

中國數碼信息有限公司
Sino-i Technology Limited

中期報告
Interim Report 2007



股份代號 : 250
Stock Code : 250

CORPORATE INFORMATION

DIRECTORS

Executive

Mr. YU Pun Hoi (*Chairman*)

Ms. CHEN Dan

Mr. QIN Tian Xiang

Non-executive

Mr. LUO Ning

Mr. LAM Bing Kwan

Independent Non-executive

Mr. HUANG Yaowen

Prof. JIANG Ping

Mr. CHAN Lap Stanley

Mr. FUNG Wing Lap

COMPANY SECRETARY

Mr. WATT Ka Po James

QUALIFIED ACCOUNTANT

Ms. SHUM Mei Han

AUDITORS

Grant Thornton

Certified Public Accountants

Hong Kong

LEGAL ADVISERS

Kirkpatrick & Lockhart Preston Gates Ellis

REGISTERED OFFICE

39th Floor

New World Tower I

16–18 Queen's Road Central

Hong Kong

SHARE REGISTRARS

Tricor Abacus Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

STOCK CODE

250

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited

The Hongkong and Shanghai Banking
Corporation Limited

WEBSITE ADDRESS

<http://www.sino-i.com>

INTERIM RESULTS

The directors of **Sino-i Technology Limited** (the “Company”) hereby announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007, together with the comparative figures for 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

For the six months ended 30 June 2007

	Notes	For the six months ended 30 June	
		2007 HK\$'000	2006 HK\$'000
Revenue/Turnover	3	339,013	301,810
Cost of sales and services provided		(39,949)	(42,413)
Gross profit		299,064	259,397
Other operating income	4	3,445	2,741
Selling and marketing expenses		(108,195)	(96,590)
Administrative expenses		(92,033)	(71,527)
Other operating expenses		(34,489)	(19,827)
Finance costs	5	(6,838)	(5,242)
Share of results of associates		–	1,845
Profit before income tax	6	60,954	70,797
Income tax expenses	7	(139)	(9,503)
Profit for the period		60,815	61,294
Attributable to:			
Equity holders of the Company		41,728	54,895
Minority interests		19,087	6,399
Profit for the period		60,815	61,294
		HK cents	HK cents
Earnings per share for profit attributable to the equity holders of the Company during the period	8		
– Basic		0.210	0.276
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	(Unaudited) 30 June	(Audited) 31 December
	2007	2006
Notes	HK\$'000	HK\$'000
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	140,376	54,914
Prepaid land lease payments under operating leases	13,252	12,972
Interests in an associate	–	–
Available-for-sale financial assets	324	324
Goodwill	56,749	56,047
Deposits	295,561	274,617
Other intangible assets	60,605	53,455
	566,867	452,329
Current assets		
Inventories	906,781	887,152
Financial assets at fair value through profit or loss	4,427	5,089
Trade receivables	9 108,530	145,992
Deposits, prepayments and other receivables	790,262	643,380
Cash and cash equivalents	70,707	43,067
	1,880,707	1,724,680
Current liabilities		
Trade payables	10 32,914	16,831
Other payables and accruals	143,207	109,554
Deferred revenue	57,022	61,573
Provision for tax	21,993	25,845
Amount due to a director	134	3,020
Amounts due to shareholders	5,006	5,006
Amount due to a minority shareholder	12,000	12,000
Amount due to ultimate holding company	20,021	52,744
Amount due to an associate	5,509	6,394
Bank and other borrowings	11 165,291	45,652
Finance lease liabilities	169	99
	463,266	338,718
Net current assets	1,417,441	1,385,962
Total assets less current liabilities	1,984,308	1,838,291

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30 June 2007

		(Unaudited) 30 June 2007	(Audited) 31 December 2006
	Notes	HK\$'000	HK\$'000
Non-current liabilities			
Bank and other borrowings	11	53,343	14,788
Finance lease liabilities		371	181
		53,714	14,969
Net assets		1,930,594	1,823,322
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	12	199,145	199,145
Share premium		39,194	39,194
Reserves		1,470,237	1,393,951
		1,708,576	1,632,290
Minority interests		222,018	191,032
Total equity		1,930,594	1,823,322

