



Xteam Software International Limited
(Incorporated in the Cayman Islands with limited liability)

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This report, for which the directors (“Directors”) of Xteam Software International Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Zhang Hong Hai (*Chairman*)
Mr. Li Kang Ying (*Vice Chairman*)
Mr. Ma Gary Ming Fai (*Vice Chairman*)
Mr. Cao Wei (*President*)
Mr. E Meng
Mr. Ng Kong Fat, Brian
Ms. Chen Zhi

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Ma Yu Hua
Ms. Liang Ye Ping
Mr. Jiang Qi Ping

COMPANY SECRETARY

Ms. Lee May Lun, FCCA

QUALIFIED ACCOUNTANT

Ms. Lee May Lun, FCCA

COMPLIANCE OFFICER

Mr. Ng Kong Fat, Brian

AUTHORISED REPRESENTATIVES

Mr. Ng Kong Fat, Brian
Ms. Lee May Lun

AUDIT COMMITTEE

Ms. Ma Yu Hua
Ms. Liang Ye Ping
Mr. Jiang Qi Ping

AUDITORS

Moore Stephens

LEGAL ADVISORS

Baker & McKenzie
Conyers Dill & Pearman

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

M/F., Yardley Commercial Building
No. 3 Connaught Road West
Sheung Wan, Hong Kong

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive, P.O. Box 2681 GT
George Town, Grand Cayman
Cayman Islands, British West Indies

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House, Fort Street
P.O. Box 705, George Town
Grand Cayman, Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
19th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

GEM STOCK CODE

8178

WEB-SITE ADDRESS

Xteamlinux.com.cn

SUMMARY

- The main business of the Xteam Group is the development and sale of computer software primarily for large scale applications and provision of related support services to government and major corporate customers in mainland China, with particular strength in Beijing.
- Turnover for the six months ended 30 June 2005 amounted to approximately HK\$25,212,000, representing an increase of 594% from last year (2004: approximately HK\$4,248,000).
- Profit attributable to equity holders of the parent for the six months ended 30 June 2005 amounted to approximately HK\$3,142,000 (2004: loss of approximately HK\$26,380,000 (restated)).
- The Board does not recommend the payment of an interim dividend for the period (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover for the six months ended 30 June 2005 was approximately HK\$25,212,000, which shows a great improvement over last year's corresponding figure of approximately HK\$4,248,000.

The profit attributable to equity holders of the parent for the period was approximately HK\$3,142,000 compared with a loss of approximately HK\$26,380,000 (restated) last year.

The Group's profitable software application and service business (acquired in August 2004) is the cause of this fundamental transformation.

BUSINESS REVIEW AND PROSPECTS

The Group continued to make steady progress in the first half of the year in its major business areas, namely, providing application software and services to customers in education, social security and employment sectors in Beijing.

Supported by its existing customers, the Group plans to establish on-line recurring businesses in education and social security sectors where web-based contents, knowledge and services are increasingly needed by a vast number of potential customers. The Group plans to provide the exchange platform, technical support and settlement mechanism in return for a fee or a "margin" for every successful on-line transaction.

The Group has been trying to apply its software and service solutions developed in Beijing to other cities and provinces in China. The Group made some progress in this regard during the first six months. The Group intends to put more efforts and resources in the future to expand nationally.

The Group is currently developing a new Linux strategy, which basically involves the bundling of Linux with most commonly used application software and services into one single product. The product will be cost efficient, will provide better security protection and will be easier to maintain while retaining sufficient applications for performing common daily tasks for the average users.

FINANCIAL POSITION

As at 30 June 2005, the Group had cash and bank balances of approximately HK\$22,123,000 (as at 31 December 2004: approximately HK\$16,459,000) and had no outstanding bank loan (as at 31 December 2004: Nil).

The gearing ratio (defined as total liabilities over total equity) of the Group as at 30 June 2005 was approximately 6.3% (as at 31 December 2004: approximately 5.7%).

The debt ratio (defined as total liabilities over total assets) of the Group as at 30 June 2005 was approximately 5.9% (as at 31 December 2004: approximately 5.4%).

