



# Beijing Development (Hong Kong) Limited

(Stock Code 154)

**2010**  
*Interim Report*

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## Directors

### Executive directors:

Mr. E Meng (*Chairman*)

Mr. Zhang Honghai

Mr. Wang Yong

Mr. Yan Qing

Ms. Sha Ning

Mr. Ng Kong Fat, Brian

### Independent non-executive directors:

Dr. Jin Lizuo

Dr. Huan Guocang

Dr. Wang Jianping

## Company Secretary

Mr. Wong Kwok Wai, Robin

## Authorised Representatives

Mr. Ng Kong Fat, Brian

Mr. Wong Kwok Wai, Robin

## Registered Office

Room 3401, West Tower

Shun Tak Centre

200 Connaught Road Central

Hong Kong

## Website

<http://www.bdhk.com.hk>

## Stock Code

154

## Share Registrars

Tricor Tengis Limited

Level 25, Three Pacific Place

1 Queen's Road East

Hong Kong

## Auditors

Ernst & Young

## Principal Bankers

### In Hong Kong:

Bank of China (Hong Kong) Limited

### In Mainland China:

Bank of Beijing

Bank of Communications

China CITIC Bank

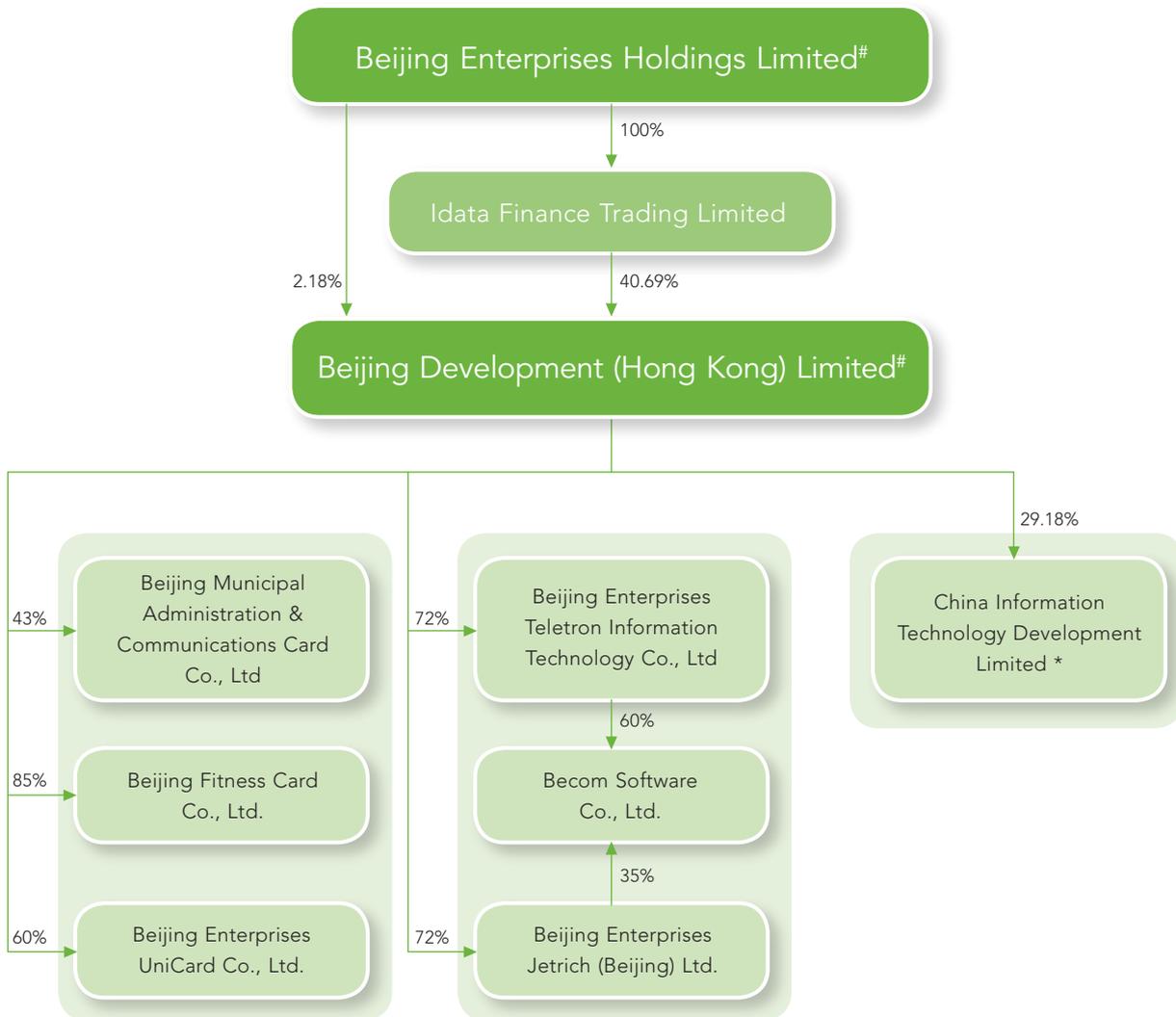
China Construction Bank

China Minsheng Banking Corp., Ltd.

Huaxia Bank

# CORPORATE STRUCTURE

31 August 2010



# Listed on the Main Board of The Stock Exchange of Hong Kong Limited

\* Listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited

## BUSINESS REVIEW

### Electronic Payment and Settlement Business

As of 30 June 2010, over 30 million cards were issued by Beijing Municipal Administration & Communications Card Co. Ltd. During the first half of 2010, 2.514 billion transactions were made with settlement amount of RMB2.027 billion, representing an increase of 6.6% and 13.7% respectively as compared to the corresponding period of last year. The use of the Smart Cards in the non-transportation areas was on rapid increase, where 8.18 million transactions were made with settlement amount of RMB110 million.

