporting system, and to enable the Group to resume its normal operations. The directors of the Company believe that the operations of the Group's other subsidiaries have been normal and healthy, and the Group as a whole can maintain sufficient level of operations pursuant to GEM Rule 17.26.

The board of directors is looking forward to a successful resumption of trading of the Company's share on GEM after its satisfactory fulfillment of regulatory requirements.

FINANCIAL REVIEW

Revenue

The Group's revenue for 2008 amounted to HK$93,657,000, decreased by 31.0% from HK$135,814,000 in 2007. This was mainly due to the adjustments made to the accounts of the Mingsuo system. Revenue from provision of technical support and maintenance services increase by 64.0% from the previous year to HK$35,217,000.

Cost of sales and services

The Group had a total cost of sales and services of HK$68,969,000 for 2008, which increased by 38.0% compared with HK$49,963,000 in 2007. The increase was primarily due to the consolidation of the full year results of the internet, mobile and telecommunication businesses. The cost of sales for internet, mobile and telecommunication business was mainly the amortisation of other intangible assets used in these businesses and the salaries paid to the technical staff involved.

Gross profit

The gross profit of the Group in 2008 amounted to HK$24,688,000 which decreased by HK$61,163,000 compared with HK$85,851,000 in 2007. The gross profit margin was 26.4% compared with 63.2% in 2007.

Other income and gains

During the financial year ended 31 December 2008, the Group generated other incomes which comprised: (i) income received from sales agents amounted to HK$44,079,000; (ii) bank interest income amounted to HK$2,696,000; (iii) gain on deemed disposal of a subsidiary; (iv) PRC tax subsidy; and (v) gain on disposal of items of property, plant and equipment and others in aggregate amounted to HK$3,030,000.

Management Discussion and Analysis

Selling and distribution costs

The Group's selling and distribution costs in 2008 amounted to HK$34,894,000, which increased by 226.7% compared with HK$10,681,000 in 2007. The increase was mainly due to the promotion expenses incurred for the corporate information enquiry services which amounted to HK$16,775,000.

Administrative expenses

Administrative expenses of the Group in 2008 were HK$98,359,000, increased by 69.8% comparing to HK$57,917,000 in 2007. The increase was mainly due to the consolidation of full year results of the internet, mobile and telecommunication businesses and additional professional fee incurred regarding the investigation and finalisation of the audited figures of Mingsuo operations.

Other expenses

Other expenses of the Group was HK$86,854,000, increased tremendously comparing to the previous year. The significant increase was mainly due to the provision of impairment on other intangible assets acquired from the suppliers, provision of prepayment for acquisition of other intangible assets from the suppliers and provision of impairment on other intangible assets.

Finance costs

Finance costs of the Group in 2008 were HK$3,319,000, increased by 21.7% comparing to HK$2,728,000 in 2007. It was mainly attributable to the full year interest expenses on the convertible bonds.

Tax

The Group's tax expenses in 2008 were HK$26,981,000, increased by 583.6% compared with HK$3,947,000 in 2007. The significant increase was mainly due to the provision of PRC taxation regarding the revenue from Mingsuo system, which had reverted during the financial year ended 31 December 2008.

Loss attributable to equity holders

The Group's loss attributable to equity holders was HK$1,212,313,000 for 2008 comparing to a profit of HK$16,310,000 in 2007.

Management Discussion and Analysis

FINANCIAL POSITION

Liquidity and financial resource

As at 31 December 2008, cash and bank balances held by the Group decreased from HK$235,808,000 to HK$156,164,000. As at 31 December 2008, the Group's total borrowings amounted to HK$76,591,000, representing the convertible bonds issued as consideration for acquisition of Run Tong Group in 2007. The gearing ratio (calculated as total borrowings over total equity) of the Group was 0.48.

For the year ended 31 December 2008, the Group had capital expenditure of HK$51,709,000 (2007: HK$9,945,000).

Exposures to exchange rate fluctuation and hedging activities

As the Group carried out its operations in China, and substantially all of its business transactions, assets and liabilities are denominated in Renminbi, the foreign exchange risk of the Group was considered minimal and no hedging activities had been conducted.

Biographical Information of Directors and Senior Management

CHAIRMAN OF THE BOARD AND NON-EXECUTIVE DIRECTOR

Mr. ZHANG Honghai, aged 57, is awarded with the honour of senior economist and is currently the vice president of the Beijing Chinese Overseas Friendship Association. He is also an executive director, the vice chairman and the chief executive officer of Beijing Enterprises, an executive director of Beijing Development and chairman and executive director of Beijing Enterprises Water Group Limited (Stock code 371). Mr. Zhang graduated from Peking University in 1982 and subsequently obtained a post-graduate qualification in business studies at The International Business School of Hunan University, with a master's degree in Management. He also obtained an Executive Master of Business Administration degree from Peking University in 2007. Mr. Zhang has worked for the Beijing Municipal Government for many years and was the director of the Foreign Affairs Office of the People's Government of Beijing Municipality and Hong Kong and Macao Affairs Office of the People's Government of Beijing Municipality. Mr. Zhang worked as deputy general manager and was then promoted to vice chairman and general manager of Beijing International Trust Investment Limited during the period from 1990 to 1998. Mr. Zhang served as an executive director and the Chairman of the Board of the Company during the period from 30 August 2004 to 14 March 2006. Mr. Zhang has extensive experience in corporate management. Mr. Zhang joined the Group on 11 February 2008 as chairman and executive director of the Company and re-designated to non executive director on 25 August 2009.

EXECUTIVE DIRECTORS

Mr. HU Zhuoer, aged 44, chief executive officer, graduated from Shanghai University of Finance and Economics with a bachelor's degree in science in 1986 and obtained a master's degree in Finance from Peking University in 2002 and obtained the qualification of Senior Engineer in 2007. Mr. Hu served on the Ministry of Finance and was a deputy director and then director of the State Administration of Taxation and a party constitution member and deputy director of the Chengdu Municipal Office of the State Administration of Taxation. During his term of office in the State Administration of Taxation, he mainly engaged in technology and equipment management, IT construction and planning, international exchanges on technology, etc. During his service in the Chengdu Municipal Office of the State Administration of Taxation, he was mainly responsible for tax audit, the Golden Taxation project, tax collection for large enterprises, etc. Mr. Hu has extensive experiences in eGovernment planning and construction, tax reform implementation and governance and government affair restructuring and innovation. Mr. Hu joined the Group on 25 August 2009.

Mr. WANG Zhenyu, aged 40, former chief executive officer, was graduated from Peking University with a degree of Executive Master of Business Administration (EMBA) in 2006 and from Chinese People University with a Bachelor's Degree in finance in 1993. Mr. Wang is the director of Run Tong, and General Manager of Huayuan Kai Tuo (Beijing) Sci-Tech Co. Ltd.. He is also the Chairman of China INSOnlineCorp, which has been listed on the Over The-Counter Bulletin Board of NASDAQ since December 2007. He has extensive experiences in telecommunication, software development and information technology. Mr. Wang joined the Group in 13 September 2007 and resigned on 23 August 2009.

Biographical Information of Directors and Senior Management

Mr. E Meng, aged 51, is the executive director and vice president of Beijing Enterprises, the chairman and executive director of Beijing Development and the independent non-executive director of JLF Investment Company Limited (stock code: 472). Mr. E graduated from China Science and Technology University with a master's degree in engineering, and is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, Mr. E was the deputy director of Beijing New Technology Development Zone and concurrently acting as the director of the Department of Finance Auditing and State Asset Management, the general manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the deputy director of the State Asset Management Office of Beijing Haidian District. Mr. E has extensive experience in economics, finance and enterprise management. Mr. E joined the Group in August 2004 and resigned on 5 June 2008.

Dr. YU Xiaoyang, aged 56, was graduated from Peking University with a Bachelor's degree in Philosophy in 1982 and a Master's degree in Philosophy in 1984. Dr. Yu earned his Ph.D. and MBA degrees from Southern Illinois University, USA, in 1991 and 1993. Dr. Yu worked for international consulting and telecommunication corporations in software system development and information technology management for 12 years, and worked for Chinese high tech corporations as an executive director and the vice president over five years. Dr. Yu was the executive director of Beijing Development from March 2005 to February 2008. Dr. Yu joined the Group on 13 September 2007.

Mr. LI Kangying, aged 53, was the former chairman of the Company and resigned as chairman on 11 February 2008. Mr. Li graduated from North China University of Electric Power majoring in telecommunications and is a qualified engineer in the PRC. He was a university lecturer and a member of the governmental research institute and has been responsible for the management and operational affairs in the technological field for the past decade. Mr. Li joined the Group in August 2004 and resigned on 5 June 2008.

Mr. YAN Qing, aged 48, is the vice president of Beijing Development. Mr. Yan graduated from Renmin University of China in 1985 with a bachelor degree in Business and obtained a master degree from Graduate School of Research Institute of the Ministry of Finance in 2000. He also obtained a master's degree in Business Administration from University of South Australia in 2005 and he has extensive experience in finance and management. Mr. Yan joined the Group in January 2005 and resigned on 5 June 2008.

Mr. ZHANG Zhihong, aged 43, was graduated from Institute of Communication Engineering of People's Liberation Army with a Bachelor's degree in Computer Science in 1988 and from Nanyang Technological University, Singapore with a Master's degree in Business Administration in 2006. Mr. Zhang has extensive marketing and management experiences in the telecommunication corporations in software system development and information technology management. Mr. Zhang joined Group on 13 September 2007 and resigned on 24 August 2009.

Mr. CAO Wei, aged 46, is the executive director and vice president of Beijing Development. Mr. Cao graduated from Harbin Industrial University and awarded the title of senior engineer. He has extensive experience in the telecommunications and information technology field. Mr. Cao joined the Group in August 2004 and resigned on 5 June 2008.

Biographical Information of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. MA Yuhua, aged 61, graduated from Beijing Financial College. Ms. Ma was the general manager of Beijing International Trust and Investment Co., Ltd. and the president of Guodu Securities Company Limited. Ms. Ma has over 30 years' extensive experiences in financial management and investment and she is currently the chief controller of Guodu Securities Company Limited. Ms. Ma joined the Group in December 2004.

Ms. LIANG Yeping, aged 61, studied at the Party School of the CPC Central Committee and School of Economics and Management of Tsinghua University. Ms. Liang is currently the president of Beijing Academy of Management Sciences, a senior consultant and lecturer of Beijing Guru Management Training Co., Ltd. Ms. Liang has for years held top level management positions in various companies such as China Xingfa Group Co., Ltd., Beijing Guoxinan IC Design Co., Ltd., Nanjing Jiangning Digital Harbor Co., Ltd., etc., in which she has accumulated extensive experiences in corporate operations, management and information technology. Ms. Liang joined the Group in December 2004.

Dr. ZHOU Chunsheng, aged 43, was graduated from Princeton University, USA with a doctoral degree in Economics, focusing on Economics and Finance. He is currently a Professor of Cheung Kong Graduate School of Business. Dr Zhou has worked as an economist for Federal Reserve of the United States, an officer of China Securities Regulation Commission, an associate professor of School of Business of Hong Kong University, a professor of Peking University and a member of the Listing Committee of Shenzhen Stock Exchange. He is also an independent non-executive director of Centennial Brilliance Science & Technology Co., Ltd., Daqin Railway Co., Ltd., Anhui Koyo(Group) Co.,Ltd., Zhuguang Holding Group Company Limited., Starlake Bioscience Co., Inc. Zhaoqing Guangdong, etc. Dr. Zhou has rich experiences in corporate management in the listed companies. Dr. Zhou joined the Group on 13 September 2007.