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

EMPLOYEE

As at 30 June 2005, the Group employed approximately 320 employees, including Directors (as at 31 December 2004: 350 employees), at market remuneration and benefits such as defined retirement contribution, employee share options and medical insurance.

APPRECIATION

The Directors would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during the period.

By order of the Board

Zhang Hong Hai

Chairman

Hong Kong

11 August 2005

Xteam Software International Limited

The board of Directors (the "Board") of the Company announces the unaudited results of the Company and its subsidiaries (collectively, the "Group") for the three months and six months ended 30 June 2005, together with the unaudited comparative figures for the corresponding periods in 2004, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Three months ended 30 June		Six months ended 30 June	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) (Restated) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) (Restated) HK\$'000
TURNOVER	3	15,806	2,557	25,212	4,248
Cost of sales		(4,373)	(1,383)	(5,542)	(4,245)
Gross profit		11,433	1,174	19,670	3
Other revenue	3	841	260	1,716	1,090
Selling and distribution expenses		(1,880)	(1,012)	(3,134)	(1,588)
Administrative expenses		(6,698)	(2,969)	(13,050)	(9,502)
Provision against inventories		-	-	-	(7,976)
Impairment loss in respect of intangible assets		-	-	-	(8,320)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		3,696	(2,547)	5,202	(26,293)
Finance costs, net	4	57	4	(58)	(40)
PROFIT/(LOSS) BEFORE TAX	5	3,753	(2,543)	5,144	(26,333)
TAX	6	(12)	(2)	(18)	(10)
PROFIT/(LOSS) FOR THE PERIOD		3,741	(2,545)	5,126	(26,343)
ATTRIBUTABLE TO:					
Equity holders of the parent		2,040	(2,591)	3,142	(26,380)
Minority interests		1,701	46	1,984	37
		3,741	(2,545)	5,126	(26,343)
EARNINGS/(LOSS) PER SHARE	7				
Basic (cents)		0.05	(0.37)	0.08	(3.81)
Diluted (cents)		N/A	(0.37)	N/A	(3.77)

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
ASSETS			
Non-current assets			
Fixed assets		3,859	3,989
Goodwill		279,449	279,449
Intangible assets		2,268	1,840
		<u>285,576</u>	<u>285,278</u>
Current assets			
Inventories		7,262	6,944
Trade receivables	9	37,437	37,273
Prepayments, deposits and other receivables		8,497	7,747
Tax recoverable		–	86
Cash and bank balances		22,123	16,459
		<u>75,319</u>	<u>68,509</u>
TOTAL ASSETS		<u>360,895</u>	<u>353,787</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	11	37,585	37,585
Reserves		297,259	294,016
		<u>334,844</u>	<u>331,601</u>
Minority interests		4,639	3,233
TOTAL EQUITY		<u>339,483</u>	<u>334,834</u>
Current liabilities			
Trade payables	10	1,761	2,010
Tax payable		18	–
Other payables and accruals		19,633	16,943
TOTAL LIABILITIES		<u>21,412</u>	<u>18,953</u>
TOTAL EQUITY AND LIABILITIES		<u>360,895</u>	<u>353,787</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent							Minority interests	Total equity
	Issued capital	Share premium account	PRC reserve funds	Exchange fluctuation reserve	Accumulated loss	Total			
At 31 December 2003	6,930	71,821	60	–	(27,616)	51,195	2,810	54,005	
Effect of adopting HKFRS 3	–	–	–	–	844	844	–	844	
At 1 January 2004, as restated	6,930	71,821	60	–	(26,772)	52,039	2,810	54,849	
Loss for the period, as restated	–	–	–	–	(26,380)	(26,380)	37	(26,343)	
Dividend paid to minority interests	–	–	–	–	–	–	(686)	(686)	
At 30 June 2004, as restated	6,930	71,821	60	–	(53,152)	25,659	2,161	27,820	
At 1 January 2005	37,585	333,221	60	–	(39,265)	331,601	3,233	334,834	
Exchange realignment	–	–	–	101	–	101	–	101	
Profit for the period	–	–	–	–	3,142	3,142	1,984	5,126	
Dividend paid to minority interests	–	–	–	–	–	–	(578)	(578)	
Transfer to PRC reserve funds	–	–	953	–	(953)	–	–	–	
At 30 June 2005	37,585	333,221	1,013	101	(37,076)	334,844	4,639	339,483	