### Rail Transportation and System Integration Business

During the first half of 2010, Beijing Enterprises Teletron Information Technology Co., Ltd. continued to participate in tenders for new projects in the rail transportation system in Beijing. During the period, the project under construction primarily comprised the supply and installation of safety doors on the Daxing Line, which is expected to commence trial operation in short term. The Automated Fare Collection project phase II for Line 8 and the safety door project for Line 9 are still under planning.

The Group continued to actively participate in the educational information-based construction projects, network maintenance and equipment purchases for various education departments in cities, districts, counties and schools. During the first half of 2010, over ten comprehensive examination and enrolment service projects of different levels in Beijing were completed.

## PROSPECTS

The electronic payment and settlement business is our core business in urban information-based construction, while the penetration of the Smart Cards in the non-transportation sectors remained at a relatively low level for the time being, representing ample and long-term room for future growth. The Group will work together with relevant government departments to secure a stable source of revenue from the public transportation system settlement services, and enhance service quality and safeguard the benefits of a large number of users in line with the development of the public transportation system in Beijing.

The Group gained vast experience in various government and infrastructure projects in the rail transportation and education sectors in Beijing. Capitalising on its strength in market development, the Group will endeavour to enhance the profitability of its existing business segments on the one hand and proactively develop new profitable businesses on the other.

The Group will capitalise on its abundant liquidity to fund significant investment should opportunities arise, and will align its capital structure to the market environment by leveraging on its investment and financing platform so as to maximise return to shareholders.

## FINANCIAL REVIEW

### Revenue

Revenue of the Group in the first half of 2010 was HK\$59.02 million, dropped by 48.9% as compared with the first half of 2009. This was mainly caused by the reduction in the contract volume of rail transportation.

### Cost of Sales

Cost of sales of the Group dropped by 49.2% to HK\$56.34 million, basically in line with the drop in revenue.

### Gross Profit

Gross profit of the Group amounted to HK\$2.69 million and the overall gross profit margin slightly increased to 4.6%.

### Other Income

Other income of the Group in the first half of 2010 mainly comprised of consultancy income of HK\$3.26 million, bank interest income of HK\$1.88 million and subsidy income of HK\$1.4 million.

### Selling and Distribution Costs

Selling and distribution costs of the Group in the first half of 2010 was HK\$4.49 million, increased by 51.6% as compared to the corresponding period of last year.

### Administrative Expenses

Administrative expenses of the Group in the first half of 2010 decreased by 14.1% to HK\$30.74 million. The decrease was mainly due to the share option expenses of HK\$8.62 million amortised during the corresponding period of last year.

### Other Expenses

Other expenses of the Group in the first half of 2010 mainly comprised of reversal of impairment of trade receivables of HK\$3.95 million.

### Finance Costs

Finance costs of the Group in the first half of 2010 represented imputed interest on interest-free trade payables with extended credit periods of HK\$0.69 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Share of Profits and Losses of Jointly-controlled Entities

The Group's share of results of jointly-controlled entities in the first half of 2010 wholly represented the 50% share of net loss of Beijing Education Information Network Services Center Co., Ltd. of HK\$2.62 million.

## Share of Profits and Losses of Associates

The Group's share of results of associates in the first half of 2010 substantially represented the 29.18% share of net loss of China Information Technology Development Limited of HK\$1.01 million.

## Income Tax

The Group's income tax in the first half of 2010 was HK\$66,000.

## Loss for the Period

The Group's loss for the six months ended 30 June 2010 was HK\$25.97 million, reduced by 9.5% as compared with the corresponding period of last year. The loss attributable to shareholders of the Company was reduced by 19.4% to HK\$19.2 million.

## FINANCIAL POSITION

During the period under review, there was no movement in the issued capital of the Company. As at 30 June 2010, the Group had total assets of HK\$902.08 million, decreased by HK\$31.08 million from HK\$933.16 million as at 31 December 2009; whilst total liabilities decreased by HK\$8.28 million from HK\$283.29 million to HK\$275.01 million. Total equity decreased by HK\$22.8 million from HK\$649.87 million to HK\$627.07 million, of which shareholders' equity amounted to HK\$605.75 million as at 30 June 2010.

As at 30 June 2010, the cash and bank balances held by the Group amounted to HK\$612.78 million, which were denominated as to approximately 32% in Hong Kong dollars and 68% in Renminbi. The Group did not have any bank borrowings, nor did it hold any financial derivatives. As at 30 June 2010, the Group had a strong net working capital of HK\$55.43 million and its current ratio and the total liabilities to assets ratio were calculated at 3.49 times and 30.5%, respectively. The Group has sufficient cash resources to finance its operations and capital expenditures in the foreseeable future.

During the period under review, the Group had capital expenditures of HK\$0.55 million. As at 30 June 2010, the Group's capital commitment amounted to HK\$34.48 million. The Group did not have any material contingent liabilities.

## EMPLOYEES

At 30 June 2010, the Group had approximately 330 employees. The Group's employee remuneration policy and package are periodically reviewed by the management based on the employees' work performance, professional experiences and prevailing market practices. Discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance. The Group's total expenses on employee benefits in the first half of 2010 amounted to HK\$21.96 million, comparing to HK\$21.08 million in the first half of 2009.