Dr. SUN Guofu, aged 40, graduated from Shanxi Mining Institute (山西礦業學院) in 1991 and obtained a bachelor's degree in engineering. He obtained a master's degree in engineering from Beijing Institute of Technology in 1997 and a doctor's degree in engineering from Tsinghua University in 2001. He worked at Shanxi Mining Institute and 通訊設備公司 and was vice president of Founder Technology Group Corp. He is currently the general manager of the technology management department of Peking University Founder Group Company Limited, vice chairman of the China Communications Industry Association, a standing member of the China Electronic Chamber of Commerce and a member of the China Computer Users Association. Dr. Sun has extensive experience in management and research & development. Dr. Sun joined the Group on 25 August 2009.

Biographical Information of Directors and Senior Management

SENIOR MANAGEMENT

Mr. LI Jicheng, aged 45, is the chief executive of VST. He graduated from Tianjin University with a bachelor's degree and obtained a master's degree in 1988. Mr. Li was a university lecturer and has over 15 years of experience in project management and information technology. Mr. Li joined the Group in August 2004.

Ms. ZHENG Shaohua, aged 53, is the general manager of Sanxing. Ms. Zheng graduated from Beihang University in 1983. She has over 20 years of experience in project management and information technology. Ms. Zheng joined the Group in August 2004.

Mr. WU Zhaohui, aged 43, is the general manager of Run Tong. Mr. Wu graduated from Electronic Engineering Department of Fudan University and had served as company chief engineer, vice general manager and general manager of 深圳市万立通信息發展有限公司 since 1993. After 2002, he served in VYYO INC., the United States and 新傳國際(北京)文化傳播有限公司. Mr. Wu has over 10 year experience in operation and management of large-sized communication and software companies. Mr. Wu joined Run Tong in March 2007.

Mr. PENG Wensheng, aged 41, is the chairman of Shanghai Pantosoft. Mr. Peng graduated from the Engineering Faculty of Nanjing University of Science & Technology in 1987 with a bachelor degree in Science. He also obtained a master degree in Science in Huazhong University of Technology in 1994. He joined the Group in December 2002.

Mr. LIU Feng, aged 42, is the general manager of Xteam Network. Mr. Liu graduated from 南京郵電學院 with a bachelor degree in 1990. Mr. Liu has over 10 years experience in telecommunication industry.

Mr. WONG Kwok Ho, aged 36, is the financial controller and company secretary of the Company. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants and Hong Kong Institute of Certified Public Accountants. Mr. Wong has about 13 years experience in auditing, accounting and finance in an international accounting firm and listed companies. He joined the Group in March 2010.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 105.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 106. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options and convertible bonds during the year are set out in notes 29, 30 and 27 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Report of the Directors

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

The Company had no reserves available for cash distribution/or distribution in specie as at 31 December 2008. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 56% of the total sales for the year and sales to the largest customer included therein amounted to 19%. Purchases from the Group's five largest suppliers accounted for 62% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Non-executive director:

Mr. Zhang Honghai	(appointed on 11 February 2008 and re-designated from executive director to non-executive director on 25 August 2009)

Executive directors:

Mr. Wang Zhenyu	(resigned on 23 August 2009)
Mr. E Meng	(resigned on 5 June 2008)
Mr. Li Kangying	(resigned on 5 June 2008)
Dr. Yu Xiaoyang	
Mr. Yan Qing	(resigned on 5 June 2008)
Mr. Zhang Zhihong	(resigned on 24 August 2009)
Mr. Cao Wei	(resigned on 5 June 2008)
Mr. Hu Zhuoer	(appointed on 25 August 2009)

DIRECTORS *(Continued)*

Independent non-executive directors:

Ms. Ma Yuhua
Ms. Liang Yeping
Dr. Zhou Chunsheng
Dr. Sun Guofu (appointed on 25 August 2009)

In accordance with articles 86(3), 87(1) and 87(2) of the Company's articles of association, one-third of the directors will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Ms. Ma Yuhua, Ms. Liang Yeping and Dr. Zhou Chunsheng, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENTS' BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 to 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's remuneration committee are set out in the corporate governance report on pages 24 to 25 of the annual report.

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 or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 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 required pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, 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 (the "Disposal 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. On 14 August 2008, the parties entered into the supplemental deed, the completion date was agreed to extend to 19 December 2008.

Pursuant to the Extension Deed dated 19 December 2008, the completion date was further extended to a date on or before 30 September 2009, on a condition that Mr. Wang Zhenyu will pay HK$10,000,000 (the "Security Money") in cash within 30 days of signing the Extension Deed.

On 25 September 2009, Prime Technology considered the Extension Deed lapsed and terminated as Mr. Wang Zhenyu was unable to pay up the Security Money and considered to take legal action against him for the breach of the Disposal Agreement.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

(2) Interest in underlying shares of the share options of the Company

Name of director	Nature of interest	Number of underlying shares *(Note 1)*	Exercise period of the share options	Exercise price per share	Approximate percentage of shareholding
Executive directors					
Mr. Wang Zhenyu	Beneficial owner	35,000,000 (L)	13 March 2008 to 12 September 2012	HK$0.79	0.54% *(Note 2)*
Dr. Yu Xiaoyang	Beneficial owner	32,400,000 (L)	13 March 2008 to 12 September 2012	HK$0.79	0.50% *(Note 2)*
Mr. Zhang Zhihong	Beneficial owner	32,400,000 (L)	13 March 2008 to 12 September 2012	HK$0.79	0.50% *(Note 2)*
Mr. Zhang Honghai	Beneficial owner	20,000,000 (L)	11 August 2008 to 10 February 2013	HK$0.53	0.31% *(Note 2)*
Independent non-executive directors					
Ms. Ma Yuhua	Beneficial owner	4,000,000 (L)	13 March 2008 to 12 September 2012	HK$0.79	0.06% *(Note 2)*
Ms. Liang Yeping	Beneficial owner	4,000,000 (L)	13 March 2008 to 12 September 2012	HK$0.79	0.06% *(Note 2)*
Dr. Zhou Chunsheng	Beneficial owner	4,000,000 (L)	13 March 2008 to 12 September 2012	HK$0.79	0.06% *(Note 2)*

Notes:

1. The letter "L" denotes a long position in the underlying shares.

2. This percentage was calculated on the basis of 6,494,906,368 shares in issue immediately following the exercise in full of all the options granted under the share option scheme at the same time and assuming that there would be no change in the total issued share capital of the Company other than as enlarged by the exercise of these options prior to the exercise in full of these options.

Save as disclosed above, as at 31 December 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 required pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' interests and short positions in shares and underlying shares" above and in the section "Share option scheme" below, at no time during the year 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 spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates the Share Option Scheme ("the Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details are disclosed in note 30 to the financial statements.

The following table discloses movements in the Company's share options during the years:

		Number of Share Options			
Name or category of participant	*Notes*	**At 1 January 2008**	**Granted during the year**	**Forfeited during the year**	**At 31 December 2008**
Executive directors:					
Mr. Zhang Honghai	*(b)/(e)*	–	20,000,000	–	20,000,000
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)	–
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	–	(46,000,000)	48,000,000
	(c)	6,500,000	–	(6,500,000)	–
Advisers and consultants	*(a)*	14,000,000	–	(10,000,000)	4,000,000
		359,500,000	20,000,000	(195,700,000)	183,800,000

SHARE OPTION SCHEME *(Continued)*

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 closing price of the Company's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$0.52. The options may be exercised at any time commencing on 11 August 2008 and, if not otherwise exercised, will lapse on 10 February 2013. The exercise of the options is subject to an annual cap of 25% of the share options granted.

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.

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 pricing model at approximately HK$5,076,000.

* The exercise price of these share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

SHARE OPTION SCHEME *(Continued)*

The Directors have estimated the following theoretical valuations of the options granted under the Scheme during the year, calculated using the Black-Scholes option pricing model as at the date of the grant of the options:

Grantee	Number of options granted	Theoretical value of share options
		HK$
Mr. Zhang Honghai	20,000,000	5,076,000

The Black-Scholes-Merton option pricing model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the theoretical value of the options were:

Dividend yield (%)	–
Expected volatility (%)	80.15
Risk-free interest rate (%)	0.22 – 1.989
Expected life of options (years)	1 – 5
Weighted average share price (HK$)	0.53

The measurement date used in the valuation calculations was the date on which the options were granted.

The value of share options calculated using the Black-Scholes-Merton option pricing model is subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 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	Number of share options held	Number of convertible bonds held
Beijing Development (Hong Kong) Limited	*(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%	–	781,133,750
Mr. Wang Zhenyu	*(d)*	Directly beneficially owned	600,000,000	9.24%	35,000,000	–
Ms. Zhao Hongxia	*(e)*	Interest of spouse owned	600,000,000	9.24%	–	–

Notes:

(a) Beijing Development (Hong Kong) Limited 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 (Hong Kong) Limited.

(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 section "Directors' interests and short positions in shares and underlying shares" on page 15.

(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 31 December 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.

CONTINUING CONNECTED TRANSACTION

The Group entered into the following continuing connected transaction (other than the continuing connected transactions that are exempted under Rule 20.33 of the Listing Rules) during the year ended 31 December 2008:

In connection with the subcontracting service contracts entered into between the Company's subsidiaries and certain subsidiaries of Beijing Development, the Group received service income amounting to HK$29,731,000 during the year. Further details of the transaction are included in note 36 to the financial statements.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 39 to the financial statements.

COMPETING INTERESTS

During the year and up to the date of this report, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company are considered to have interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

CORPORATE GOVERNANCE

The Company's corporate governance report is set out on pages 22 to 27.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Hu Zhuoer
Director

Hong Kong
31 March 2010

Corporate Governance Report

INTRODUCTION

The Company has complied with all the code provisions in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules (the "Code") for the year ended 31 December 2008.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the 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. The Directors have confirmed that they have complied with the Listing Rules throughout the year ended 31 December 2008.

BOARD OF DIRECTORS

The board of directors, which currently comprises seven directors, is responsible for corporate strategy, annual, interim and quarterly results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of directors to the management include the preparation of annual, interim and quarterly accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of all directors are set out in the "Biographical Details of Directors and Senior Management" of this report. All directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience, knowledge and execution ability to hold the position so as to carry out his duties effectively and efficiently.

BOARD MEETING

During the year of 2008, the board held totally four meetings. The attendance of each director at board meetings are as follows:

Name of director	Attendance/ Number of meetings held
Chairman of the board and non-executive director:	
Mr. Zhang Honghai *(Chairman)*#	4/4
Executive directors:	
Mr. Li Kangying *(former Chairman)*#	0/2
Mr. Wang Zhenyu *(former Chief executive officer)*##	4/4
Dr. Yu Xiaoyang	4/4
Mr. Zhang Zhihong*	4/4
Mr. Yan Qing**	0/2
Mr. E Meng**	2/2
Mr. Cao Wei**	0/2
Independent non-executive directors:	
Ms. Ma Yuhua	4/4
Ms. Liang Yeping	4/4
Dr. Zhou Chunsheng	4/4

\# Mr. Li Kangying resigned and Mr. Zhang Honghai was appointed as Chairman of the board of directors on 11 February 2008. Mr. Li resigned as executive director on 5 June 2008 and was only entitled to attend two board meetings.

\## Mr. Wang Zhenyu, resigned on 23 August 2009 and Mr. Hu Zhuoer was appointed as executive director and chief executive officer on 25 August 2009.