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended	
	30 June	
	2005	2004
	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW)		
FROM OPERATING ACTIVITIES	6,723	(5,247)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(1,110)	(1,254)
NET CASH INFLOW FROM FINANCING ACTIVITIES	—	—
	<hr/>	<hr/>
NET INCREASE/(DECREASE) IN CASH AND		
CASH EQUIVALENTS	5,613	(6,501)
Cash and cash equivalents at beginning of the period	16,459	13,068
Effect of foreign exchange rate changes, net	51	—
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS		
AT END OF THE PERIOD	22,123	6,567
	<hr/>	<hr/>
ANALYSIS OF THE BALANCES OF CASH		
AND CASH EQUIVALENTS		
Cash and bank balances	22,123	6,567
	<hr/>	<hr/>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 24 May 2001 as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands. The shares of the Company have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange") since 11 December 2001.

During the period, the Group was principally engaged in software development and sales of computer software primarily for large scale applications and provision of related support services to government and major corporate customers in Mainland China, with particular strength in Beijing.

2. BASIS OF PRESENTATION

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has converged all Hong Kong Financial Reporting Standard ("HKFRSs") with International Financial Reporting Standard ("IFRSs") issued by the International Accounting Standard Board at 1 January 2005. As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects. The unaudited financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, accounting standards issued by the HKICPA, and the disclosure requirements of Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"). They have been prepared under the historical cost convention.

The principal accounting policies and methods of computation used in the preparation of the unaudited interim financial statements are consistent with those adopted in the latest annual financial statements of the Group. In 2005, the Group has adopted all HKFRSs pertinent to its operation and the 2004 unaudited financial statements have been restated in accordance with the relevant requirements.

The adoption of HKFRS 3, HKAS 36 and HKAS 38, which was also early adopted in the audited financial statement for the nine months ended 31 December 2004, has resulted in a change in the accounting policy for goodwill. Prior to this, goodwill was:

- amortised on a straight-line basis over a period of not exceeding 20 years; and
- assessed for impairment at each balance sheet date.

2. BASIS OF PRESENTATION (continued)

In accordance with the provisions of HKFRS 3:

- the Group ceased amortization of goodwill from 1 April 2003;
- accumulated amortization as at 31 March 2003 has been eliminated with corresponding decrease in the cost of goodwill;
- from the year ended 31 March 2004 onwards, goodwill is tested annually for impairment, as well as when there are indication of impairment.

As a result, a prior year adjustment has been made for the year ended 31 March 2004 and, certain comparative amounts have been restated to conform with the current periods presentation.

The condensed consolidated interim financial statements are unaudited but have been reviewed by the audit committee of the Board (the "Audit Committee").

3. TURNOVER AND OTHER REVENUE

Turnover represents the invoiced value of goods sold and services rendered, net of value added tax and business tax in the PRC, and after allowances for goods returned and trade discounts.

Turnover consisted of:

	Three months ended 30 June		Six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Sales of hardware and other purchased items	2,190	1,273	5,878	1,834
Software development	9,151	1,284	14,418	2,414
Technical support and maintenance	4,465	–	4,916	–
	15,806	2,557	25,212	4,248

Revenue from the following activities have been included in other revenue:

	Three months ended 30 June		Six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Government subsidies	831	257	1,706	257
Written back of unclaimed payables	–	–	–	659
Others	10	3	10	174
	841	260	1,716	1,090

4. FINANCE COSTS

Finance costs include interest expense paid to Beijing Development (Hong Kong) Limited ("Beijing Development"), its intermediate holding company, for the three months and six months ended 30 June 2005, which amounted to approximately HK\$80,000 and HK\$97,000 respectively. No interest expense was paid to Beijing Development for the three months and six months ended 30 June 2004.