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

For the six months ended 30 June 2007

	For the six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Net cash used in operating activities	(24,976)	(25,000)
Net cash used in investing activities	(121,766)	(11,330)
Net cash generated from/(used in) financing activities	172,860	(366)
Increase/(Decrease) in cash and cash equivalents	26,118	(36,696)
Cash and cash equivalents at beginning of the period	43,067	65,458
Effect of foreign exchange rate changes, on cash held	1,522	979
Cash and cash equivalents at end of the period	70,707	29,741
Analysis of balances of cash and cash equivalents		
Cash at banks and in hand	70,707	29,741

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

For the six months ended 30 June 2007

	Share capital	Share premium	Capital redemption reserve	Capital distribution reserve	Share option reserve	General reserve	Exchange reserve	Retained earnings	Total equity attributable to equity holders of the Company	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	199,145	39,194	2,258	52,622	3,409	(6,550)	17,179	1,496,553	1,803,810	163,054	1,966,864
Exchange difference	-	-	-	-	-	-	5,478	-	5,478	2,183	7,661
Transfer to general reserve	-	-	-	-	-	5,084	-	(5,084)	-	-	-
Net income/(expense) recognised directly in equity	-	-	-	-	-	5,084	5,478	(5,084)	5,478	2,183	7,661
Profit for the period	-	-	-	-	-	-	-	54,895	54,895	6,399	61,294
Total recognised income/(expense) for the period	-	-	-	-	-	5,084	5,478	49,811	60,373	8,582	68,955
Share-based compensation Released on forfeiture of share options	-	-	-	-	515	-	-	-	515	-	515
	-	-	-	-	(19)	-	-	19	-	-	-
At 30 June 2006	199,145	39,194	2,258	52,622	3,905	(1,466)	22,657	1,546,383	1,864,698	171,636	2,036,334
At 1 January 2007	199,145	39,194	2,258	52,622	3,702	2,628	45,379	1,287,362	1,632,290	191,032	1,823,322
Exchange difference	-	-	-	-	-	-	34,558	-	34,558	11,899	46,457
Transfer to general reserves	-	-	-	-	-	5,263	-	(5,263)	-	-	-
Net income/(expense) recognised directly in equity	-	-	-	-	-	5,263	34,558	(5,263)	34,558	11,899	46,457
Profit for the period	-	-	-	-	-	-	-	41,728	41,728	19,087	60,815
Total recognised income/(expense) for the period	-	-	-	-	-	5,263	34,558	36,465	76,286	30,986	107,272
Released on forfeiture of share options	-	-	-	-	(141)	-	-	141	-	-	-
At 30 June 2007	199,145	39,194	2,258	52,622	3,561	7,891	79,937	1,323,968	1,708,576	222,018	1,930,594

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2007

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and comply with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for financial instruments classified as available-for-sale and at fair value through profit or loss which are measured at fair values.

The accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2006. As described in the annual financial statements for the year ended 31 December 2006, the following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2007:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The Group has carried out an assessment of these standards, amendments and interpretations and considered that they have no significant impact on these interim financial statements.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

The following new standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted. The directors of the Company is currently assessing the impact of these standards and interpretations but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 11	Group and Treasury Share Transactions ²
HK(IFRIC) – Int 12	Service Concession Arrangements ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

3. SEGMENT INFORMATION

(a) The following analysis presents the Group's revenue, which is also the revenue and results for the Group's business segments for the six months ended 30 June 2007:

	For the six months ended 30 June 2007						
	Provision of financial information and related services	Information technology business	Property development	Distance learning and application services	Other segments	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue							
– Sales to external customers	9,155	325,975	-	3,117	766	-	339,013
– Inter-segment sales	15,278	-	-	-	-	(15,278)	-
	24,433	325,975	-	3,117	766	(15,278)	339,013
Segment results	790	99,395	(1,224)	(4,138)	(2,366)	(15,278)	77,179
Interest income							187
Unallocated corporate expenses							(9,574)
Finance costs							(6,838)
Share of results of associates							-
Profit before income tax							60,954
Income tax expense							(139)
Profit for the period							60,815

3. SEGMENT INFORMATION *(continued)*

	For the six months ended 30 June 2006						
	Provision of financial information and related services	Information technology business	Property development	Distance learning and application services	Other segments	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue							
- Sales to external customers	16,793	277,899	-	6,510	608	-	301,810
Segment results	(494)	85,162	(832)	(3,059)	425	-	81,202
Interest income							518
Unallocated corporate expenses							(7,526)
Finance costs							(5,242)
Share of results of associates							1,845
Profit before income tax							70,797
Income tax expense							(9,503)
Profit for the period							61,294

- (b) The following analysis presents the Group's revenue, which is also the revenue and results for the Group's geographical segments for the six months ended 30 June 2007:

	Revenue/Turnover		Segment Profit/(Loss)	
	For the six months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	-	-	1,799	(196)
The People's Republic of China ("PRC")	339,013	301,810	75,380	81,398
	339,013	301,810	77,179	81,202

4. OTHER OPERATING INCOME

	For the six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Interest income	187	518
Net fair value gain on financial assets at fair value through profit or loss	1,814	–
Sundry income	1,444	2,223
	3,445	2,741

5. FINANCE COSTS

	For the six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Interest charges on:		
Bank loans wholly repayable within five years	5,407	1,319
Other borrowings wholly repayable within five years	241	2,982
Amounts due to securities brokers and margin financiers	774	931
Finance charges on finance leases	16	10
Other payables	400	–
	6,838	5,242

6. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	For the six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Amortisation of intangible assets	10,822	5,827
Depreciation on property, plant and equipment		
– Owned assets	8,350	6,189
– Leased assets	85	33
Operating lease charges on prepaid land lease	141	134

7. INCOME TAX EXPENSES

Income tax expenses in the condensed consolidated income statement represent:

	For the six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
PRC Enterprise Income Tax		
Current tax – tax for the period	139	9,503
	139	9,503

No Hong Kong profits tax has been provided in the financial statements as the companies within the Group did not derive any assessable profits in Hong Kong (6 months ended 30 June 2006: Nil).

PRC Enterprise Income Tax (“EIT”) has been provided on the estimated assessable profits of the subsidiaries operating in Mainland China at 33% (6 months ended 30 June 2006: 33%), unless preferential rates are applicable in the cities where the subsidiaries are located.

Certain subsidiaries of the Group are wholly-owned foreign enterprises in accordance with the Income Tax Law of the PRC for Enterprise with Foreign Investment and Foreign Enterprises and are entitled to full exemption from EIT for two years and a 50% reduction in the following three years thereafter starting from the first profit making year after offsetting prior years’ tax losses.

In addition, certain subsidiaries that are located in the Beijing Economic-Technological Development Area are entitled to preferential PRC EIT rate of 15%.

Pursuant to the PRC Enterprise Income Tax Law (the “New Law”) passed by the Tenth National People’s Congress on 16 March 2007, the PRC EIT rates for domestic and foreign enterprises will be unified at 25% effective from 1 January 2008. The impact of the New Law on the Group’s consolidated financial statements will depend on the detailed implementation rules and regulations which however have not been issued as of the date these condensed consolidated interim financial statements was approved. Therefore the Group cannot reasonably estimate the financial impact of the New Law on the Group at this stage. The Group will continue to evaluate the impact when more detailed regulations are announced.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to the equity holders of the Company for the period of HK\$41,728,000 (6 months ended 30 June 2006: HK\$54,895,000) and on 19,914,504,877 (6 months ended 30 June 2006: 19,914,504,877) ordinary shares in issue during the period.