* Mr. Zhang Zhihong resigned as executive director on 24 August 2009.

** Mr. Yan Qing, Mr. E Meng and Mr. Cao Wei resigned on 5 June 2008 and were only entitled to attend two board meetings.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has complied with Code Provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Zhang Honghai replaced Mr. Li Kangyang as Chairman of the Company from 11 February 2008 and is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. Mr. Hu Zhuoer replaced Mr. Wang Zhenyu from 25 August 2009 as the chief executive officer of the Company and is responsible for the day-to-day operations of the Group.

NON-EXECUTIVE DIRECTORS

The Board fulfilled the minimum requirement of appointing at least three independent non-executive directors as required by the GEM Listing Rules. It met the requirement of having at least one of the independent non-executive directors with appropriate professional qualifications or accounting or related financial management expertise. They have appropriate and sufficient experience and qualification to carry out their duties so as to fully represent the interests of the shareholders. None of the non-executive directors is appointed for a specific term, which constitutes a deviation from Code Provision A4.1 which stipulates non-executive directors should be appointed for a specific term, subject to re-election.

In accordance with the articles of association of the Company, all non-executive directors are subject to retirement by rotation. The Company considers that there are sufficient measures to ensure the corporate governance standard of the Company is not less exacting than the Code.

REMUNERATION COMMITTEE

The remuneration committee of the Group was established in 2006. During the year under review, members of the remuneration committee are Ms. Ma Yuhua (committee chairman), Mr. Zhang Honghai, Ms. Liang Yeping and Dr. Zhou Chunsheng. The majority of the remuneration committee members are independent non-executive directors.

The main role and function included the determination of specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board on the remuneration of non-executive directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

The remuneration committee meets regularly to determine the policy for the remuneration of directors and assess the performance of executive directors and certain senior management of the Company.

Corporate Governance Report

REMUNERATION COMMITTEE

During the year of 2008, two remuneration committee meetings were held and the attendance of each member is set out below:

Name of member	Attendance/ Number of meetings held
Ms. Ma Yuhua	2/2
Mr. Zhang Honghai#	2/2
Ms. Liang Yeping	2/2
Dr. Zhou Chunsheng	2/2
Mr. Li Kangying#	0/0

Mr. Li Kangying resigned and Mr. Zhang Honghai was appointed as the member of the remuneration committee on 11 February 2008, and there were two meetings held on or after the date.

NOMINATION OF DIRECTORS

The Board is empowered under the Company's articles of association to appoint any person as a director either to fill a casual vacancy on or, subject to authorisation by the shareholders of the Company in general meeting, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the auditors' remuneration for audit services is approximately HK$3,923,000 (of which HK$3,829,000 has paid to Ernst & Young, and HK$94,000 was paid to the PRC auditors) and for non audit service assignment is approximately HK$612,000, which represented reviews of quarterly results.

Corporate Governance Report

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 Rule.

The audit committee comprises three independent non-executive directors, namely Ms. Ma Yuhua (committee chairman), Ms. Liang Yeping and Dr. Zhou Chunsheng.

The duties of the audit committee include supervising the financial reporting procedure and reviewing the financial statements of the Group, examining and monitoring the internal control system adopted by the Group and reviewing the relevant work of the Group's external auditor.

During the year under review, four audit committee meetings were held and the attendance of each member is set out below:

Name of member	Attendance/ Number of meetings held
Ms. Ma Yuhua	4/4
Ms. Liang Yeping	4/4
Dr. Zhou Chunsheng	4/4

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors' responsibilities for the financial statements and the responsibilities of the external auditors to the shareholders are set out on page 28 to 30. The directors of the Company have confirmed that the preparation of the Group's financial statements is in compliance with the relative regulations and applicable accounting standards.

INTERNAL CONTROL

The Board conducted reviews of the system of internal control of the Group to ensure an effective and adequate internal control system. The Board convened meetings to discuss financial, operational and risk management control.

Corporate Governance Report

INTERNAL CONTROL *(Continued)*

Subsequently after the year under review, the Board conducts reviews of the system of internal control with the assistance of Ernst and Young Advisory Services Limited ("Advisor"). The advisor has identified the following control weaknesses which affect the effectiveness of the process of the financial reporting and listing compliance:

(i) the specific written terms of the authority and duties for audit committee and remuneration committee is not comprehensive enough and clearly defined which may hinder the audit committee and remuneration committee carrying out their responsibilities and making recommendation to the board

(ii) external information disclosure and communication system is not well established which may increase the risk of non-compliance.

The Company will take all necessary steps to improve the above corporate governance aspects after the resumption of trading of shares on the GEM of Hong Kong Stock Exchange.

As at the date of this report, work related to the Company's internal control review was still in progress and not yet completed.

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of China Information Technology Development Limited
(Incorporated in the Cayman Islands with limited liability)

We were engaged to audit the financial statements of China Information Technology Development Limited set out on pages 31 to 105, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitations in the scope of our work as explained in the "Basis for disclaimer of opinion" section below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion.

Independent Auditors' Report

BASIS FOR DISCLAIMER OF OPINION

(a) Transactions, adjustments and related party disclosures relating to Huayuan Run Tong (Beijing) Sci-Tech Co., Ltd. ("Run Tong")

As further explained in note 2.2 to the financial statements, the Group's consolidated financial statements include the financial statements of Run Tong, a wholly-owned subsidiary whose principal activity is the provision of online corporate information enquiry services to the public through its Mingsuo business. In the course of auditing the financial statements for the year ended 31 December 2008, we identified certain unusual transactions relating to Run Tong. In response, the Company appointed an independent professional firm to carry out an investigation into the revenue recording system of Run Tong for the period from May to December 2008 and the investigation period was later extended to cover the period from January to April 2008. The result of the investigation, announced by the Company on 19 May 2009, revealed that there were: (1) doubtful or questionable genuineness as to certain transaction records in Run Tong's systems; (2) doubtful or questionable genuineness as to certain transactions of Run Tong; (3) doubtful or questionable genuineness as to certain assets of Run Tong; (4) agents, suppliers and customers which might be controlled by Run Tong; and (5) agents and suppliers of Run Tong whose dealings with Run Tong could not be fully explained.

Taking into account the result of the investigation, the directors considered that the Group's revenue, deferred income and certain assets in respect of Run Tong were overstated and consequently, the Company made adjustments to eliminate unsubstantiated revenue, deferred income and trade receivables, reclassify receipts arising from purported sales to other income and write off or impair other intangible assets, prepayments, trade receivables and goodwill in relation to Run Tong for the year ended 31 December 2008 as detailed in note 2.2 to the financial statements. These adjustments in aggregate increased the consolidated loss for the year by approximately HK$1,162,229,000.

In consequence to the above investigation which covered the period from January to December 2008, and as we could not rely on Run Tong's systems nor perform other sufficient satisfactory audit procedures to ascertain the completeness, existence and accuracy of the transactions asserted to have been undertaken by Run Tong nor to verify the relationship with certain parties as revealed in the investigation, we were unable to obtain sufficient evidence as to the appropriateness of the adjustments (as detailed in note 2.2 to the financial statements) and related disclosures, the adequacy of the related party disclosures in note 36 to the financial statements, and as to whether any of the findings of the investigation might have any material effect on the opening balances, and prior period corresponding amounts and note disclosures.

(b) Validity and accuracy of receipts

As further explained in note 2.2 to the financial statements, included in the Group's other income for the year ended 31 December 2008 were receipts by Run Tong arising from purported sales of prepaid service cards of approximately HK$44,079,000. As little information was available to us with respect to these receipts, we were unable to perform any satisfactory audit procedures to ascertain the existence, appropriateness, validity and nature of this income.

Independent Auditors' Report

DISCLAIMER OF OPINION: DISCLAIMER ON THE VIEW GIVEN BY THE FINANCIAL STATEMENTS

Because of the significance of the matters described in the "Basis for disclaimer of opinion" section, we do not express an opinion on the financial statements of the Group as to whether they give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2008 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without expressing a qualified opinion in respect of the going concern assumption, we draw attention to note 2.2 to the financial statements which indicates that the Company had net current liabilities of HK$12,541,000 and non-current liabilities in respect of convertible bonds of HK$76,591,000 (principal amount of HK$82,260,000) as at 31 December 2008. These factors indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to repay the outstanding convertible bonds, if not converted, at the maturity date and to continue as a going concern.

As further explained in note 2.2 to the financial statements, the directors of the Company have been taking measures to improve the financial and current liquidity position of the Group, including to obtain consent from a holder of convertible bonds not to request repayment before 28 May 2011. The financial statements of the Group and the Company have been prepared on a going concern basis, the validity of which depends upon the Company's ability to realise the assets to meet the Group's and Company's future working capital and financial requirements and to timely repatriate funds from the Company's subsidiaries.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong
31 March 2010

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
REVENUE	5	**93,657**	135,814
Cost of sales and services		**(68,969)**	(49,963)
Gross profit		**24,688**	85,851
Other income and gains	5	**49,805**	5,956
Selling and distribution costs		**(34,894)**	(10,681)
Administrative expenses		**(98,359)**	(57,917)
Other expenses		**(86,854)**	(481)
Impairment of goodwill	16	**(1,040,952)**	–
Finance costs	7	**(3,319)**	(2,728)
PROFIT/(LOSS) BEFORE TAX	6	**(1,189,885)**	20,000
Tax	10	**(26,981)**	(3,947)
PROFIT/(LOSS) FOR THE YEAR		**(1,216,866)**	16,053
Attributable to:			
Equity holders of the Company	11	**(1,212,313)**	16,310
Minority interests		**(4,553)**	(257)
		(1,216,866)	16,053
DIVIDEND	12	**–**	–
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
–Basic and diluted		**HK(18.80) cents**	HK0.33 cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**18,033**	15,370
Goodwill	16	**34,000**	1,142,481
Other intangible assets	17	**2,798**	5,322
Prepayments in purchases of intangible assets	20	**–**	26,887
Interests in an associate	21	**20,000**	–
Total non-current assets		**74,831**	1,190,060
CURRENT ASSETS			
Inventories	18	**7,169**	3,001
Trade receivables	19	**31,081**	96,480
Prepayments, deposits and other receivables	20	**32,430**	40,709
Financial assets designated at fair value through profit or loss	22	**–**	8,547
Cash and cash equivalents	23	**156,164**	235,808
Total current assets		**226,844**	384,545
CURRENT LIABILITIES			
Trade payables	24	**7,003**	6,045
Other payables and accruals	25	**37,366**	23,867
Due to shareholders	26	**1,205**	68,816
Tax payable		**20,578**	9,163
Total current liabilities		**66,152**	107,891
NET CURRENT ASSETS		**160,692**	276,654
TOTAL ASSETS LESS CURRENT LIABILITIES		**235,523**	1,466,714
NON-CURRENT LIABILITIES			
Convertible bonds	27	**76,591**	177,493
Net assets		**158,932**	1,289,221
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	29	**64,949**	62,339
Reserves	31(a)	**80,948**	1,214,080
		145,897	1,276,419
Minority interests		**13,035**	12,802
Total equity		**158,932**	1,289,221