5. PROFIT/(LOSS) BEFORE TAX

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

	Three months ended 30 June		Six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Depreciation of fixed assets	277	316	677	630
Amortization of intangible assets	30	33	60	67
	277	316	677	630
	30	33	60	67

6. TAX

- (i) No provision for profits tax has been made as no income was earned or derived from Hong Kong during the period.
- (ii) No provision for profits tax has been provided in respect of the Cayman Islands or the British Virgin Islands as there were no assessable tax for the period in those jurisdictions.
- (iii) The tax expenses during the period represent tax charges on the assessable profits of certain subsidiaries operating in the PRC calculated at the applicable rates. Certain of the subsidiaries in the PRC enjoy tax exemptions.
- (iv) No deferred tax asset has been recognized due to the unpredictability of future profit streams.

7. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share for the three months and six months ended 30 June 2005 is calculated based on the Group's unaudited profit attributable to equity holders of the parent of approximately HK\$2,040,000 and HK\$3,142,000, respectively (2004: loss of approximately HK\$2,591,000 and HK\$26,380,000, respectively), and on 3,758,471,752 shares in issue during the periods (2004: 693,007,938 shares).

Diluted earnings per share for the three months and the six months ended 30 June 2005 have not been disclosed as the outstanding options had an anti-dilutive effect on the basis earnings per share for the current periods.

The comparative diluted earnings per share for the three months and six months ended 30 June 2004 is based on the weighted average number of 700,831,210 shares and 699,067,977 shares, respectively, taking into account the ordinary shares deemed to be issued if all outstanding options had been exercised at the date they were granted.

8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the period (2004: Nil).

9. TRADE RECEIVABLES

The various Group companies have different credit policies, depend on the requirements of their markets and the business which they operate. An aged analysis of trade receivables is regularly prepared and closely monitored in order to minimise any related credit risk.

9. TRADE RECEIVABLES (continued)

An aged analysis of the Group's trade receivables as at 30 June 2005, based on the payment due date and net of provisions, is as follows:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Current and within 3 months	32,071	31,774
4 – 6 months	426	–
7 – 12 months	3,759	4,838
Over 1 year	1,181	661
	<u>37,437</u>	<u>37,273</u>

10. TRADE PAYABLES

An aged analysis of the Group's trade payables as at 30 June 2005, based on the invoice date, is as follows:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Within 3 months	685	865
4 – 6 months	2	–
7 – 12 months	24	375
Over 1 year	1,050	770
	<u>1,761</u>	<u>2,010</u>

11. ISSUED CAPITAL

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Authorised: 10,000,000,000 ordinary shares of HK\$0.01 each	100,000	100,000
Issued and fully paid: 3,758,471,752 ordinary shares of HK\$0.01 each	37,585	37,585

Share options

Details of the Company's share option scheme and the share options issued under the scheme are set out under the heading "Share option scheme" in the section of "General information".

12. CONTINGENT LIABILITIES

At 30 June 2005, the Group did not have any material contingent liabilities.

13. CAPITAL COMMITMENTS

At 30 June 2005, the Group did not have any material capital commitments.

14. COMPARATIVE FIGURES

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

15. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 11 August 2005.

GENERAL INFORMATION

1. DIRECTORS' SERVICE CONTRACTS

At 30 June 2005, none of the Directors had any existing or proposed service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

2. DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors had any direct or indirect material interest in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries and fellow subsidiaries was a party during the six months ended 30 June 2005.

3. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2005, the interests and short positions of the Directors and chief executive 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 Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in shares and underlying shares of the Company and its associated corporations:

(1) Interests in shares

Name of Director	Number of shares of the Company				% of issued share capital
	Personal interests	Family interests	Corporate interests	Total	
Mr. Ma Gary Ming Fai	1,000,000	–	116,681,821	117,681,821	3.13%
			(note)		

Note: These shares are held by Upwise Investments Ltd. and Princeton Venture Partners Limited. 74,821,349 shares are held by Upwise Investment Ltd. and the entire issued share capital of Upwise Investment Ltd. is beneficially owned by Mr. Ma Gary Ming Fai. 41,860,472 shares are held by Princeton Venture Partners Limited. Princeton Venture Partners Limited is wholly owned by PVP Limited. PVP Limited is in turn owned as to 43.56% by Innovative Group Ltd. Innovative Group Ltd. is in turn wholly owned by Mr. Ma Gary Ming Fai. Mr. Ma Gary Ming Fai is taken to be interested in 74,821,349 shares and 41,860,472 shares by virtue of his corporate interests in Upwise Investments Ltd. and Innovative Group Ltd. respectively.