Diluted earnings per share for the six months ended 30 June 2006 and 30 June 2007 were not presented because the impact of the exercise of the share options was anti-dilutive.

9. TRADE RECEIVABLES

The normal credit period granted to its customers was ranging from 30 to 60 days. The aging analysis of trade receivables was as follows:

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
0-90 days	94,351	43,069
91-180 days	2,604	3,631
181-270 days	2,247	58,646
271-360 days	1,577	1,468
Over 360 days	34,081	58,551
Trade receivables, gross	134,860	165,365
Less: Provision for impairment of receivables	(26,330)	(19,373)
Trade receivables, net	108,530	145,992

10. TRADE PAYABLES

The aging analysis of trade payables was as follows:

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
0-90 days	20,545	11,585
91-180 days	5,010	1,862
181-270 days	4,867	383
271-360 days	189	332
Over 360 days	2,303	2,669
	32,914	16,831

11. BANK AND OTHER BORROWINGS

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Bank loans	218,634	34,972
Other borrowings	–	25,468
	218,634	60,440
Secured	218,634	60,440

At 30 June 2007, the bank and other borrowings of the Group were repayable as follows:

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Within one year	165,291	45,652
In the second year	10,524	200
In the third to fifth years	42,819	14,588
Wholly repayable within 5 years	218,634	60,440
Less: Portion due within one year under current liabilities	(165,291)	(45,652)
Portion due over one year under non-current liabilities	53,343	14,788

12. SHARE CAPITAL

	Number of ordinary shares of HK\$0.01 each	HK\$'000
Authorised:		
At 31 December 2006 and 30 June 2007	30,000,000,000	300,000
Issued and fully paid:		
At 31 December 2006 and 30 June 2007	19,914,504,877	199,145

13. CONTINGENT LIABILITIES

Guarantees given in connection with credit facilities granted to:

	30 June 2007	31 December 2006
	HK\$'000	HK\$'000
A fellow subsidiary	515,889	49,960
Associates (<i>note</i>)	11,228	10,839
Third parties (<i>note</i>)	65,754	93,984
	592,871	154,783

Note: There have been no material developments in respect of pending litigation with Genius Reward Loan since the disclosures in the Group's annual audited financial statements for the year ended 31 December 2006. Therefore the Company cannot ascertain the fair value of the outstanding indebtedness under the Genius Reward Loan because of pending litigation.

According to the facts disclosed in the Group's annual audited financial statements for the year ended 31 December 2006, the Company also does not have updated information of the outstanding balance of the indebtedness of the ICBC Loan. Thus, the Company cannot ascertain the fair value of the outstanding indebtedness under the ICBC Loan.

14. CAPITAL COMMITMENTS

At 30 June 2007, the Group had the following outstanding capital commitments:

	30 June 2007	31 December 2006
	HK\$'000	HK\$'000
Contracted, but not provided for in respect of:		
– construction in progress	84,974	82,291
– property, plant and equipment	18,384	34,159
– intangible assets	4,037	4,037
	107,395	120,487

15. CREDIT FACILITIES

At 30 June 2007, the Group's credit facilities were secured by the following:

- (a) charge over land use right with a net carrying value of approximately HK\$13,252,000 (31 December 2006: HK\$12,972,000);
- (b) charge over leasehold properties with a net carrying value of approximately HK\$74,958,000 (31 December 2006: Nil);
- (c) charge over certain properties held for development with carrying value of HK\$559,320,000 (31 December 2006: Nil);
- (d) corporate guarantee provided by a fellow subsidiary (31 December 2006: Nil);
and
- (e) pledge of interests in the ultimate holding company given by certain shareholders of the ultimate holding company.

In addition, at 31 December 2006, the Group's credit facilities were secured by the pledge of bank deposits of a fellow subsidiary of HK\$22,282,000 or RMB22,300,000 equivalents.