Hu Zhuoer
Director

Yu Xiaoyang
Director

Consolidated Statement Of Changes In Equity

Year ended 31 December 2008

		Attributable to equity holders of the Company									
	Notes	Issued capital HK$'000	Share premium account HK$'000	Equity component of convertible bonds HK$'000	Share option reserve HK$'000	PRC reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2007		38,426	337,250	–	–	3,343	3,738	(252,730)	130,027	10,366	140,393
Exchange realignment		–	–	–	–	–	7,455	–	7,455	917	8,372
Total income and expense for the year recognised directly in equity		–	–	–	–	–	7,455	–	7,455	917	8,372
Profit for the year		–	–	–	–	–	–	16,310	16,310	(257)	16,053
Transfer to PRC reserve funds		–	–	–	–	15,760	–	(15,760)	–	–	–
Acquisition of subsidiaries	*27,29*	15,600	879,988	25,345	–	–	–	–	920,933	1,776	922,709
Issue of shares	*29*	8,313	175,632	–	(394)	–	–	–	183,551	–	183,551
Share issue expenses	*29*	–	(6,021)	–	–	–	–	–	(6,021)	–	(6,021)
Equity-settled share option arrangements	*30*	–	–	–	24,164	–	–	–	24,164	–	24,164
Transfer of accumulated losses	*29*	–	(258,677)	–	–	–	–	258,677	–	–	–
At 31 December 2007 and 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		–	–	–	–	–	13,407	–	13,407	734	14,141
Total income and expense for the year recognised directly in equity		–	–	–	–	–	13,407	–	13,407	734	14,141
Loss for the year		–	–	–	–	–	–	(1,212,313)	(1,212,313)	(4,553)	(1,216,866)
Transfer to PRC reserve funds		–	–	–	–	3,235	–	(3,235)	–	–	–
Adjustment on contingent consideration	*27*	–	–	(8,586)	–	–	–	–	(8,586)	–	(8,586)
Reversal of share option expense		–	–	–	(12,938)	–	–	12,938	–	–	–
Acquisition of a subsidiary	*32*	–	–	–	–	–	–	–	–	3,138	3,138
Capital contribution from a minority shareholder		–	–	–	–	–	–	–	–	2,487	2,487
Deemed disposal of a partial interest in a subsidiary		–	–	–	–	–	–	–	–	(1,573)	(1,573)
Conversion of convertible bonds	*27,29*	2,610	48,609	(6,348)	–	–	–	–	44,871	–	44,871
Equity-settled share option arrangements	*30*	–	–	–	32,099	–	–	–	32,099	–	32,099
At 31 December 2008		**64,949**	**1,176,781***	**10,411***	**42,931***	**22,338***	**24,600***	**(1,196,113)***	**145,897**	**13,035**	**158,932**

* These reserve accounts comprise the reserves of HK$80,948,000 (2007: HK$1,214,080,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(1,189,885)**	20,000
Adjustments for:			
Bank interest income	*5*	**(2,696)**	(3,587)
Finance costs	*7*	**3,319**	2,728
(Gain)/loss on disposal of items of property, plant and equipment	*5,6*	**(20)**	27
Amortisation of other intangible assets	*6*	**5,355**	1,143
Depreciation	*6*	**3,944**	2,054
Impairment of trade receivables	*6*	**9,972**	436
Impairment of prepayments	*6*	**27,958**	–
Impairment of goodwill	*6*	**1,040,952**	–
Impairment of other intangible assets	*6*	**44,586**	–
Gain on deemed disposal of a subsidiary	*5*	**(1,573)**	–
Equity-settled share option expense	*30*	**32,099**	24,164
		(25,989)	46,965
Decrease/(increase) in inventories		**(4,074)**	517
Decrease/(increase) in trade receivables		**55,427**	(18,672)
Decrease in prepayments, deposits and other receivables		**12,431**	18,035
Decrease/(increase) in financial assets designated at fair value through profit or loss		**8,547**	(8,547)
Increase in trade payables		**958**	1,875
Increase in other payables and accruals		**13,925**	4,800
Cash generated from operations		**61,225**	44,973
Interest paid		**(101)**	(136)
Mainland China tax paid		**(15,552)**	(1,762)
Net cash inflow from operating activities		**45,572**	43,075
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**2,696**	3,587
Proceeds from disposal of items of property, plant and equipment		**122**	21
Purchases of items of property, plant and equipment	*14*	**(6,477)**	(6,716)
Additions to other intangible assets		**(18,345)**	(3,229)
Acquisition of subsidiaries	*32*	**(3,841)**	10,816
Increase in prepayments in purchases of other intangible assets		**(27,958)**	(26,887)
Proceeds from disposal of a partial interest in a subsidiary		**2,487**	–
Increase in loan to an associate		**(20,000)**	–
Net cash outflow from investing activities		**(71,316)**	(22,408)

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29	–	183,551
Share issue expenses	29	–	(6,021)
Increase/(decrease) in amounts due to shareholders		(67,611)	3,093
Decrease in an amount due to the holding company		–	(12,913)
Net cash inflow/(outflow) from financing activities		(67,611)	167,710
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(93,355)	188,377
Cash and cash equivalents at beginning of year		235,808	39,655
Effect of foreign exchange rate changes, net		13,711	7,776
CASH AND CASH EQUIVALENTS AT END OF YEAR		156,164	235,808
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	121,946	131,672
Non-pledged time deposits with original maturity of less than three months when acquired	23	34,218	104,136
		156,164	235,808

Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*15*	**160,407**	1,224,916
Other intangible assets	*17*	**2,798**	3,121
Total non-current assets		**163,205**	1,228,037
CURRENT ASSETS			
Prepayments, deposits and other receivables	*20*	**1,684**	1,592
Cash and cash equivalents	*23*	**225**	143,120
Total current assets		**1,909**	144,712
CURRENT LIABILITIES			
Other payables and accruals	*25*	**5,209**	2,748
Due to subsidiaries	*26*	**9,241**	5,625
Total current liabilities		**14,450**	8,373
NET CURRENT ASSETS/(LIABILITIES)		**(12,541)**	136,339
TOTAL ASSETS LESS CURRENT LIABILITIES		**150,664**	1,364,376
NON-CURRENT LIABILITIES			
Convertible bonds	*27*	**76,591**	177,493
Net assets		**74,073**	1,186,883
EQUITY			
Issued capital	*29*	**64,949**	62,339
Reserves	*31(b)*	**9,124**	1,124,544
Total equity		**74,073**	1,186,883

Hu Zhuoer
Director

Yu Xiaoyang
Director

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is located at Room 4401, COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong.

During the year, the Group was principally engaged in the development and sale of computer software and hardware, the provision of system integration and related support services and the provision of internet and telecommunication value-added services in Mainland China.

2.1 BASIS OF PRESENTATION

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 ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 BASIS OF PREPARATION

Going Concern

As at 31 December 2008, the Company had net current liabilities of HK$12,541,000 and non-current liabilities in respect of convertible bonds of HK$76,591,000 (principal amount of HK$82,260,000) which will mature on 28 May 2010.

In order to improve the financial and current liquidity position of the Group, and otherwise to sustain the Group and the Company as a going concern, the directors of the Company have been taking the following measures:

(a) the Company has obtained the consent from a bondholder who holds outstanding convertible bonds with a principal amount of HK$63,937,000 to not to request repayment of the bonds before 28 May 2011;

(b) the Group will realise certain assets to improve the liquidity and meet the Group's future working capital and financial requirements; and

(c) the Group will repatriate funds from the Company's subsidiaries to the Company.

Provided that these measures are successful and can effectively improve the liquidity position of the Group and the Company, the directors are satisfied that the Group and the Company will have sufficient financial resources to meet their financial obligations as they fall due in the foreseeable future.

2.2 BASIS OF PREPARATION *(Continued)*

Going Concern *(Continued)*

Should the Group or the Company be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the financial statements.

Doubtful transactions of Huayuan Run Tong (Beijing) Sci-Tech Co., Ltd. ("Run Tong")

On 18 September 2007, the Group acquired 100% interest in Full Trump International Limited ("Full Trump"), which in turn holds 100% interest in Run Tong whose principal activity is the provision of online corporate information enquiry services to the public through its Mingsuo business. In the course of auditing the financial statements for the year ended 31 December 2008, the auditors identified certain unusual transactions relating to Run Tong. In response, the Company appointed an independent professional firm to carry out an investigation into the revenue recording system of Run Tong for the period from May to December 2008 and the investigation period was later extended to cover the period from January to April 2008. The result of the investigation, announced by the Company on 19 May 2009, revealed that there were: (1) doubtful or questionable genuineness as to certain transaction records in Run Tong's systems; (2) doubtful or questionable genuineness as to certain transactions of Run Tong; (3) doubtful or questionable genuineness as to certain assets of Run Tong; (4) agents, suppliers and customers which might be controlled by Run Tong; and (5) agents and suppliers of Run Tong whose dealings with Run Tong could not be fully explained. Taking into account the result of the investigation, the directors considered that the Group's revenue, deferred income and certain assets in respect of Run Tong were overstated and consequently, the Company made the following adjustments to the Group's consolidated financial statements for the year ended 31 December 2008:

- reversal of revenue for the year of HK$135,151,000 and outstanding deferred income of HK$13,379,000; and a corresponding elimination of outstanding trade receivables of HK$105,596,000 and reclassification of receipts by Run Tong arising from purported sales of prepaid service cards included in revenue to other income for the year of HK$44,079,000;

- provisions for impairment of intangible assets, prepayments and trade receivables of approximately HK$39,934,000, HK$27,958,000 and HK$7,325,000 respectively; and

2.2 BASIS OF PREPARATION *(Continued)*

Doubtful transactions of Huayuan Run Tong (Beijing) Sci-Tech Co., Ltd. ("Run Tong") *(Continued)*

- provision for impairment of goodwill arising from the acquisition of Full Trump of approximately HK$995,940,000.

The Company also made provision for investment cost in subsidiaries and amounts due from subsidiaries of approximately HK$1,110,466,000 in its separate financial statements for the year ended 31 December 2008.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.3 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	HKFRS 2 – *Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	HKAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(b) HK(IFRIC)-Int 11 HKFRS 2 – *Group and Treasury Share Transactions*

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group's current policy for share-based payment transactions aligns with the requirements of the interpretation, the interpretation is unlikely to have the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 HKAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

2.4 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 1 (Revised)	*First-time adoption of Hong Kong Financial Reporting Standards* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemptions from comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [7]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash–settled Share-based Payment Transactions* [7]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments* [1]
HKFRS 8	*Operating Segments* [1]
HKFRS 9	*Financial Instruments* [11]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 18 Amendments	Amendments to Appendix HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent* [7]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 24 (Revised)	*Related Party Disclosures* [10]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [8]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [2]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendment to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition And Measurement – Embedded Derivatives* [5]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 14 Amendments	Amendments to HK (IFRIC) – *Int 14 Prepayments of a Minimum Funding Requirement* [10]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* [6]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [9]
HK Interpretation 4 (Revised in December 2009)	*Lease – Determination of the length of lease term in respect of Hong Kong land leases* [7]
Improvements to HKFRSs (October 2008)	
Improvements to HKFRSs (May 2009)	

2.4 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Improvements to HKFRSs (October 2008)

The HKICPA has issued *Improvements to HKFRSs 2008** in October 2008 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

Improvements to HKFRSs (May 2009)