By order of the Board

**E Meng**

*Chairman*

Hong Kong, 31 August 2010

# CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2010

|   | Notes | Six months ended<br>30 June     |                                 |
|---|-------|---------------------------------|---------------------------------|
|   |       | 2010<br>(Unaudited)<br>HK\$'000 | 2009<br>(Unaudited)<br>HK\$'000 |
| REVENUE   | 4     | 59,022                          | 115,403                         |
| Cost of sales   |       | <u>(56,336)</u>                 | <u>(110,854)</u>                |
| Gross profit  |       | 2,686                           | 4,549                           |
| Other income  | 4     | 7,015                           | 3,055                           |
| Selling and distribution costs                                |       | (4,486)                         | (2,959)                         |
| Administrative expenses                                       |       | (30,741)                        | (35,770)                        |
| Other expenses, net   |       | 3,916                           | 79                              |
| Finance costs   | 5     | (690)                           | –                               |
| Share of profits and losses of:                               |       |                                 |                                 |
| Jointly-controlled entities                                   |       | (2,621)                         | (254)                           |
| Associates  |       | <u>(981)</u>                    | <u>28</u>                       |
| LOSS BEFORE TAX   | 6     | (25,902)                        | (31,272)                        |
| Income tax  | 7     | <u>(66)</u>                     | <u>2,587</u>                    |
| LOSS FOR THE PERIOD   |       | <u><u>(25,968)</u></u>          | <u><u>(28,685)</u></u>          |
| Attributable to:  |       |                                 |                                 |
| Shareholders of the Company                                   |       | (19,201)                        | (23,822)                        |
| Non-controlling interests                                     |       | <u>(6,767)</u>                  | <u>(4,863)</u>                  |
|   |       | <u><u>(25,968)</u></u>          | <u><u>(28,685)</u></u>          |
| LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS<br>OF THE COMPANY | 8     |                                 |                                 |
| – Basic and diluted (HK cents)                                |       | <u><u>(2.83)</u></u>            | <u><u>(3.52)</u></u>            |

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2010

|  | Six months ended<br>30 June     |                                 |
|--|---------------------------------|---------------------------------|
|  | 2010<br>(Unaudited)<br>HK\$'000 | 2009<br>(Unaudited)<br>HK\$'000 |
| LOSS FOR THE PERIOD  | <u>(25,968)</u>                 | <u>(28,685)</u>                 |
| OTHER COMPREHENSIVE INCOME:  |                                 |                                 |
| Share of exchange reserve movements of an associate                    | (554)                           | –                               |
| Exchange differences on translating foreign operations                 | <u>5,251</u>                    | <u>110</u>                      |
| OTHER COMPREHENSIVE INCOME FOR THE PERIOD,<br>NET OF INCOME TAX OF NIL | <u>4,697</u>                    | <u>110</u>                      |
| TOTAL COMPREHENSIVE LOSS FOR THE PERIOD                                | <u><u>(21,271)</u></u>          | <u><u>(28,575)</u></u>          |
| Attributable to:   |                                 |                                 |
| Shareholders of the Company  | (15,488)                        | (23,728)                        |
| Non-controlling interests  | <u>(5,783)</u>                  | <u>(4,847)</u>                  |
|  | <u><u>(21,271)</u></u>          | <u><u>(28,575)</u></u>          |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2010

|   | Notes | 30 June<br>2010<br>(Unaudited)<br>HK\$'000 | 31 December<br>2009<br>(Audited)<br>HK\$'000 |
|---|-------|--|--|
| <b>NON-CURRENT ASSETS</b>                                 |       |  |  |
| Equipment   |       | 9,834                                      | 10,559                                       |
| Investment properties                                     |       | 44,267                                     | 43,764                                       |
| Goodwill  |       | 10,000                                     | 10,000                                       |
| Other intangible assets                                   |       | 3,906                                      | 5,110  |
| Interests in jointly-controlled entities                  |       | 10,084                                     | 12,562                                       |
| Interests in associates                                   |       | 20,224                                     | 23,259                                       |
| Trade receivables   | 10    | 23,426                                     | 23,440                                       |
| Deferred tax assets                                       |       | 3,058                                      | 3,023  |
| Total non-current assets                                  |       | <b>124,799</b>                             | 131,717                                      |
| <b>CURRENT ASSETS</b>                                     |       |  |  |
| Inventories   |       | 29,977                                     | 7,749  |
| Amounts due from contract customers                       |       | 9,080                                      | 6,866  |
| Trade receivables   | 10    | 89,995                                     | 94,585                                       |
| Prepayments, deposits and other receivables               |       | 34,892                                     | 56,844                                       |
| Income tax recoverable                                    |       | 560  | 1,627  |
| Pledged deposits  |       | 959  | 4,489  |
| Cash and cash equivalents                                 |       | 611,820                                    | 629,287                                      |
| Total current assets                                      |       | <b>777,283</b>                             | 801,447                                      |
| <b>CURRENT LIABILITIES</b>                                |       |  |  |
| Trade and bills payables                                  | 11    | 117,347                                    | 134,618                                      |
| Amounts due to contract customers                         |       | 10,529                                     | 9,503  |
| Income tax payable  |       | –  | 239  |
| Other payables and accruals                               |       | 95,121                                     | 89,300                                       |
| Total current liabilities                                 |       | <b>222,997</b>                             | 233,660                                      |
| NET CURRENT ASSETS  |       | <b>554,286</b>                             | 567,787                                      |
| TOTAL ASSETS LESS CURRENT LIABILITIES                     |       | <b>679,085</b>                             | 699,504                                      |
| <b>NON-CURRENT LIABILITIES</b>                            |       |  |  |
| Trade and bills payables                                  | 11    | 17,533                                     | 15,544                                       |
| Deferred income   |       | 34,483                                     | 34,091                                       |
| Total non-current liabilities                             |       | <b>52,016</b>                              | 49,635                                       |
| Net assets  |       | <b>627,069</b>                             | 649,869                                      |
| <b>EQUITY</b>   |       |  |  |
| <b>Equity attributable to shareholders of the Company</b> |       |  |  |
| Issued capital  | 12    | 677,460                                    | 677,460                                      |
| Reserves  |       | (71,707)                                   | (54,690)                                     |
| <b>Non-controlling interests</b>                          |       | <b>605,753</b>                             | 622,770                                      |
|   |       | 21,316                                     | 27,099                                       |
| Total equity  |       | <b>627,069</b>                             | 649,869                                      |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2010