16. RELATED PARTY TRANSACTIONS

Directors' fees and remuneration are as follows:

	For the six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Directors' fees	255	191
Basic salaries, housing, other allowances and benefits in kind	359	219
Share-based compensations	-	223
	614	633

Except as disclosed elsewhere in these condensed consolidated interim financial statements, there was no material related party transaction carried out during the period.

17. LITIGATIONS

There have been no material changes and developments in respect of pending litigation cases of the Group since the disclosures in the Group's annual audited financial statements for the year ended 31 December 2006.

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current period's presentation.

INTERIM DIVIDEND

The directors do not recommend the declaration of the payment of an interim dividend for the six months ended 30 June 2007 (30 June 2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

During the period under review, the Group was principally engaged in information technology business, provision of financial information and related services; and distance learning and application services. Turnover for the period was HK\$339.0 million (6 months ended 30 June 2006: HK\$301.8 million), and a net profit attributable to equity holders of the Company of HK\$41.7 million (6 months ended 30 June 2006: HK\$54.9 million) was recorded. The net asset value of the Group attributable to equity holders amounted to approximately HK\$1,708.6 million, representing a value of HK\$0.09 per share.

Information Technology Business

During the period, this division recorded an increase in turnover of 17.3% to HK\$326.0 million (6 months ended 30 June 2006: HK\$277.9 million) and a segment profit of HK\$99.4 million (6 months ended 30 June 2006: HK\$85.2 million).

CE Dongli Technology Group Company Limited ("CE Dongli")

Both the tremendous volume of clients available in the segment of SME and continuing increment of IT investment remained as the driving force of the IT market in China. Resulting from the long-term business relationships with SMEs, and continuing introduction of innovative products and provision of comprehensive services by CE Dongli, CE Dongli continued to post strong performance in this highly competitive market.

CE Dongli will continue to improve its business strategies, marketing and sales, technological research and development and service operation etc.; to increase innovation; to reallocate internal resources for synergies; and to enhance operating efficiency.

北京新網數碼信息技術有限公司 (Beijing Xinnet Cyber Information Company Limited) ("Xinnet")

It provides basic Internet application service for corporation in China. At present, Xinnet has 30 branches over the country, and has approximately 14,000 distributors. It also ranked number one in terms of hosting services in China.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Provision of Financial Information and Related Services

During the period, this division recorded a turnover of HK\$9.2 million (excluding inter-segment sales) (6 months ended 30 June 2006: HK\$16.8 million) and a segment profit of HK\$0.8 million (6 months ended 30 June 2006: segment loss of HK\$0.5 million).

北京世華國際金融信息有限公司 (Beijing Shihua International Financial Information Company Limited) (“Shihua”) provides real-time and archived financial information, data, pricing, professional research and objective analysis to financial institutions and investors in China. Shihua’s terminal and information subscription service is a comprehensive financial information platform in China; distributing information and data on domestic and global economy, futures, bonds, stock, FOREX markets, as well as key domestic industries. Shihua commands strong market shares in the financial information market in China. Its terminal and information subscription services provide information solutions specifically designed for banks, other financial institutions, educational institutions, enterprises as well as individual investors and the media.

Distance Learning and Application Services

During the period, this division recorded a turnover of HK\$3.1 million (6 months ended 30 June 2006: HK\$6.5 million) and a segment loss of HK\$4.1 million (6 months ended 30 June 2006: HK\$3.1 million).

北京華夏大地遠程教育網絡服務有限公司 (Beijing Chinese Dadi Distance Education Company Limited) (“Chinese Dadi”) had developed more than 300 education software for clients. It also established comprehensive and in-depth collaborations with 29 provincial and municipal examination authoritative organizations, and established its branch offices in 8 major cities in China. Chinese Dadi has more than 940,000 registered on-line education users. The average daily page view of its website reached 5.8 million times, and reached 7.2 million times at peak hours.