Improvements to HKFRSs 2009 was issued by the HKICPA in May 2009. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 38 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[1] *Effective for annual periods beginning on or after 1 January 2009*
[2] *Effective for annual periods beginning on or after 1 July 2009*
[3] *Effective for annual periods beginning on or after 1 July 2008*
[4] *Effective for annual periods beginning on or after 1 October 2008*
[5] *Effective for annual periods beginning on or after 30 June 2009*
[6] *Apply prospectively to transfers of assets from customers received on or after 1 July 2009*
[7] *Effective for annual periods beginning on or after 1 January 2010*
[8] *Effective for annual periods beginning on or after 1 February 2010*
[9] *Effective for annual periods beginning on or after 1 July 2010*
[10] *Effective for annual periods beginning on or after 1 January 2011*
[11] *Effective for annual periods beginning on or after 1 January 2013*

* Improvements to HKFRSs 2008 contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the management considered that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates is treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets other than goodwill *(Continued)*

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the lease terms
Furniture, fixtures and equipment	18% – 20%
Motor vehicles	10% – 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Golf club membership, computer software, computer system and trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 to 20 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Research and development costs (Continued)

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding two years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at amortised cost (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Financial liabilities at amortised cost

Financial liabilities, including trade and other payables and amounts due to shareholders, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress, comprises direct materials, subcontracting charges and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Government subsidies

Government subsidies are recognised at their fair value where there is reasonable assurance that the subsidy will be received and all attaching conditions will be complied with.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes-Merton option pricing model, further details of which are given in note 30 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. Contributions are made by the subsidiaries based on a percentage of the participating employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries and associate are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the Hong Kong dollar at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) from the rendering of services, when the relevant services have been rendered; and

(iii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

3. SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was HK$34,000,000 (2007: HK$1,142,481,000), details of which are set out in note 16 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Estimation of fair values of equity-settled share options

The fair value of the equity-settled share options granted during the year is determined by management based on the valuation performed by independent qualified valuers using the Black-Scholes-Merton option pricing model. The model is built by reputable scholars and are widely used in the market. The expected life of the options is estimated by the management based on (i) the length of the vesting period; (ii) the share price of the Company; (iii) the level of the option holders within the organisation; and (iv) the expected volatility of the Company's shares.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as the Group's customers and operations are located in Mainland China.

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. Summary details of the business segments are as follows:

(a) the software development and system integration segment engages in (i) the provision of software development services; (ii) the provision of system integration services; and (iii) the provision of technical support and maintenance services;

(b) the internet, mobile and telecommunication segment engages in the provision of internet, mobile and telecommunication value-added services;

(c) the in-house developed products segment engages in the sale and leasing of in-house developed computer hardware; and

(d) the corporate segment comprises corporate income and expense items.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. SEGMENT INFORMATION *(Continued)*

Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

Group

	Software development and system integration		Internet, mobile and telecommunication		In-house developed products		Eliminations		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Segment revenue:										
Sales to external customers	**89,403**	102,698	**1,534**	29,369	**2,720**	3,747	**–**	–	**93,657**	135,814
Intersegment sales	**5,081**	–	**–**	–	**–**	–	**(5,081)**	–	**–**	–
Other income and gains	**860**	2,256	**44,079**	–	**212**	108	**–**	–	**45,151**	2,364
Total	**95,344**	104,954	**45,613**	29,369	**2,932**	3,855	**(5,081)**	–	**138,808**	138,178
Segment results	**(24,111)**	35,194	**(72,495)**	25,714	**(3,033)**	(4,616)	**89**	–	**(99,550)**	56,292
Bank interest income and unallocated gains									**4,654**	3,592
Unallocated corporate expenses, net									**(50,718)**	(37,156)
Impairment of goodwill									**(1,040,952)**	–
Finance costs									**(3,319)**	(2,728)
Profit/(loss) before tax									**(1,189,885)**	20,000
Tax									**(26,981)**	(3,947)
Profit/(loss) for the year									**(1,216,866)**	16,053

4. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Group

	Software development and system integration		Internet, mobile and telecommunication		In-house developed products		Corporate		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Assets and liabilities										
Segment assets	**202,630**	233,440	**62,874**	100,176	**4,975**	16,824	**5,586**	149,666	**276,065**	500,106
Unallocated assets									**25,610**	1,074,499
Total assets									**301,675**	1,574,605
Segment liabilities	**(29,311)**	(43,404)	**(5,751)**	(49,169)	**(1,735)**	(1,831)	**(6,384)**	(2,419)	**(43,181)**	(96,823)
Unallocated liabilities									**(99,562)**	(188,561)
Total liabilities									**(142,743)**	(285,384)
Other segment information:										
Depreciation	**3,427**	1,478	**36**	126	**261**	324	**220**	126	**3,944**	2,054
Amortisation of other intangible assets	**57**	52	**4,680**	–	**295**	983	**323**	108	**5,355**	1,143
Impairment of trade receivables	**7,605**	151	**2,237**	–	**130**	285	**–**	–	**9,972**	436
Impairment of prepayments	**–**	–	**27,958**	–	**–**	–	**–**	–	**27,958**	–
Impairment of other intangible assets	**–**	–	**44,586**	–	**–**	–	**–**	–	**44,586**	–
Capital expenditure	**4,865**	6,192	**46,103**	–	**10**	287	**731**	3,466	**51,709**	9,945

5. 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 year.

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

	Group	
	2008	2007
	HK$'000	HK$'000
Revenue		
Sale of in-house developed products	**2,720**	3,747
Provision of software development and system integration services	**54,186**	81,229
Provision of technical support and maintenance services	**35,217**	21,469
Provision of internet, mobile and telecommunication value-added services	**1,534**	29,369
	93,657	135,814

	Group	
	2008	2007
	HK$'000	HK$'000
Other income and gains		
Bank interest income	**2,696**	3,587
PRC tax subsidy	**1,072**	2,364
Gain on deemed disposal of a subsidiary	**1,573**	–
Income received from sales agents	**44,079**	–
Gain on disposal of items of property, plant and equipment	**20**	–
Others	**365**	5
	49,805	5,956

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging:

		Group	
		2008	2007
	Notes	**HK$'000**	HK$'000
Cost of inventories sold		**28,382**	2,381
Cost of services provided		**40,587**	47,582
Depreciation	*14*	**3,944**	2,054
Amortisation of other intangible assets	*17*	**5,355**	1,143
Rental payments under operating leases in respect of land and buildings		**10,528**	4,511
Auditors' remuneration		**4,535**	2,207
Employee benefits expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**40,076**	24,944
Equity-settled share option expense		**32,099**	24,164
Pension scheme contributions		**3,433**	1,498
		75,608	50,606
Foreign exchange differences, net		**13**	14
Impairment of trade receivables*	*19*	**9,972**	436
Impairment of prepayments*		**27,958**	–
Impairment of goodwill	*16*	**1,040,952**	–
Impairment of other intangible assets*	*17*	**44,586**	–
Loss on disposal of items of property, plant and equipment*		**–**	27

* The amounts are included in "Other expenses" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group	
	2008	2007
	HK$'000	HK$'000
Interest on loans from the holding company	**–**	136
Interest on a bank overdraft	**101**	–
Interest on convertible bonds *(note 27)*	**3,218**	2,592
	3,319	2,728

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Fees	**600**	790
Other emoluments:		
Salaries, allowances and benefits in kind	**2,805**	3,102
Equity-settled share option expense	**22,850**	16,199
	25,655	19,301
	26,255	20,091

During the year, a director was granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the income statement for the current year is included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follow:–

	Fees	Equity-settled share option benefits	Total remuneration
	HK$'000	HK$'000	HK$'000
2008			
Ms. Ma Yuhua	**100**	**711**	**811**
Ms. Liang Yeping	**100**	**711**	**811**
Dr. Zhou Chunsheng	**100**	**711**	**811**
	300	**2,133**	**2,433**
2007			
Ms. Ma Yuhua	100	265	365
Ms. Liang Yeping	100	265	365
Dr. Zhou Chunsheng	30	265	295
Mr. Jiang Qiping	70	–	70
	300	795	1,095

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Equity-settled share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2008					
Mr. Zhang Honghai	**–**	**–**	**2,969**	**–**	**2,969**
Mr. Wang Zhenyu	**100**	**1,345**	**6,224**	**–**	**7,669**
Mr. E Meng	**–**	**–**	**–**	**–**	**–**
Mr. Cao Wei	**–**	**–**	**–**	**–**	**–**
Mr. Li Kangying	**–**	**–**	**–**	**–**	**–**
Dr. Yu Xiaoyang	**100**	**500**	**5,762**	**–**	**6,362**
Mr. Zhang Zhihong	**100**	**500**	**5,762**	**–**	**6,362**
Mr. Yan Qing	**–**	**460**	**–**	**–**	**460**
	300	**2,805**	**20,717**	**–**	**23,822**
2007					
Mr. Wang Zhenyu	30	240	2,314	–	2,584
Mr. E Meng	100	320	2,142	–	2,562
Mr. Cao Wei	100	1,017	2,142	–	3,259
Mr. Li Kangying	100	200	2,380	–	2,680
Dr. Yu Xiaoyang	30	150	2,142	–	2,322
Mr. Zhang Zhihong	30	150	2,142	–	2,322
Mr. Yan Qing	100	224	2,142	–	2,466
Mr. Wang Dong Bin	–	801	–	–	801
	490	3,102	15,404	–	18,996

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2007: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2007: one) non-director, highest paid employee for the year are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**845**	549
Equity-settled share option expense	**2,667**	2,142
Pension scheme contributions	**12**	10
	3,524	2,701

The number of non-director, highest paid employee whose remuneration fell within the following bands is as follows:

	Number of employees	
	2008	2007
Nil to HK$1,000,000	**–**	–
HK$2,000,000 to HK$3,000,000	**–**	1
HK$3,000,000 to HK$4,000,000	**1**	–
	1	1

In prior years, share options was granted to the non-director, highest paid employee in respect of her services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the income statement for the current year is included in the above non-director, highest paid employee's remuneration disclosures.

10. 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 year (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 25%.

	2008 **HK$'000**	2007 HK$'000
Group:		
Current – Hong Kong	**–**	–
Current – Elsewhere		
Charge for the year	**26,997**	4,290
Overprovision in prior years	**(16)**	(343)
Total tax charge for the year	**26,981**	3,947

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the locations in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

10. TAX *(Continued)*

Group – 2008

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Loss before tax	(1,093,770)		(96,115)		(1,189,885)	
Tax at the statutory tax rate	(180,472)	16.5	(24,029)	25.0	(204,501)	17.2
Lower tax rate for specific provinces or enacted by local authority	–		114		114	
Income not subject to tax	(151)		(105)		(256)	
Expenses not deductible for tax	180,623		45,548		226,171	
Overprovision in prior years	–		(16)		(16)	
Tax losses not recognised	–		5,267		5,267	
Others	–		202		202	
Tax charge at the Group's effective rate	–		26,981		26,981	

Group – 2007

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(36,229)		56,229		20,000	
Tax at the statutory tax rate	(6,340)	17.5	18,556	33.0	12,216	61.1
Lower tax rate for specific provinces or enacted by local authority	–		(14,665)		(14,665)	
Income not subject to tax	(551)		(184)		(735)	
Expenses not deductible for tax	6,891		394		7,285	
Overprovision in prior years	–		(343)		(343)	
Tax losses not recognised	–		189		189	
Tax charge at the Group's effective rate	–		3,947		3,947	

11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company for the year ended 31 December 2008 includes a loss of HK$1,181,194,000 (2007: HK$55,010,000) which has been dealt with in the financial statements of the Company (note 31(b)).

12. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2008 (2007: Nil).

13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings/(loss) per share amounts is based on the loss for the year attributable to ordinary equity holders of the Company of HK$1,212,313,000 (2007: profit of HK$16,310,000) and the weighted average number of 6,447,127,679 (2007: 4,924,518,420) ordinary shares in issue during the year.