(2) Interests in underlying shares

(a) Pre-IPO share options

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company adopted on 30 May 2001, the Directors and employees of the Group may be granted share options to subscribe for shares of the Company at an exercise price of HK\$0.266 each.

Details of the pre-IPO share options granted to a Director is as follows:

Name of Director	Date granted	Exercise period	No. of shares eligible for subscription under the Pre-IPO Share Option Scheme	Exercise price per share
Mr. Ma Gary Ming Fai	14 November 2001	11 June 2002 to 13 November 2011	50,000,000	HK\$0.266

Up to 30 June 2005, no options under the Pre-IPO Share Option Scheme have been exercised.

(3) Interests in shares of associated corporations of the Company

Name of Director	Name of associated corporation	Relationship with the Company	Number of ordinary shares held	Capacity and nature of interests	% of the associated corporation's issued share capital
Mr. Ng Kong Fat, Brian	Beijing Development	Company's holding company	8,792,755	Through a controlled corporation	1.78
Mr. Ng Kong Fat, Brian	BD Ah Yat Abalone Group Limited	Company's fellow subsidiary	1,462,000	Directly beneficially owned	21.5

(4) Interests in underlying shares of associated corporations of the Company

As at 30 June 2005, the interests of a Director in options to subscribe for shares of Beijing Enterprises Holdings Limited ("Beijing Enterprises"), the Company's holding company, under the share option scheme of Beijing Enterprises were as follows:

Name of Director	Number of options held	
	Note (a)	Note (b)
Mr. E Meng	50,000	450,000

Notes:

- (a) These options were granted on 3 March 1998 at an exercise price per share of HK\$17.03. The options can be exercised at any time in the next 10 years commencing on 1 September 1998. No such options were exercised during the period.

- (b) These options were granted on 23 June 1998 at an exercise price per share of HK\$17.03. The options can be exercised in nine equal portions. The first portion is exercisable at any time commencing on 1 January 1999 and one additional portion becomes exercisable on 1 January in each of the following years. All of the options (to the extent not exercised) will become exercisable on 1 January 2007 and, if not otherwise exercised, will lapse on 1 January 2009. No such options were exercised during the period.

As at 30 June 2005, the interests of Director in options to subscribe for shares of Beijing Development, the Company's holding company, under the share option scheme of Beijing Development were as follows:

Name of Directors	Number of options held	
	Note (c)	Note (d)
Mr. Li Kang Ying	–	2,700,000
Mr. Cao Wei	–	2,500,000
Mr. Ng Kong Fat, Brian	2,300,000	1,200,000
Mr. E Meng	1,600,000	1,200,000

Notes:

- (c) These options were granted on 19 June 2001 at an exercise price of HK\$1.13 per share. The options can be exercised in two or three equal portions. The first portion is exercisable at any time commencing on 1 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 26 June 2006. No such options were exercised during the period.

- (d) These options were granted on 18 January 2002 at an exercise price of HK\$1.00 per share. The options can be exercised in three equal portions. The first portion is exercisable at any time commencing on 18 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 17 January 2007. No such options were exercised during the period.

Save as disclosed above, as at 30 June 2005, none of the Directors, chief executive of the Company and their associates had any personal, family, corporate or other interest or short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange. During the reporting period, there were no debt securities issued by the Group.

4. DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed herein, as at 30 June 2005, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and/or the chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executive or their respective spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

5. INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Nature of interests	Number of shares	Percentage of issued share capital
Beijing Development	Interests of controlled corporation	2,115,513,445	56.29%
Beijing Enterprises	Interests of controlled corporation	2,115,513,445 <i>(note 1)</i>	56.29%
Beijing Enterprises Investments Limited	Interests of controlled corporation	2,115,513,445 <i>(note 2)</i>	56.29%
Beijing Holdings Limited	Interests of controlled corporation	2,115,513,445 <i>(note 3)</i>	56.29%
Mr. Chung Kwok Ho	Interests of controlled corporation	382,864,129 <i>(note 4)</i>	10.18%
Ms. Lee Man Yee	Interests of spouse	382,864,129 <i>(note 5)</i>	10.18%
Cosmos Vantage Limited	Beneficial interests	382,864,129 <i>(note 6)</i>	10.18%
Amberwood Group Ltd.	Beneficial interests	204,712,000 <i>(note 7)</i>	5.45%
Ms. Chong Sok Un	Interests of controlled corporation	204,712,000 <i>(note 8)</i>	5.45%