The management is closely monitoring the development of this division of business and is determined to improve its performance in the near future.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Research and Development (R&D)

Currently, the Group's software R&D centre and technology operations centre equipped professional software engineers and system engineers respectively specializing in software R&D and technology operations, which significantly enhanced and strengthened the Group's capabilities in the areas of software development, IT services and IT infrastructural support. The software R&D centre has developed CBD (component based design) method for software development, and implemented stringent software developing process and quality control system. The Group remains in a leading position in such technological aspects as DRM (digital right management), SOA (service-oriented application), Openoffice & Mozilla base on open source code, and IT application service system etc. The technology operations centre has been equipped with the abilities of software development and IT services for providing comprehensive IT services ranging from software development to integrated systems, business solutions, IT services support and management, and has fully implemented IT service management in international standards by referring to Information Technology Infrastructure Library, which has enhanced our IT services capabilities.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL

The Group continues to adopt prudent funding and treasury policies. As at 30 June 2007, the net asset value of the Group attributable to the equity holders amounted to approximately HK\$1,708.6 million (2006: HK\$1,632.3 million), including cash and bank balances of approximately HK\$70.7 million (2006: HK\$43.1 million) which were denominated mainly in Renminbi and Hong Kong dollars. As at 30 June 2007, the Group's aggregate borrowings was HK\$219.2 million (2006: HK\$60.7 million), including approximately HK\$170.7 million were bearing interest at fixed rates while approximately HK\$48.5 million were bearing interest at floating rates. The gearing ratio of the Group, measured on the basis of total borrowings as a percentage of equity attributable to equity holders of the Company, increased to 12.8% as at 30 June 2007 from 3.7% as at 31 December 2006. The increase in gearing ratio was mainly due to increase in total borrowing. The additional borrowing was mainly utilized to purchase the existing office premises in Beijing and other property, plant and equipment.

The Group's contingent liabilities at 30 June 2007 were HK\$592.9 million due to the guarantees given in connection with credit facilities.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL *(continued)*

As at 30 June 2007, land use right with a net book value of approximately HK\$13.3 million; leasehold properties with a net carrying value of approximately HK\$75.0 million; certain properties held for development with carrying value of HK\$559.3 million and listed securities owned by certain shareholders of Nan Hai Corporation Limited were pledged as securities for credit facilities. In addition, the Group's credit facilities was secured by corporate guarantee provided by a fellow subsidiary.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE

The majority of the Group's borrowings and transactions were primarily denominated in Renminbi and Hong Kong dollars. Both the operating expenses and revenues were primarily in Renminbi. It is expected that the exchange rate of Renminbi will continue to appreciate resulting from the continuous strong economic growth in China. The Group's reporting assets, liabilities and profits may be affected by the Renminbi exchange rate. Although the Renminbi exchange risk exposure is not significant during the reviewed period, the Group will keep on reviewing and monitoring the exchange risks between Renminbi and Hong Kong dollars, and may proceed to have some kind of foreign exchange hedging arrangements when appropriate and necessary.

EMPLOYEE

The Group employs and remunerates its employees based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include housing, contributions to mandatory provident fund, group medical insurance, group personal accident insurance and examination leave. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the board of directors. In general, salary review is conducted annually. At 30 June 2007, the Group had approximately 8,388 employees (as at 30 June 2006: 6,455 employees). The salaries of and allowances for employees for the six months ended 30 June 2007 were approximately HK\$134.1 million (6 months ended 30 June 2006: HK\$114.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

PROSPECT

The Group will keep on streamlining its businesses, enhancing overall synergies and efficacies, and to strengthening leading market position in its respective business areas. In addition, the Group will continue to invest and expand its current businesses for enjoying competitive advantage in those markets. The Group will strive to increase its market share by means of continuing mergers and acquisitions, and restructuring and re-allocation of internal resources.

The strong technical and product supports have been identified as the key factors to the success of the Group, therefore, the Group will continue to enhance the quality and professionalism of its technical teams, and R&D capabilities.