A diluted earnings/(loss) per share amounts for the year ended 31 December 2008 and 2007 are the same as the basic earnings/(loss) per share, as the average share price of the Company for the years ended 31 December 2008 and 2007 are lower than the exercise price of the share options outstanding during these years and the convertible bonds outstanding during these years had an anti-dilutive effect on the basic earnings/(loss) per share for these years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2008				
At 31 December 2007 and at 1 January 2008:				
Cost	**2,741**	**13,093**	**6,929**	**22,763**
Accumulated depreciation	**(367)**	**(5,274)**	**(1,752)**	**(7,393)**
Net carrying amount	**2,374**	**7,819**	**5,177**	**15,370**
At 1 January 2008, net of accumulated depreciation	**2,374**	**7,819**	**5,177**	**15,370**
Additions	**1,196**	**3,181**	**2,100**	**6,477**
Disposals	**–**	**(450)**	**(157)**	**(607)**
Transfer to inventories	**–**	**(95)**	**–**	**(95)**
Depreciation provided during the year	**(802)**	**(2,129)**	**(1,013)**	**(3,944)**
Exchange realignment	**130**	**420**	**282**	**832**
At 31 December 2008, net of accumulated depreciation	**2,898**	**8,746**	**6,389**	**18,033**
At 31 December 2008:				
Cost	**4,097**	**16,473**	**8,789**	**29,359**
Accumulated depreciation	**(1,199)**	**(7,727)**	**(2,400)**	**(11,326)**
Net carrying amount	**2,898**	**8,746**	**6,389**	**18,033**

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2007				
At 31 December 2006 and at 1 January 2007:				
Cost	280	6,725	2,479	9,484
Accumulated depreciation	(112)	(3,587)	(902)	(4,601)
Net carrying amount	168	3,138	1,577	4,883
At 1 January 2007, net of accumulated depreciation	168	3,138	1,577	4,883
Additions	1,636	4,057	1,023	6,716
Acquisition of subsidiaries	777	1,580	3,098	5,455
Disposals	–	–	(48)	(48)
Depreciation provided during the year	(234)	(1,182)	(638)	(2,054)
Exchange realignment	27	226	165	418
At 31 December 2007, net of accumulated depreciation	2,374	7,819	5,177	15,370
At 31 December 2007:				
Cost	2,741	13,093	6,929	22,763
Accumulated depreciation	(367)	(5,274)	(1,752)	(7,393)
Net carrying amount	2,374	7,819	5,177	15,370

15. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**1,351,453**	1,419,288
Impairment[#]	**(1,260,686)**	(206,517)
	90,767	1,212,771
Due from subsidiaries	**205,106**	68,002
Impairment[@]	**(135,466)**	(55,857)
	69,640	12,145
	160,407	1,224,916

During the year, an impairment was recognised for certain unlisted investments with a carrying amount of HK$1,323,553,000 (2007: HK$291,000,000) (before deducting the impairment loss) because their carrying values exceed the recoverable amounts of the assets. An additional impairment loss of HK$1,054,169,000 has been recognised during the year.

@ An impairment was recognised for amounts due from certain subsidiaries with a carrying amount of HK$172,313,000 (before deducting the impairment loss) (2007: HK$59,233,000) because the relevant subsidiaries had suffered losses for years. An additional impairment loss of HK$79,609,000 has been recognised during the year.

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries.

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2008	2007	
Asren Holdings Limited* ("Asren")	British Virgin Islands/ Hong Kong	US$200	**51**	51	Investment holding
Astoria Innovations Limited* ("Astoria")	British Virgin Islands/ Hong Kong	US$1,000	**68**	68	Investment holding
Beijing Enterprises Sanxing Information Technology Co., Ltd.$^{\Delta}$	Mainland China	RMB10,000,000	**68**	68	Development and sale of computer software and provision of system integration and related services
Beijing Enterprises VST Software Technology Co., Ltd.$^{\Delta}$	Mainland China	RMB20,000,000	**100**	100	Development and sale of computer software and provision of system integration and related services
China Information Technology Development (Hong Kong) Limited	Hong Kong	HK$100	**100**	100	Office management
Full Trump International Limited ("Full Trump")	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2008	2007	
Go Good Holdings Limited*	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding
Pantosoft International Limited*	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding
Proud Stars Limited*	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding
Shanghai Pantosoft Company Limited^Δ	Mainland China	HK$10,000,000	**100**	100	Development and sale of computer software and provision of system integration and related services
Surfing Platform Software International Limited*	British Virgin Islands/ Hong Kong	US$1,080,668	**100**	100	Investment holding
Wisdom Elite Holdings Limited* ("Wisdom Elite")	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding
Xteam Network (Beijing) Co., Ltd.^Δ	Mainland China	US$1,220,000	**51**	51	Development and sale of internet equipment and provision of related services

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2008	2007	
Xteam Software (China) Co., Limited[Δ]	Mainland China	US$3,000,000	**100**	100	Sale of computer software and provision of related services
Allied Jumbo Development Limited	Hong Kong	HK$1	**100**	100	Investment holding
北京控股信息發展有限公司^	Mainland China	US$5,000,000	**100**	100	Office management
廣州華源潤通網絡科技有限公司^	Mainland China	RMB5,000,000	**51**	75	Provision of system integration, internet and mobile communication services
河北華源潤通科技有限公司^	Mainland China	RMB1,000,000	**51**	51	Dormant
長沙華源潤通網絡科技有限公司^	Mainland China	RMB1,000,000	**51**	51	Dormant
成都華源潤通科技有限公司^	Mainland China	RMB1,000,000	**51**	51	Dormant
華源潤通(大連)科技有限公司^	Mainland China	RMB1,000,000	**100**	100	Dormant
南京拓通科技有限公司^	Mainland China	RMB1,000,000	**51**	51	Dormant
Huayuan Run Tong (Beijing) Sci-Tech Co., Ltd.^	Mainland China	RMB10,000,000	**100**	100	Provision of system integration, internet and mobile communication services

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2008	2007	Principal activities
華源開拓(北京)科技有限公司^	Mainland China	RMB1,000,000	**100**	100	Provision of system integration, internet and mobile communication services
深圳北控信息發展有限公司@^	Mainland China	RMB2,000,000	**100**	–	Provision of internet and mobile communication services
雲南華源潤通科技有限公司@^	Mainland China	RMB1,000,000	**100**	–	Dormant
China Luck International Limited*@	British Virgin Island/ Hong Kong	US$100	**100**	–	Investment holding
Long Ma Xun Tong (Beijing) Sci Tech Co., Ltd#	Mainland China	RMB6,650,000	**55**	–	Provision of internet and mobile communication services

* Directly held by the Company

@ Set up during the year

Δ Registered as wholly-foreign-owned enterprises under the PRC law

\# Acquired during the year *(note 32)*

^ Registered as limited liability companies under the PRC law

16. GOODWILL

	Group 2008 HK$'000	2007 HK$'000
At 1 January:		
Cost	**1,353,240**	289,465
Accumulated impairment	**(210,759)**	(210,759)
Net carrying amount	**1,142,481**	78,706
Cost, net of accumulated impairment:		
At 1 January	**1,142,481**	78,706
Acquisition of subsidiaries *(note 32)*	**306**	1,063,775
Adjustment on contingent consideration *(note 27)*	**(67,835)**	–
Impairment during the year	**(1,040,952)**	–
At 31 December	**34,000**	1,142,481
At 31 December:		
Cost	**1,285,711**	1,353,240
Accumulated impairment	**(1,251,711)**	(210,759)
Net carrying amount	**34,000**	1,142,481

Impairment testing of goodwill

Goodwill acquired through business combinations have been allocated to the following cash-generating units in terms of principal subsidiaries for impairment testing.

	Group 2008 HK$'000	2007 HK$'000
Asren *(note (i))*	**–**	10,016
Astoria *(note (ii))*	**19,000**	23,542
Wisdom Elite *(note (ii))*	**15,000**	45,148
Full Trump *(note (iii))*	**–**	1,063,775
Carrying amount of goodwill	**34,000**	1,142,481

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Notes:

(i) The recoverable amount of the cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections is 13% (2007: 13%). The Group determined the sales volume based on management's past experience in the information technology market and their expectations for the market development. Budgeted gross margins are determined by management based on past performances and the expected growth rate of the market.

Impairment provision of HK$10,016,000 (2007: Nil) has been recognised in the income statement for the year ended 31 December 2008 for the goodwill attributable to the cash-generating units of Asren, as the management of the Group believes that the recoverable amount of the relevant business unit is less than its respective carrying amount with reference to the poor subsequent sales performance of its main product, In@box.

(ii) The recoverable amounts of the cash-generating units of Astoria and Wisdom Elite are determined based on a value in use calculation. Using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate used for the value in use calculation is 13% (2007: 13%). Management determined the budgeted gross margins based on past performances and the average growth rate used is comparable with the forecast of the information technology market in the Mainland China.

Impairment provisions of HK$4,542,000 (2007: Nil) and HK$30,148,000 (2007: Nil) have been recognised in the income statement for the year ended 31 December 2008 for the goodwill attributable to the cash-generating units of Astoria and Wisdom Elite, respectively, as the management believes that the recoverable amounts of the relevant business units are less than their respective carrying amounts with reference to the financial budgets as a result of the economic downturn.

(iii) The recoverable amount of the cash-generating unit has been determined by reference to a business valuation performed by CB Richard Ellis Limited, independent professionally qualified valuers, on a value in use calculation using cash flow projections which are based on financial budgets approved by management covering a period of five years. The discount rate applied to the cash flow projections is 21% (2007: 22%), determined with reference to the average discount rates for the relevant industries and the business risks of the relevant business unit. Management determined the budgeted turnover based on past performances, management's past experience in the market as well as their expectation for the market development.

Impairment provision of HK$995,940,000 (2007: Nil) has been recognised in the income statement for the year ended 31 December 2008 for the goodwill attributable to the cash-generating unit of Full Trump, as the management believes that the recoverable amounts of the relevant business unit is less than its respective carrying amount with reference to the business valuation as a result of the termination of Mingsuo Business subsequently since June 2009.

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions were used in the value in use calculation of the above-said cash-generating units for 31 December 2008 and 31 December 2007. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted turnover – Budgeted turnover is based on the expected growth rate of the market in which the assessed entity operates and the expected market share of the assessed entity.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, and adjusted for the expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Raw materials/labour price inflation – The basis used to determine the value assigned to raw materials/labour price inflation is the forecast price indices during the budget year in the Mainland China.

Operating expenses – The bases used to determine the value assigned are staff head counts and price inflation. The value assigned to the key assumption reflects past experience and management's commitment to maintain its operating expenses to an acceptable level.