|  | Attributable to shareholders of the Company           |  |   |   |   |   |  |  |                                  |   |  |          |
|--|---|--|---|---|---|---|--|--|----------------------------------|---|--|----------|
|  | Share<br>Issued<br>capital<br>(Unaudited)<br>HK\$'000 | Share<br>premium<br>account<br>(Unaudited)<br>HK\$'000 | Capital<br>redemption<br>reserve<br>(Unaudited)<br>HK\$'000 | Share<br>option<br>reserve<br>(Unaudited)<br>HK\$'000 | Exchange<br>Capital<br>reserve<br>(Unaudited)<br>HK\$'000 | Exchange<br>fluctuation<br>reserve<br>(Unaudited)<br>HK\$'000 | PRC<br>reserve<br>funds<br>(Unaudited)<br>HK\$'000 | Accumulated<br>losses<br>(Unaudited)<br>HK\$'000 | Total<br>(Unaudited)<br>HK\$'000 | Non-<br>controlling<br>interests<br>(Unaudited)<br>HK\$'000 | Total<br>equity<br>(Unaudited)<br>HK\$'000 |          |
|  | At 1 January 2010                                     | 677,460  | 170,319   | 9,721   | 71,069  | 850   | 45,705   | 41,455   | (393,809)                        | 622,770   | 27,099                                     | 649,869  |
|  | Total comprehensive income/(loss) for the period      | -  | -   | -   | -   | -   | 3,713  | -  | (19,201)                         | (15,488)  | (5,783)                                    | (21,271) |
| Transfer to PRC reserve funds                    | -   | -  | -   | -   | -   | -   | 256  | (256)  | -                                | -   | -  |          |
| Transfer from accumulated losses                 | -   | -  | -   | -   | 3,039   | -   | -  | (3,039)  | -                                | -   | -  |          |
| Share of reserves of an associate                | -   | -  | -   | -   | (1,529)   | -   | -  | -  | (1,529)                          | -   | (1,529)                                    |          |
| At 30 June 2010                                  | <u>677,460</u>  | <u>170,319*</u>  | <u>9,721*</u>   | <u>71,069*</u>  | <u>2,360*</u>   | <u>49,418*</u>  | <u>41,711*</u>                                     | <u>(416,305)*</u>                                | <u>605,753</u>                   | <u>21,316</u>   | <u>627,069</u>                             |          |
| At 1 January 2009                                | 677,460   | 170,319  | 9,721   | 66,120  | 20,474  | 41,816  | 40,831   | (258,915)  | 767,826                          | 45,619  | 813,445                                    |          |
| Total comprehensive income/(loss) for the period | -   | -  | -   | -   | -   | 94  | -  | (23,822)   | (23,728)                         | (4,847)   | (28,575)                                   |          |
| Equity-settled share option arrangements         | -   | -  | -   | 8,623   | -   | -   | -  | -  | 8,623                            | -   | 8,623                                      |          |
| Transfer to accumulated losses                   | -   | -  | -   | (3,674)   | -   | -   | -  | 3,674  | -                                | -   | -  |          |
| Transfer to PRC reserve funds                    | -   | -  | -   | -   | -   | -   | 465  | (465)  | -                                | -   | -  |          |
| At 30 June 2009                                  | <u>677,460</u>  | <u>170,319</u>   | <u>9,721</u>  | <u>71,069</u>   | <u>20,474</u>   | <u>41,910</u>   | <u>41,296</u>                                      | <u>(279,528)</u>                                 | <u>752,721</u>                   | <u>40,772</u>   | <u>793,493</u>                             |          |

\* These reserve accounts comprise the negative reserves of HK\$71,707,000 (31 December 2009: HK\$54,690,000) in the condensed consolidated statement of financial position.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2010

|   | Six months ended<br>30 June     |                                 |
|---|---------------------------------|---------------------------------|
|   | 2010<br>(Unaudited)<br>HK\$'000 | 2009<br>(Unaudited)<br>HK\$'000 |
| NET CASH FLOWS USED IN OPERATING ACTIVITIES   | (22,206)                        | (6,037)                         |
| NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES  | <u>5,573</u>                    | <u>(17,563)</u>                 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS   | (16,633)                        | (23,600)                        |
| Cash and cash equivalents at beginning of period  | 471,332                         | 486,278                         |
| Effect of foreign exchange rate changes, net  | <u>3,098</u>                    | <u>110</u>                      |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD  | <u><u>457,797</u></u>           | <u><u>462,788</u></u>           |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS   |                                 |                                 |
| Cash and bank balances  | 612,779                         | 616,235                         |
| Less: Pledged deposits  | <u>(959)</u>                    | <u>(6,288)</u>                  |
| Cash and cash equivalents as stated in the condensed consolidated statement of financial position | 611,820                         | 609,947                         |
| Less: Time deposits with maturity of more than three months when acquired                         | <u>(154,023)</u>                | <u>(147,159)</u>                |
| Cash and cash equivalents as stated in the condensed consolidated statement of cash flows         | <u><u>457,797</u></u>           | <u><u>462,788</u></u>           |

## 1. Basis of Preparation

The unaudited condensed interim consolidated financial statements for the six months ended 30 June 2010 are prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

These interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

## 2. Accounting Policies

The accounting policies and basis of preparation adopted in the preparation of these interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2009, except for the adoption of the following new, revised or amended Hong Kong Financial Reporting Standards (the "new HKFRSs") issued by the HKICPA, which are generally effective for the first time for the current period's financial statements:

|   |   |
|---|---|
| HKFRS 1 (Revised)   | <i>First-time Adoption of Hong Kong Financial Reporting Standards</i>   |
| HKFRS 1 Amendments  | <i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>       |
| HKFRS 2 Amendments  | <i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>  |
| HKFRS 3 (Revised)   | <i>Business Combinations</i>  |
| HKAS 27 (Revised)   | <i>Consolidated and Separate Financial Statements</i>   |
| HKAS 39 Amendment   | <i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>  |
| HK(IFRIC)-Int 17  | <i>Distributions of Non-cash Assets to Owners</i>   |
| Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008 | <i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i> |
| HK Interpretation 4 (Revised in December 2009)                                  | <i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>   |
| Improvements to HKFRSs (May 2009)   | <i>Amendments to a number of HKFRSs</i>   |

The adoption of the new HKFRSs has had no significant financial effect on these interim financial statements and there have been no significant changes to the accounting policies applied in these interim financial statements.