The Group will continue to focus on all current businesses, and to reinforce and expand its competitive advantage for achieving greater returns for the shareholders.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2007, the interests and short positions of the directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

The Company

(i) Long position in shares in issue

Name of Director	Number of shares of HK\$0.01 each				Total interest	Approximate percentage holding
	Personal interest	Corporate interest	Family interest			
Yu Pun Hoi ("Mr. Yu")	-	12,515,795,316 (Note 1)	44,000,000 (Note 2)		12,559,795,316	63.07%
Fung Wing Lap	10,000	-	-		10,000	0.00005%

Notes:

1. Mr. Yu, together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of Nan Hai Corporation Limited ("Nan Hai"), the holding company of the Company. These 12,515,795,316 shares were collectively held by Goalrise Investments Limited, View Power Investments Limited and Wise Advance Investments Limited, all of which are wholly-owned subsidiaries of Nan Hai. As such, Mr. Yu was taken to be interested in these shares for the purposes of Part XV of the SFO.
2. These 44,000,000 shares were held by Redmap Resources Limited, a company wholly-owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

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

(ii) *Long position in underlying shares*

Name of Director	Number of underlying shares of HK\$0.01 each*	Nature of interest	Approximate percentage holding
Lam Bing Kwan	18,000,000	Personal	0.09%
Chen Dan	7,500,000	Personal	0.04%

* Represents underlying shares subject to share options granted to the directors, details of which are as follows:

Grantee	Date of grant	Exercise price per share HK\$	Number of share options granted	Exercisable period
Lam Bing Kwan	12-11-2004	0.16	9,000,000	01-07-2005 to 30-06-2008
		0.16	9,000,000	01-07-2006 to 30-06-2008
Chen Dan	12-11-2004	0.16	3,750,000	01-07-2005 to 30-06-2008
		0.16	3,750,000	01-07-2006 to 30-06-2008

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

Associated Corporations

As disclosed above, Mr. Yu, together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of Nan Hai, the holding company of the Company. As such, Mr. Yu is taken to be interested in the shares that the Company, Nan Hai or their respective controlled corporations hold in the associated corporations of the Company within the meaning of Part XV of the SFO. Nan Hai is a company the shares of which are listed on the Stock Exchange which is also an associated corporation of the Company within the meaning of Part XV of the SFO. As at 30 June 2007, the interests of the directors of the Company in shares and underlying shares of Nan Hai were as follows:

Nan Hai

(i) *Long position in shares in issue*

Name of Director	Number of shares of HK\$0.01 each				Total interest	Approximate percentage holding
	Personal interest	Corporate interest	Family interest			
Yu Pun Hoi	–	32,595,726,203 (Note 1)	69,326,400 (Note 2)	32,665,052,603	47.77%	
Fung Wing Lap	15,756	–	–	15,756	0.00002%	

Notes:

- Out of these 32,595,726,203 shares, 28,853,232,705 shares were collectively held by Mr. Yu through Rosewood Assets Limited, Pippen Limited and First Best Assets Limited, companies wholly-owned by him; and 3,742,493,498 shares were held by Macro Resources Limited, a company indirectly held as to 60% by Mr. Yu.
- These 69,326,400 shares were held by Redmap Resources Limited, a company wholly-owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

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

(ii) Long position in underlying shares

Name of Director	Number of underlying shares of HK\$0.01 each*	Nature of interest	Approximate percentage holding
Chen Dan	39,000,000	Personal	0.06%
Qin Tian Xiang	14,000,000	Personal	0.02%

* Represents underlying shares subject to share options granted to the directors, details of which are as follows:

Grantee	Date of grant	Exercise price per share HK\$	Number of share options granted	Exercisable period
Chen Dan	15-12-2005	0.04	12,500,000	01-01-2006 to 31-12-2007
		0.04	12,500,000	01-01-2007 to 31-12-2007
	18-01-2007	0.0714	7,000,000	19-01-2007 to 18-01-2009
		0.0714	7,000,000	19-01-2008 to 18-01-2009
Qin Tian Xiang	18-01-2007	0.0714	7,000,000	19-01-2007 to 18-01-2009
		0.0714	7,000,000	19-01-2008 to 18-01-2009

Save as disclosed above, as at 30 June 2007, none of the directors and chief executive of the Company had any interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

On 29 August 2002, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board.