17. OTHER INTANGIBLE ASSETS

Group

	Deferred development costs HK$'000	Trademarks HK$'000	Computer software HK$'000	Golf club membership HK$'000	Total HK$'000
31 December 2008					
At 1 January 2008:					
Cost	**1,750**	**2,723**	**553**	**3,229**	**8,255**
Accumulated amortisation	**(1,604)**	**(1,060)**	**(161)**	**(108)**	**(2,933)**
Net carrying amount	**146**	**1,663**	**392**	**3,121**	**5,322**
Cost at 1 January 2008, net of accumulated amortisation	**146**	**1,663**	**392**	**3,121**	**5,322**
Additions	**136**	**–**	**45,096**	**–**	**45,232**
Acquisition of subsidiaries *(note 32)*	**340**	**2,261**	**–**	**–**	**2,601**
Amortisation provided during the year	**(153)**	**(142)**	**(4,737)**	**(323)**	**(5,355)**
Impairment during the year	**(470)**	**(3,835)**	**(40,281)**	**–**	**(44,586)**
Exchange realignment	**1**	**53**	**(470)**	**–**	**(416)**
At 31 December 2008	**–**	**–**	**–**	**2,798**	**2,798**
At 31 December 2008:					
Cost	**2,328**	**5,142**	**45,682**	**3,229**	**56,381**
Accumulated amortisation and impairment	**(2,328)**	**(5,142)**	**(45,682)**	**(431)**	**(53,583)**
Net carrying amount	**–**	**–**	**–**	**2,798**	**2,798**

17. OTHER INTANGIBLE ASSETS *(Continued)*

Group *(Continued)*

	Deferred development costs HK$'000	Trademarks HK$'000	Computer software HK$'000	Golf club membership HK$'000	Total HK$'000
31 December 2007					
At 1 January 2007:					
Cost	1,639	2,548	500	–	4,687
Accumulated amortisation	(683)	(864)	(100)	–	(1,647)
Net carrying amount	956	1,684	400	–	3,040
Cost at 1 January 2007, net of accumulated amortisation	956	1,684	400	–	3,040
Additions	–	–	–	3,229	3,229
Acquisition of subsidiaries	–	–	18	–	18
Amortisation provided during the year	(851)	(132)	(52)	(108)	(1,143)
Exchange realignment	41	111	26	–	178
At 31 December 2007	146	1,663	392	3,121	5,322
At 31 December 2007 and at 1 January 2008:					
Cost	1,750	2,723	553	3,229	8,255
Accumulated amortisation	(1,604)	(1,060)	(161)	(108)	(2,933)
Net carrying amount	146	1,663	392	3,121	5,322

17. OTHER INTANGIBLE ASSETS *(Continued)*

Company

	Golf club membership	
	2008	2007
	HK$'000	HK$'000
Cost at 1 January 2008, net of amortisation	**3,121**	–
Additions	**–**	3,229
Amortisation provided during the year	**(323)**	(108)
At 31 December	**2,798**	3,121
At 31 December:		
Cost	**3,229**	3,229
Accumulated amortisation	**(431)**	(108)
Net carrying amount	**2,798**	3,121

18. INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**838**	244
Work in progress	**12**	301
Finished goods and merchandise	**6,319**	2,456
	7,169	3,001

19. TRADE RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Due from third parties	**36,051**	84,019
Due from related companies	**6,156**	13,449
	42,207	97,468
Impairment	**(11,126)**	(988)
	31,081	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. Trade receivables are non-interest-bearing.

The balances with related companies are repayable on similar credit terms to those offered to the major customers of the Group.

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:

	Group	
	2008	2007
	HK$'000	HK$'000
Within 1 month	**11,313**	44,170
1 to 2 months	**2,160**	13,256
2 to 3 months	**1,665**	19,079
Over 3 months	**15,943**	19,975
	31,081	96,480

19. TRADE RECEIVABLES *(Continued)*

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**988**	505
Impairment losses recognised *(note 6)*	**9,972**	436
Exchange realignment	**166**	47
At 31 December	**11,126**	988

Included in the above provision for impairment of trade receivables is the provision for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulty. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**13,511**	21,873
Less than 1 month past due	**3,760**	39,167
1 to 3 months past due	**1,295**	30,621
Over 3 months past due	**12,515**	4,819
	31,081	96,480

Receivables that were neither past due nor impaired mainly relate to several major customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**12,995**	52,884	**150**	150
Deposits and other receivables	**13,825**	12,535	**92**	–
Dividends receivable	**–**	–	**1,442**	1,442
Due from related companies	**5,610**	2,177	**–**	–
	32,430	67,596	**1,684**	1,592
Portion classified as current assets	**(32,430)**	(40,709)	**(1,684)**	(1,592)
Non-current portion	**–**	26,887	**–**	–

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

21. INTERESTS IN AN ASSOCIATE

	Group	
	2008	2007
	HK$'000	HK$'000
Loan to an associate	**20,000**	–

The loan to an associate is unsecured, interest-free and has no fixed terms of repayment.

21. INTERESTS IN AN ASSOCIATE *(Continued)*

Particulars of the associate is as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
Business Net (Hong Kong) Limited	Ordinary shares of HK$1 each	Hong Kong	40	Investment holding

The Group has not recognised of its share of losses of the associate because the share of losses of the associate exceeded the Group's interests in the associate. The amounts of the Group's unrecognised share of losses of this associate for the current year and cumulatively was HK$1,672,000 (2007: Nil).

The above associate has been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associate extracted from its consolidated financial statements:

	2008 **HK$'000**	2007 HK$'000
Assets	**48,572**	–
Liabilities	**52,262**	–
Revenues	**–**	–
Loss	**(4,181)**	–

22. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2008	2007
	HK$'000	HK$'000
Unlisted equity investment funds, at quoted market value	**–**	8,547

The above equity investment funds at 31 December 2007 were, upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**121,946**	131,672	**225**	52,873
Short term deposits	**34,218**	104,136	**–**	90,247
Cash and cash equivalents	**156,164**	235,808	**225**	143,120

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$137,277,000 (2007: HK$89,695,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

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

	Group	
	2008	2007
	HK$'000	HK$'000
Within 1 month	**2,425**	3,356
1 to 2 months	**106**	528
2 to 3 months	**90**	296
Over 3 months	**4,382**	1,865
	7,003	6,045

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

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deferred income	**–**	2,632	**–**	–
Other payables	**21,860**	15,358	**3,012**	–
Accruals	**13,112**	5,539	**1,838**	2,410
Due to a related company	**2,394**	338	**359**	338
	37,366	23,867	**5,209**	2,748

Other payables are non-interest-bearing and are normally settled within 90 days.

The balance with a related company is unsecured, interest-free and has no fixed terms of repayment.

26. DUE TO SHAREHOLDERS / SUBSIDIARIES

The amounts due to shareholders and subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

27. CONVERTIBLE BONDS

On 18 September 2007, the Company issued two zero coupon convertible bonds with a principal amount of HK$200,246,000 to an independent third party as part of the consideration for the acquisition of Full Trump. The bonds conferred the right for the bondholder to convert the whole or part of the principal amount of the bonds into ordinary shares of the Company at any time commencing on 19 September 2007 until 21 May 2010 at a conversion price of HK$0.19215 per share. The outstanding principal amount of the convertible bonds, if not converted, will be repaid on 28 May 2010 at 100% of the outstanding amount.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

	Liability component of convertible bonds HK$'000	**Equity component of convertible bonds HK$'000**
At 31 December 2006	–	–
Principal amount of convertible bonds issued during the year	200,246	–
Equity component	(25,345)	25,345
	174,901	25,345
Interest expenses *(note 7)*	2,592	–
At 31 December 2007 and 1 January 2008	177,493	25,345
Interest expenses *(note 7)*	3,218	–
Adjustment on contingent consideration@	(59,249)	(8,586)
Conversion of convertible bonds^	(44,871)	(6,348)
At 31 December 2008	(76,591)	10,411

27. CONVERTIBLE BONDS *(Continued)*

The fair value of the convertible bonds was determined by an independent qualified valuer based on the binomial valuation model. The fair value of the liability component on initial recognition was valued using a discounted cashflow model. The fair value of the conversion rights as a single derivative was valued by estimating the value of the whole bond with and without the conversion feature. The difference in value reflects the value of the conversion right.

@ Pursuant to the agreement for acquisition of Full Trump, the vendor guaranteed an audited net profit after tax of RMB60,000,000 for Full Trump for the year ended 31 December 2008. The Company will have the right to redeem the portion of convertible bonds corresponding to the shortfall in the net profit after tax at zero consideration. Full Trump incurred a loss for the year ended 31 December 2008 and thus the Company has the right to redeem the full amount of convertible bonds amounting to RMB60,000,000 (approximately HK$67,835,000) at zero consideration to cover the shortfall accordingly. The fair value of the convertible bonds had been reduced by this amount as an adjustment on contingent consideration. On 17 March 2010, the Company obtained the consent of its bondholder who holds outstanding convertible bond with principal amount of HK$116,661,000 to reduce the principal amount by HK$52,724,000.

^ During the year ended 31 December 2008, bonds with a face value of HK$50,151,000 were converted into 261,000,000 ordinary shares of the Company at a price of HK$0.19215 per share.

28. DEFERRED TAX

The Group has tax losses arising in Hong Kong of HK$3,682,000 (2007: HK$3,682,000) that are available indefinitely, and in Mainland China of HK$36,290,000 (2007: HK$29,319,000) that are available for a maximum of five years, for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is considered not probable that taxable profits will be available against which tax losses can be utilised.

At 31 December 2008, there was no significant unrecognised deferred tax liability (2007: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries.

29. SHARE CAPITAL

Shares

	2008 HK$'000	2007 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
6,494,906,368 (2007: 6,233,906,368) ordinary shares of HK$0.01 each	**64,949**	62,339

29. SHARE CAPITAL *(Continued)*

During the year, the conversion rights attaching to the convertible bonds with a face value of HK$50,151,000 were exercised at the conversion price of HK$0.19215 per share (note 27), resulting in the issue of 261,000,000 shares of HK$0.01 each.

A summary of the transactions during the year with reference to the above movement in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital	Share premium account	Total
		HK$'000	HK$'000	HK$'000
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 options 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	6,233,906,368	62,339	1,117,305	1,179,644
Conversion of convertible bonds	261,000,000	2,610	48,609	51,219
At 31 December 2008	6,494,906,368	64,949	1,165,914	1,230,863

Share options

Details of the Company's share option scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's executive and non-executive directors, full-time employees of the Group, advisers and consultants of the Group. The Scheme became effective on 21 November 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and yet to be granted under the Scheme is currently limited to 30% of the shares of the Company in issue at any time. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each eligible participant in the Scheme in any 12-month period up to the date of the grant is limited to 1% of the aggregate number of issued shares of the Company at any time.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors at their discretion, and commences on the date upon which the options are deemed to be granted and accepted.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The exercise prices and exercise periods of the share options outstanding as at the balance sheet date are as follows:

2008

Number of options '000	Exercise price* HK$ per share	Exercise periods
163,800	**0.79**	**13-3-2008 to 12-9-2012**
20,000	**0.53**	**11-8-2008 to 10-2-2013**
183,800		

30. SHARE OPTION SCHEME *(Continued)*

2007

Number of options '000	Exercise price* HK$ per share	Exercise periods
353,000	0.79	13-3-2008 to 12-9-2012
6,500	0.79	30-4-2008 to 31-10-2012
359,500		

* 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.

	2008		2007	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**0.79**	**359,500**	0.14	41,800
Granted during the year	**0.53**	**20,000**	0.75	421,000
Forfeited during the year	**0.79**	**(195,700)**	0.78	(40,000)
Exercised during the year	**–**	**–**	0.11	(63,300)
At 31 December	**0.76**	**183,800**	0.79	359,500

The fair value of the share options granted during the year was HK$5,076,000 (HK$0.25 each) (2007: HK$183,130,000, HK$0.44 each) of which the Group recognised a share option expense of HK$32,099,000 (2007: HK$24,164,000) during the year ended 31 December 2008 in respect of share options granted in the current and prior years.