## 2. Accounting Policies *(continued)*

The Group has not early applied the following new, or revised or amended HKFRSs that have been issued but are not yet effective in these financial statements:

|                                   |   |
|-----------------------------------|---|
| HKFRS 1 Amendment                 | Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparatives HKFRS 7 Disclosures for First-time Adopters</i> <sup>2</sup> |
| HKFRS 9                           | <i>Financial Instruments</i> <sup>4</sup>   |
| HKAS 24 (Revised)                 | <i>Related Party Disclosures</i> <sup>3</sup>   |
| HKAS 32 Amendment                 | Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> <sup>1</sup>  |
| HK(IFRIC)-Int 14 Amendments       | Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> <sup>3</sup>   |
| HK(IFRIC)-Int 19                  | <i>Extinguishing Financial Liabilities with Equity Instruments</i> <sup>2</sup>   |
| Improvements to HKFRSs (May 2010) | Amendments to a number of HKFRSs  |

<sup>1</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

The directors of the Company anticipate that the adoption of these new, revised or amended HKFRSs will have no material impact on the results and financial position of the Group.

## 3. Operating Segment Information

Over 90% of the Group's revenue, expenses and assets are generated from the provision of information technology ("IT") related services in Mainland China. The management of the Group makes decisions about resources allocation and assesses performance of the Group based on the operating result from these business activities. Accordingly, the directors are of the opinion that IT related services in Mainland China is a single reportable segment of the Group.

Analysis of the Group's revenues from external customers for each group of similar products and services are disclosed in note 4 to the interim financial statements.

The Group's revenue from external customers is derived solely from its operations in the People's Republic of China ("PRC"), and all non-current assets of the Group are located in the PRC.

During the six months ended 30 June 2010, the Group had transactions with a single external customer which contributed to over 10% of the Group's total revenue (2009: one). The revenue generated from this customer amounted to HK\$9,834,000 (2009: HK\$87,739,000).

## 4. Revenue and Other Income

Revenue, which is also the Group's turnover, represents (1) an appropriate proportion of contract revenue of construction contracts, net of value-added tax, business tax and government surcharges; (2) the net invoiced value of goods sold, net of value-added tax and government surcharges and after allowances for returns and trade discounts; (3) an appropriate proportion of contract revenue of the services rendered, net of business tax and government surcharges; and (4) gross rental income received and receivable from investment properties during the period.

An analysis of the Group's revenue and other income is as follows:

|   | Six months ended                |                                 |
|---|---------------------------------|---------------------------------|
|   | 30 June                         |                                 |
|   | 2010<br>(Unaudited)<br>HK\$'000 | 2009<br>(Unaudited)<br>HK\$'000 |
| <b>Revenue</b>  |                                 |                                 |
| Construction contracts  | 12,433                          | 90,082                          |
| Sale of softwares   | 39,502                          | 12,693                          |
| Rendering of services   | 6,716                           | 11,317                          |
| Gross rental income   | 371                             | 1,311                           |
|   | <u>59,022</u>                   | <u>115,403</u>                  |
| <b>Other income</b>   |                                 |                                 |
| Bank interest income  | 1,877                           | 2,442                           |
| Imputed interest on interest-free trade<br>receivables with extended credit periods | 425                             | 148                             |
| Investment income   | –                               | 407                             |
| Others  | 4,713                           | 58                              |
|   | <u>7,015</u>                    | <u>3,055</u>                    |

## 5. Finance Costs

|   | Six months ended<br>30 June     |                                 |
|---|---------------------------------|---------------------------------|
|   | 2010<br>(Unaudited)<br>HK\$'000 | 2009<br>(Unaudited)<br>HK\$'000 |
| Imputed interest on interest-free trade payables with extended credit periods | <u>690</u>                      | <u>–</u>                        |

## 6. Loss Before Tax

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

|  | Six months ended<br>30 June     |                                 |
|--|---------------------------------|---------------------------------|
|  | 2010<br>(Unaudited)<br>HK\$'000 | 2009<br>(Unaudited)<br>HK\$'000 |
| Depreciation   | 1,360                           | 1,501                           |
| Amortisation of other intangible assets <sup>®</sup> | 1,263                           | 1,184                           |
| Impairment of amount due from an associate           | 31                              | 31                              |
| Reversal of impairment of trade receivables, net*    | (3,953)                         | (154)                           |
| Written back of provision against inventories, net   | <u>–</u>                        | <u>(91)</u>                     |

<sup>®</sup> The amortisation of other intangible assets for the period is included in "Cost of sales" in the condensed consolidated income statement.

\* The reversal of impairment of trade receivables, net for the period is included in "Other expenses, net" in the condensed consolidated income statement.

## 7. Income Tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2010 and 2009 as the Group did not generate any assessable profits arising in Hong Kong during the periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

|  | Six months ended<br>30 June     |                                 |
|--|---------------------------------|---------------------------------|
|  | 2010<br>(Unaudited)<br>HK\$'000 | 2009<br>(Unaudited)<br>HK\$'000 |
| Current – Elsewhere                      |                                 |                                 |
| Charge for the period                    | –                               | 737                             |
| Underprovision in prior periods          | 66                              | 75                              |
| Deferred                                 | –                               | (3,399)                         |
|  | <u>66</u>                       | <u>(3,399)</u>                  |
| Total tax charge/(credit) for the period | <u>66</u>                       | <u>(2,587)</u>                  |

## 8. Loss per Share Attributable to Shareholders of the Company

The calculation of the basic loss per share amount is based on the loss for the period attributable to shareholders of the Company and the weighted average of 677,460,150 (2009: 677,460,150) ordinary shares in issue during the period.

In respect of the diluted loss per share amounts presented, no adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2010 and 2009 as (i) the share options of the Company outstanding during these periods have an anti-dilutive effect on the respective basic loss per share amounts for these periods; and (ii) the deemed exercise of the outstanding share options and deemed conversion of the convertible bonds issued by China Information Technology Development Limited (“CITD”, a 29.18% indirectly-owned associate of the Company), as applicable, do not have a diluting effect on the respective basic loss per share amounts for these periods.

## 9. Interim Dividend

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

## 10. Trade Receivables

The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one to three months, with an instalment period extended up to six years for major customers. An aged analysis of the trade receivables is regularly prepared and closely monitored in order to minimise any related credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the Group's trade receivables as at the end of the reporting period, based on the payment due date and net of impairment, is as follows:

|                                      | <b>30 June<br/>2010<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2009<br>(Audited)<br>HK\$'000 |
|--------------------------------------|--|--|
| Neither past due nor impaired        | <u>23,426</u>  | <u>23,440</u>                                |
| Past due but not impaired:           |  |  |
| Current or within 3 months           | 82,420   | 92,849                                       |
| 4 to 6 months                        | 2,971  | 534  |
| 7 to 12 months                       | 3,467  | 665  |
| Over 1 year                          | <u>1,137</u>   | <u>537</u>                                   |
|                                      | <u>89,995</u>  | <u>94,585</u>                                |
| Portion classified as current assets | <u>113,421</u><br><u>(89,995)</u>                    | 118,025<br><u>(94,585)</u>                   |
| Non-current portion                  | <u><u>23,426</u></u>                                 | <u><u>23,440</u></u>                         |

## 11. Trade and Bills Payables

The trade and bills payables are non-interest-bearing and normally settled within 30 to 90 days, with credit period extended up to five years offered by major suppliers.

An aged analysis of the Group's trade and bills payables as at the end of the reporting period, based on invoice date, is as follows:

|   | <b>30 June<br/>2010<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2009<br>(Audited)<br>HK\$'000 |
|---|--|--|
| Within 3 months                           | <b>4,173</b>   | 7,374  |
| 4 to 6 months                             | <b>873</b>   | 315  |
| 7 to 12 months                            | <b>2,417</b>   | 570  |
| Over 1 year                               | <b>9,819</b>   | 9,471  |
| Balances with extended credit period      | <b>117,598</b>                                       | 132,432                                      |
|   | <b>134,880</b>                                       | 150,162                                      |
| Portion classified as current liabilities | <b>(117,347)</b>                                     | (134,618)                                    |
| Non-current portion                       | <b>17,533</b>  | 15,544                                       |

## 12. Share Capital

### Shares

|   | <b>30 June<br/>2010<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2009<br>(Audited)<br>HK\$'000 |
|---|--|--|
| Authorised:                                 |  |  |
| 1,000,000,000 ordinary shares of HK\$1 each | <u><b>1,000,000</b></u>                              | <u>1,000,000</u>                             |
| Issued and fully paid:                      |  |  |
| 677,460,150 ordinary shares of HK\$1 each   | <u><b>677,460</b></u>                                | <u>677,460</u>                               |

There was no movement in the share capital of the Company during the period.

### Share options

Details of the Company's share option scheme (the "Scheme") and the share options issued under the Scheme are set out under the heading "Share Option Scheme" in the section of "General Information" on pages 26 to 28.

## 13. Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2010 (31 December 2009: Nil).

## 14. Capital Commitments

At 30 June 2010, the Group had capital commitments in respect of equipment of HK\$34,483,000 (31 December 2009: HK\$34,091,000), which are authorised, but not contracted for.

In addition, the Group's share of a jointly-controlled entity's own capital commitments, which are not included in the above, is as follows:

|                                    | <b>30 June<br/>2010<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2009<br>(Audited)<br>HK\$'000 |
|------------------------------------|--|--|
| Contracted, but not provided for   | 1,872  | 620  |
| Authorised, but not contracted for | <u>3,809</u>   | <u>4,277</u>                                 |
|                                    | <u><u>5,681</u></u>                                  | <u><u>4,897</u></u>                          |

## 15. Related Party Disclosures

(a) Material transactions with related parties:

|  | <b>Six months ended<br/>30 June</b>      |                                 |
|--|--|---------------------------------|
|  | <b>2010<br/>(Unaudited)<br/>HK\$'000</b> | 2009<br>(Unaudited)<br>HK\$'000 |
| Purchase of goods from associates                  | 2,357                                    | –                               |
| Purchase of goods from a jointly-controlled entity | <u>4,954</u>                             | <u>–</u>                        |

These transactions were conducted in terms and conditions mutually agreed between the parties.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 15. Related Party Disclosures *(continued)*

(b) Outstanding balances, net of impairment, with related parties:

|                             | <b>30 June<br/>2010<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2009<br>(Audited)<br>HK\$'000 |
|-----------------------------|--|--|
| Due from:                   |  |  |
| Jointly-controlled entities | 1,050  | 3,324  |
| An associate                | 1,832  | 427  |
| Minority shareholders       | 1,724  | 1,704  |
| Due to:                     |  |  |
| A jointly-controlled entity | 12   | 12   |
| Associates                  | <u>27,918</u>  | <u>23,805</u>                                |

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

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

|   | <b>Six months ended<br/>30 June</b>      |                                 |
|---|--|---------------------------------|
|   | <b>2010<br/>(Unaudited)<br/>HK\$'000</b> | 2009<br>(Unaudited)<br>HK\$'000 |
| Short term employee benefits                        | 2,876                                    | 2,703                           |
| Post-employment benefits                            | 201                                      | 208                             |
| Equity-settled share option expense                 | <u>–</u>                                 | <u>6,738</u>                    |
| Total compensation paid to key management personnel | <u>3,077</u>                             | <u>9,649</u>                    |

## 16. Approval of the Condensed Consolidated Financial Statements

These condensed consolidated financial statements were approved and authorised for issue by the board of directors on 31 August 2010.