On 12 November 2004, share options to subscribe for a total of 233,360,000 shares, representing approximately 1.68% of the issued share capital of the Company as at the date of the adoption of the Scheme, were granted to the directors and employees of the Company and subsidiaries and the persons who have provided research, development or other technological support or services to the Group at an exercise price of HK\$0.16 per share. The closing price of share of the Company immediately before the date of grant was HK\$0.158.

Movements on the share options during the period are as follows:

Grantee	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share option				Outstanding as at 30 June 2007
				Outstanding as at 1 January 2007	Granted during the period	Exercised during the period	Lapsed during the period	
Directors								
Lam Bing Kwan	12-11-2004	01-07-2005 to 30-06-2008	0.16	9,000,000	-	-	-	9,000,000
		01-07-2006 to 30-06-2008	0.16	9,000,000	-	-	-	9,000,000
Chen Dan	12-11-2004	01-07-2005 to 30-06-2008	0.16	3,750,000	-	-	-	3,750,000
		01-07-2006 to 30-06-2008	0.16	3,750,000	-	-	-	3,750,000
Employees								
In aggregate	12-11-2004	01-07-2005 to 30-06-2008	0.16	21,180,000	-	-	(1,655,000)	19,525,000
		01-07-2006 to 30-06-2008	0.16	21,180,000	-	-	(1,655,000)	19,525,000
		01-01-2006 to 31-12-2008	0.16	1,500,000	-	-	-	1,500,000
		01-01-2007 to 31-12-2008	0.16	1,500,000	-	-	-	1,500,000
Total				70,860,000	-	-	(3,310,000)	67,550,000

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 30 June 2007, those persons (other than directors and chief executive of the Company) who had interests and short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of person holding an interest in shares which has been disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO	Nature of interest	Number of shares in issue subject to long position	Approximate percentage of issued share capital of the Company	Note
Kung Ai Ming	Family and Corporate interest	12,559,795,316	63.07%	1
Nan Hai	Corporate interest	12,515,795,316	62.85%	

Note:

- Ms. Kung Ai Ming is the spouse of Mr. Yu and was taken to be interested in those shares in which Mr. Yu and herself (together with their respective corporate interests) held an interest.

Save as disclosed above, as at 30 June 2007, no person (other than directors and chief executive of the Company) had notified to the Company any interest or short position in the shares or underlying shares of the Company which was required to be recorded in the register kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2007.

CORPORATE GOVERNANCE

In the opinion of the directors of the board (the "Board"), the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2007, except for the deviations mentioned below:

Code Provision A.2.1 stipulated that the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual.

CORPORATE GOVERNANCE *(continued)*

The Company has not appointed a CEO. The role of the CEO is also performed by Mr. Yu Pun Hoi who is the chairman of the Company. The Board believes that vesting the roles of both chairman and CEO in the same person provides the Company with strong and consistent leadership, and allows for effective and efficient planning and implementation of business decisions and strategies.

Code Provision A.4.1 stipulated that non-executive directors should be appointed for a specific term subject to re-election.

The non-executive directors of the Company are not appointed for a specific term. However, all non-executive directors are subject to the retirement and rotation requirements in accordance with the Company's articles of association. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the directors and the directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2007.

AUDIT COMMITTEE

The Audit Committee comprises all the independent non-executive directors, namely Mr. Huang Yaowen, Prof. Jiang Ping, Mr. Chan Lap Stanley and Mr. Fung Wing Lap. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the financial control, internal control and risk management systems including the review of the unaudited interim results for the six months ended 30 June 2007.

By order of the Board

Yu Pun Hoi

Chairman

Hong Kong, 19 September 2007



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