30. SHARE OPTION SCHEME *(Continued)*

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using the Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2008	2007
Dividend yield (%)	**–**	–
Expected volatility (%)	**80.15**	77.13
Risk-free interest rate (%)	**0.22 – 1.989**	3.871 – 3.968
Expected life of options (years)	**1 – 5**	2.75 – 4.50
Weighted average share price (HK$)	**0.53**	0.79

The expected life of the options is based on the estimate of management and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

During the year, no share options had been exercised.

At the balance sheet date, the Company had 183,800,000 share options outstanding under the Scheme, which represented approximately 3% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 183,800,000 additional ordinary shares of the Company and additional share capital of HK$1,838,000 and share premium of HK$138,164,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 133,775,000 share options outstanding under the Scheme, which represented approximately 2% of the Company's shares in issue as at that date.

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

Pursuant to the relevant laws and regulations of the PRC, a portion of the profits of the Group's subsidiaries which are established in the PRC has been transferred to reserve funds which are restricted as to use.

31. RESERVES *(Continued)*

(a) Group *(Continued)*

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against consolidated retained profits.

(b) Company

	Notes	Share premium account HK$'000	Equity component of convertible bonds HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007		326,383	–	–	(245,543)	80,840
Acquisition of subsidiaries	29	879,988	25,345	–	–	905,333
Allotment of new shares	29	175,632	–	(394)	–	175,238
Share issue expenses	29	(6,021)	–	–	–	(6,021)
Loss for the year		–	–	–	(55,010)	(55,010)
Transfer to accumulated losses		(258,677)	–	–	258,677	–
Equity-settled share option arrangements	30	–	–	24,164	–	24,164
At 31 December 2007 and 1 January 2008		1,117,305	25,345	23,770	(41,876)	1,124,544
Conversion of convertible bonds	27, 29	48,609	(6,348)	–	–	42,261
Adjustment on contingent consideration	27	–	(8,586)	–	–	(8,586)
Loss for the year		–	–	–	(1,181,194)	(1,181,194)
Reversal of share option expense		–	–	(12,938)	12,938	–
Equity-settled share option arrangements	30	–	–	32,099	–	32,099
At 31 December 2008		1,165,914	10,411	42,931	(1,210,132)	9,124

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.5 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

32. BUSINESS COMBINATION

2008

On 22 December 2008, the Group acquired a 54.89% equity interest in Long Ma Xun Tong (Beijing) Sci Tech Co. Ltd ("Long Ma") from an independent third party (the "Vendor"). The consideration for the acquisition was in the form of cash of approximately HK$4,126,000 which was paid in December 2008.

The fair values of the identifiable assets and liabilities of Long Ma acquired as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition and previous carrying amount** HK$'000
Other intangible assets	*17*	2,601
Cash and cash equivalents		285
Prepayments, deposits and other receivables		4,152
Other payables and accruals		(80)
		6,958
Minority interests		(3,138)
Goodwill on acquisition	*16*	306
		4,126
Satisfied by:		
Cash		4,126

32. BUSINESS COMBINATION *(Continued)*

2008 *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary is as follows:

	HK$'000
Cash consideration	(4,126)
Cash and cash equivalents acquired	285
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(3,841)

Since its acquisition, Long Ma had no significant contribution to the Group's turnover and loss for the year.

Had the combination taken place at the beginning of the year, there would have been no significant impact to the revenue and loss of the Group for the year.

33. CONTINGENT LIABILITIES

(a) Cessation of Mingsuo business

In June 2009, the Group ceased the corporate information enquiry services of Mingsuo business which is operated by Run Tong. The management is not able to ascertain the number of outstanding Mingsuo prepaid cards in issue, the unutilised stored values and their expiry dates. Accordingly, the management is not able to ascertain the Group's liabilities in respect of the services not yet provided for unutilised cards sold up to 31 December 2008. However, in the opinion of the directors, the possibility of the Group being claimed by the customers holding unutilised cards is low.

(b) Violation of the PRC law

On 25 April 2008, the PRC government imposed a new law 《政府信息公開條例》(the "Regulation") which governs the uses of open government information since 1 May 2008. Run Tong maintained the operation of the Mingsuo Internet Platform for providing the search services on companies which were registered with the Beijing Administration for Industry and Commerce ("BAIC") after May 2008.

The management engaged an external legal counsel to make an assessment and opinion on whether the operation of the Mingsuo Internet Platform after May 2008 would violate the Regulation. According to the legal counsel, the risk for Run Tong and the Group of being sued due to violation of the Regulation is remote.

In the opinion of directors, the potential risk of being claimed against the violation of the Regulation was remote.

34. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and a director quarter under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**9,144**	6,035
In the second to fifth years, inclusive	**7,515**	7,656
	16,659	13,691

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted, but not provided for the purchase of information systems	**13,348**	11,090

36. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2008 HK$'000	2007 HK$'000
Purchase from a subsidiary of a major shareholder of the Company	*(i)*	**–**	841
Interest payable to the holding company	*(ii)*	**–**	136
Service fee income from subsidiaries of a major shareholder of the Company	*(iii)*	**29,731**	22,966

Notes:

(i) The purchase from a related company was made according to similar prices and conditions offered by the related company to their major customers.

(ii) Interest was charged at a rate of 5% per annum on the outstanding loan principal.

(iii) The service fees were determined with reference to the fees charged to third parties by the Group.

(b) Compensation of key management personnel of the Group:

	2008 HK$'000	2007 HK$'000
Short term employee benefits	**8,925**	6,714
Post-employment benefits	**151**	166
Equity-settled share option expense	**26,447**	19,721
Total compensation paid to key management personnel	**35,523**	26,601

Further details of directors' emoluments are included in note 8 to the financial statements.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2008

Financial assets

Group

	Loans and receivables HK$'000
Trade receivables	31,081
Financial assets included in prepayments, deposits and other receivables	19,435
Cash and cash equivalents	156,164
	206,680

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	7,003
Financial liabilities included in other payables and accruals *(note 25)*	24,254
Due to shareholders	1,205
Convertible bonds	76,591
	109,053

37. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2007

Financial assets

Group

	Financial assets designated at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Total HK$'000
Trade receivables	–	96,480	96,480
Financial assets included in prepayments, deposits and other receivables	–	14,712	14,712
Financial assets designated at fair value through profit or loss	8,547	–	8,547
Cash and cash equivalents	–	235,808	235,808
	8,547	347,000	355,547

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	6,045
Financial liabilities included in other payables and accruals *(note 25)*	15,696
Due to shareholders	68,816
Convertible bonds	177,493
	268,050

All financial assets and liabilities of the Company as at 31 December 2007 and 2008 are loans and receivables and financial liabilities stated at amortised cost, respectively.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly comprise cash and short term deposits and convertible bonds. These financial instruments are used for the Group's working capital. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Company does not have written risk management policies and guidelines. However, management meets periodically to analyse and formulate measures to manage the Company's exposure to financial risks, including liquidity risk.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group's business is located in Mainland China and all the sales and purchases transactions are conducted in RMB. Fluctuations of the exchange rates of RMB against foreign currencies are not expected to have significant impact on the results of the Group.

The following table demonstrates the sensitivity at the balance sheet dates to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit/(loss) before tax.

	Increase/ (decrease) in RMB rate	**Increase/ (decrease) in profit before tax**
	%	HK$'000
2008		
If Hong Kong dollar weakens against RMB	**5**	**(1,381)**
If Hong Kong dollar strengthens against RMB	**(5)**	**1,381**
2007		
If Hong Kong dollar weakens against RMB	5	(1,211)
If Hong Kong dollar strengthens against RMB	(5)	1,211

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The carrying amount of trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's trade receivables.

The Group performs ongoing credit evaluations of its customers' financial conditions and requires no collateral from its customers. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. The provision for impairment of trade receivables is based upon a review of the expected collectability of all trade receivables. At the balance sheet date, the Group has certain concentrations of credit risk of 19% (2007: 13%) and 56% (2007: 53%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

With respect to credit risk arising from the other financial assets of the Group, comprising cash and cash equivalents and other receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure being equal to the carrying amounts of these instruments. There is no significant concentration of credit risk within the Group in relation to the other financial assets.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the convertible bonds and funding from the shareholders. Financial liabilities of the Group and the Company included in current liabilities as at the balance sheet date either have no fixed terms of repayment or are due for repayment within one year.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

Group

	2008		
	On demand or within 1 year HK$'000	**2 to 5 years HK$'000**	**Total HK$'000**
Trade payables	**7,003**	**–**	**7,003**
Financial liabilities included in other payables and accruals	**24,254**	**–**	**24,254**
Due to shareholders	**1,205**	**–**	**1,205**
Convertible bonds	**–**	**82,260**	**82,260**
	32,462	**82,260**	**114,722**

	2007		
	On demand or within 1 year HK$'000	2 to 5 years HK$'000	Total HK$'000
Trade payables	6,045	–	6,045
Financial liabilities included in other payables and accruals	15,696	–	15,696
Due to shareholders	68,816	–	68,816
Convertible bonds	–	200,246	200,246
	90,557	200,246	290,803

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

Company

	2008		
	On demand or within 1 year HK$'000	**2 to 5 years HK$'000**	**Total HK$'000**
Financial liabilities included in other payables and accruals	**3,371**	**–**	**3,371**
Due to a subsidiary	**5,872**	**–**	**5,872**
Convertible bonds	**–**	**82,260**	**82,260**
	9,243	**82,260**	**91,503**

	2007		
	On demand or within 1 year HK$'000	2 to 5 years HK$'000	Total HK$'000
Financial liabilities included in other payables and accruals	338	–	338
Due to a subsidiary	5,625	–	5,625
Convertible bonds	–	200,246	200,246
	5,963	200,246	206,209

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern. The Group does not have specific policies for managing capital and it is not subject to any externally imposed capital requirement. The Group will continue to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

39. POST BALANCE SHEET EVENT

On 17 March 2010, the Group entered into a sale and purchase agreement with Beijing Development (Hong Kong) Limited, the substantial shareholder of the Company, to dispose of its Golf Country Club Corporate Membership for a cash consideration of HK$1,875,000. This transaction is scheduled to be completed in May 2010 and is expected to result in a gain on disposal before tax of approximately HK$664,000.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2010.

Five Year Financial Summary

31 December 2008

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

RESULTS	**1 January 2008 to 31 December 2008 HK$'000**	1 January 2007 to 31 December 2007 HK$'000	1 January 2006 to 31 December 2006 HK$'000	1 January 2005 to 31 December 2005 HK$'000	1 April 2004 to 31 December 2004 HK$'000
REVENUE	**93,657**	135,814	42,075	66,891	51,739
PROFIT/(LOSS) BEFORE TAX	**(1,189,885)**	20,000	(220,297)	15,946	12,391
Tax	**(26,981)**	(3,947)	(2,066)	(444)	97
PROFIT/(LOSS) FOR THE YEAR/PERIOD	**(1,216,866)**	16,053	(222,363)	15,502	12,488
Attributable to:					
Equity holders of the Company	**(1,212,313)**	16,310	(220,247)	10,065	11,297
Minority interests	**(4,553)**	(257)	(2,116)	5,437	1,191
	(1,216,866)	16,053	(222,363)	15,502	12,488
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**301,675**	1,574,605	168,004	387,178	353,787
TOTAL LIABILITIES	**(142,743)**	(285,384)	(27,611)	(26,288)	(18,953)
MINORITY INTERESTS	**(13,035)**	(12,802)	(10,366)	(12,969)	(3,233)
	145,897	1,276,419	130,027	347,921	331,601