## Directors

The directors of the Company during the six months ended 30 June 2010 and up to the date of this report were:

### Executive directors:

Mr. E Meng (*Chairman*)

Mr. Zhang Honghai

Mr. Wang Yong

Mr. Cao Wei (*resigned on 3 August 2010*)

Mr. Yan Qing

Ms. Sha Ning (*appointed on 31 August 2010*)

Mr. Ng Kong Fat, Brian

### Independent non-executive directors:

Dr. Jin Lizuo

Dr. Huan Guocang

Dr. Wang Jianping

## Directors' Service Contracts

At 30 June 2010, no director had 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' 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 was a party during the six months ended 30 June 2010.

### Directors' Interests and Short Positions in Shares and Underlying Shares

At 30 June 2010, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), were as follows:

#### Long positions in ordinary shares of the Company:

| Name of director       | Number of ordinary shares held,<br>capacity and nature of interest |  | Total             | Percentage of the<br>Company's issued<br>share capital |
|------------------------|--|--|-------------------|--|
|                        | Directly<br>beneficially<br>owned                                  | Through a<br>controlled<br>corporation |                   |  |
| Mr. E Meng             | 601,000  | –                                      | 601,000           | 0.09   |
| Mr. Zhang Honghai      | 4,000,000  | –                                      | 4,000,000         | 0.59   |
| Mr. Cao Wei            | 190,000  | –                                      | 190,000           | 0.03   |
| Mr. Yan Qing           | 4,000  | –                                      | 4,000             | –  |
| Mr. Ng Kong Fat, Brian | 1,600,000  | 8,792,755 <sup>#</sup>                 | 10,392,755        | 1.53   |
|                        | <u>6,395,000</u>   | <u>8,792,755</u>                       | <u>15,187,755</u> | <u>2.24</u>  |

<sup>#</sup> The 8,792,755 ordinary shares are held by Sunbird Holdings Limited, a company beneficially owned by Mr. Ng Kong Fat, Brian.

#### Long positions in share options of the Company:

The interests of the directors in the share options of the Company are separately disclosed in the section "Share Option Scheme" below.

### Directors' Interests and Short Positions in Shares and Underlying Shares *(continued)*

#### Long positions in share options of an associated corporation:

At 30 June 2010, Mr. Zhang Honghai directly beneficially owned 20,000,000 share options of CITD. These share options were granted on 11 February 2008 at an exercise price of HK\$0.53 per ordinary share of CITD which is subject to adjustment in the case of rights or bonus issues, or other similar changes in CITD's share capital. The share 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 share 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 of CITD, Mr. Zhang is entitled to exercise all the share options within three months from the date of termination of his employment with CITD.

Save as disclosed above, as at 30 June 2010, none of the directors had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

#### Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the section "Share Option Scheme" below, at no time during the six months ended 30 June 2010 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 a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### Share Option Scheme

The Company operates a share option scheme (the "Scheme") to give executives and key employees of the Group an interest in preserving and maximising shareholders' value in the longer term, to enable the Company and the relevant subsidiaries to attract and retain individuals with experience and ability and to reward individuals for future performance. Eligible participants of the Scheme include the executive directors and employees of the Company or any of its subsidiaries. The Scheme became effective on 18 June 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the number of ordinary shares of the Company in issue at any time. The maximum number of ordinary shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of these limits is subject to shareholders' approval in a general meeting.

Share options granted to a director or chief executive of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the ordinary shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's ordinary shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 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, and commences after a certain vesting period and ends on a date which is not later than five years from the date on which the offer of the share options is accepted or on the expiry date of the Scheme, whichever is earlier.

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

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings. The share options are non-transferable and lapsed when expired or the grantee ceased to be an employee of the Group.

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

## Share Option Scheme *(continued)*

There was no movement in the share capital of the Company during the six months ended 30 June 2010. The following table discloses the number of share options of the Company outstanding at 1 January 2010 and 30 June 2010:

| Name or category of participant             | Notes | Number of share options  |
|---|-------|--------------------------|
| <b>Executive directors:</b>                 |       |                          |
| Mr. E Meng                                  | (a)   | 4,500,000                |
|   | (b)   | 1,500,000                |
|   | (d)   | <u>3,000,000</u>         |
|   |       | <u>9,000,000</u>         |
| Mr. Zhang Honghai                           | (a)   | <u>6,800,000</u>         |
| Mr. Wang Yong                               | (a)   | 6,000,000                |
|   | (d)   | <u>1,000,000</u>         |
|   |       | <u>7,000,000</u>         |
| Mr. Cao Wei                                 | (a)   | 4,000,000                |
|   | (d)   | <u>2,300,000</u>         |
|   |       | <u>6,300,000</u>         |
| Mr. Yan Qing                                | (a)   | 3,200,000                |
|   | (d)   | <u>1,500,000</u>         |
|   |       | <u>4,700,000</u>         |
| Mr. Ng Kong Fat, Brian                      | (a)   | 4,000,000                |
|   | (d)   | <u>1,500,000</u>         |
|   |       | <u>5,500,000</u>         |
| <b>Independent non-executive directors:</b> |       |                          |
| Dr. Jin Lizuo                               | (a)   | <u>680,000</u>           |
| Dr. Huan Guocang                            | (c)   | <u>680,000</u>           |
| Dr. Wang Jianping                           | (c)   | <u>680,000</u>           |
| <b>Other employees:</b>                     |       |                          |
| In aggregate                                | (a)   | 26,300,000               |
|   | (d)   | <u>900,000</u>           |
|   |       | <u>27,200,000</u>        |
|   |       | <u><u>68,540,000</u></u> |

### Share Option Scheme *(continued)*

Notes:

- (a) These share options were granted on 30 October 2007 at an exercise price of HK\$4.03<sup>®</sup> per ordinary share of the Company. 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\$4.07. The share options may be exercised in two equal portions. The first portion is exercisable at any time commencing on 1 May 2008, and the other portion is exercisable from 1 May 2009 and, if not otherwise exercised, will lapse on 17 June 2011. The vesting periods of each of the portion is from the date of grant to the respective commencement dates of the exercise periods. Subject to the approval of the remuneration committee of the Company, directors of the Company are entitled to exercise all the share options within three months from the date of termination of their employment with the Company.
- (b) These share options were granted on 4 February 2008 at an exercise price of HK\$3.17<sup>®</sup> per ordinary share of the Company. 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\$3.11. The share options may be exercised at any time commencing on 1 May 2008, and if not otherwise exercised, will lapse on 17 June 2011. The vesting period is from the date of grant to the commencement date of the exercise period.
- (c) These share options were granted on 4 February 2008 at an exercise price of HK\$3.17<sup>®</sup> per ordinary share of the Company. 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\$3.11. The share options may be exercised in two equal portions. The first portion is exercisable at any time commencing on 1 May 2008, and the other portion is exercisable from 1 May 2009 and, if not otherwise exercised, will lapse on 17 June 2011. The vesting periods of each of the portion is from the date of grant to the respective commencement dates of the exercise periods. Subject to the approval of the remuneration committee of the Company, directors of the Company are entitled to exercise all the share options within three months from the date of termination of their employment with the Company.
- (d) These share options were granted on 9 July 2008 at an exercise price of HK\$2.07<sup>®</sup> per ordinary share of the Company. 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\$2.06. The share options may be exercised at any time commencing on 11 August 2008, and if not otherwise exercised, will lapse on 17 June 2011. The vesting period is from the date of grant to the commencement date of the exercise period.

<sup>®</sup> 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.

At 30 June 2010, the Company had 68,540,000 share options outstanding under the Scheme, which represented approximately 10.1% of the Company's ordinary 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 68,540,000 additional ordinary shares of the Company and additional share capital of HK\$68,540,000 and share premium of HK\$185,225,000, before any issuance expenses.

## Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

At 30 June 2010, 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 | Number of ordinary shares held,<br>capacity and nature of interest |                                       |                    | Percentage<br>of the<br>Company's<br>issued share<br>capital |
|---|-------|--|---------------------------------------|--------------------|--|
|   |       | Directly<br>beneficially<br>owned                                  | Through<br>controlled<br>corporations | Total              |  |
| Idata Finance Trading Limited ("Idata")                   |       | 275,675,000  | –                                     | 275,675,000        | 40.69  |
| Beijing Enterprises Holdings Limited ("BEHL")             | (a)   | 14,784,000   | 275,675,000                           | 290,459,000        | 42.87  |
| Beijing Enterprises Group (BVI) Company Limited ("BEBVI") | (b)   | –  | 290,459,000                           | 290,459,000        | 42.87  |
| 北京控股集團有限公司 ("BEGCL")                                      | (b)   | <u>–</u>   | <u>290,459,000</u>                    | <u>290,459,000</u> | <u>42.87</u>   |

Notes:

- (a) The interest disclosed includes the ordinary shares owned by Idata. Idata is a wholly-owned subsidiary of BEHL. Accordingly, BEHL is deemed to be interested in the ordinary shares owned by Idata.
- (b) The interests disclosed include the ordinary shares owned by BEHL and Idata. BEBVI and BEGCL are the immediate holding company and the ultimate holding company of BEHL, respectively. Accordingly, each of BEBVI and BEGCL is deemed to be interested in the ordinary shares owned by each of BEHL and Idata.

Save as disclosed above, as at 30 June 2010, 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.

### 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 six months ended 30 June 2010.

### 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 Practices

The Company is committed to ensuring high standard of corporate governance and establishing a formal and transparent procedure to protect and maximise the interests of shareholders. In the opinion of the directors, the Company complied with the code provisions (the "Code Provisions") as set out in Appendix 14 "Code of Corporate Governance Practices" to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the period under review, except Code Provisions A.1.1 and A.4.1.

- (1) Code Provision A.1.1 stipulates members of the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals and such regular board meetings will normally involve the active participation, either in person or through other electronic means of communication. However, the Company considers it is more efficient to hold board meetings to address emerging issues as appropriate.
- (2) Code Provision A.4.1 stipulates non-executive directors should be appointed for a specific term, subject to re-election. However, none of the existing non-executive directors of the Company is appointed for a specific term. All of the non-executive directors are subject to retirement by rotation in accordance with the Company's articles of association.

As such, the Company considers that sufficient measures are in place to ensure that the corporate governance practices of the Company are no less exacting than those of the Code Provisions.

## Directors' 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 of the Listing Rules for securities transactions by the directors. All the directors have confirmed that, following specific enquiry by the Company, they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2010.

## Audit Committee

The audit committee of the Company was established in compliance with rule 3.21 of the Listing Rules and with terms of reference in accordance with Code Provision C.3.3. The current members of the audit committee comprise three independent non-executive directors, namely Dr. Huan Guocang (chairman), Dr. Jin Lizuo and Dr. Wang Jianping.

The role and function of the audit committee include supervising the accounting and financial reporting procedure and auditing 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 auditors.

The audit committee has reviewed the unaudited condensed consolidated financial statement of the Group for the six months ended 30 June 2010.

## Remuneration Committee

The remuneration committee of the Company was established with terms of reference in accordance with Code Provision B.1.3. The current members of the remuneration committee are Dr. Jin Lizuo (chairman), Mr. E Meng, Dr. Huan Guocang and Dr. Wang Jianping. The majority of the remuneration committee members are independent non-executive directors.

The role and function of the remuneration committee include the determination of the 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 make recommendations to the Board of the remuneration of non-executive directors.

## Internal Control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board will conduct regular review regarding internal control systems of the Group. The Company convened meeting periodically to discuss financial, operational and risk management control. During the six months ended 30 June 2010, the Board has reviewed the operational and financial reports, budgets and business plans provided by the management.