Notes:

1. Beijing Enterprises was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Beijing Development.
2. Beijing Enterprises Investments Limited was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Beijing Enterprises.
3. Beijing Holdings Limited was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Beijing Enterprises Investments Limited.
4. Mr. Chung Kwok Ho held these shares through Cosmos Vantage Limited in which he is the sole beneficial owner.
5. These shares were held by Cosmos Vantage Limited, which is wholly owned by Mr. Chung Kwok Ho. Ms. Lee Man Yee is the spouse of Mr. Chung Kwok Ho and accordingly she was deemed to be interested in these shares.
6. Cosmos Vantage Limited is wholly owned by Mr. Chung Kwok Ho.
7. Amberwood Group Ltd. is wholly owned by Ms. Chong Sok Un.
8. Ms. Chong Sok Un held these shares through Amberwood Group Ltd. in which she is the sole beneficial owner.

Save as disclosed above, as at 30 June 2005, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

6. SHARE OPTIONS SCHEME

(a) Pre-IPO Share Option Scheme

Details of the pre-IPO share options granted to Directors are set out in the sub-section headed "Interests in underlying shares" under the section headed "Directors' and chief executive's interests and short positions in the shares and underlying shares". Details of outstanding pre-IPO share options granted to a full time employee as at 30 June 2005 are as follows:

Type of grantee	Date granted	Exercise period	No. of shares eligible for subscription under the Pre-IPO Share Option Scheme	Exercise price per share
Employee (resigned on 17 May 2005)	14 November 2001	11 June 2002 to 13 November 2011	30,000,000	HK\$0.266

Up to 30 June 2005, no options under the Pre-IPO Share Option Scheme have been exercised, and 30,000,000 outstanding pre-IPO share options will lapse in August 2005 due to the resignation of the employee.

(b) Post-IPO Share Option Scheme

On 21 November 2001, the shareholders of the Company adopted a share option scheme ("Post-IPO Share Option Scheme"), the principal terms of which were set out on pages 199 to 208 of the Prospectus of the Company. Under the terms of the Post-IPO Share Option Scheme, the Board may, at their discretion, invite any full-time employees of the Group, including any executive and non-executive Directors, and any advisers, consultants of or to any member of the Group to take up options to subscribe for shares in the Company.

On 19 December 2003, 63,000,000 post-IPO share options were granted and accepted at an exercise price of HK\$0.14 per share.

Details of the outstanding post-IPO share options granted are as follows:

Type of grantee	Number of Share Options			At 30 June 2005
	At 1 January 2005	Granted during the period	Lapsed during the period	
Ex-directors (resigned on 14 December 2004)	2,000,000	–	(2,000,000)	–
Employees, advisers and consultants	<u>61,000,000</u>	<u>–</u>	<u>(14,500,000)</u>	<u>46,500,000</u>
	<u>63,000,000</u>	<u>–</u>	<u>(16,500,000)</u>	<u>46,500,000</u>

Up to 30 June 2005, no options under the Post-IPO Share Option Scheme have been exercised.

7. PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

8. COMPETING INTERESTS

During the period under review, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group.

CORPORATE GOVERNANCE

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules for the six months ended 30 June 2005, except that the Board is still in the progress of forming the remuneration committee and drafting its terms of reference.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2005, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

AUDIT COMMITTEE

As required by the GEM Listing Rules, the Company has established an audit committee with written terms of reference, which deal clearly with its authority and duties. The audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems. The audit committee comprises three independent non-executive Directors, namely Ms. Ma Yu Hua, Ms. Liang Ye Ping and Mr. Jiang Qi Ping.

The Group's unaudited condensed consolidated results for the six months ended 30 June 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards.