



## Xteam Software International Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8178

A 3D graphic featuring a blue and white globe of the Earth in the center, surrounded by several translucent, blue, 3D bar chart elements of varying heights. The background is a vibrant orange and red gradient with a grid of white lines and several circular patterns of varying sizes.

# 2006

## INTERIM REPORT

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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.*

**CONTENTS**

Corporate Information	2
Summary	3
Management Discussion and Analysis	4
Condensed Consolidated Profit and Loss Account	6
Condensed Consolidated Balance Sheet	7
Condensed Consolidated Statement of Changes in Equity	8
Condensed Consolidated Cash Flow Statement	9
Notes to Condensed Consolidated Financial Statements	10
General Information	15
Corporate Governance	20

## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

Mr. Li Kang Ying (*Chairman*)

Mr. Wang Dong Bin

(*Chief executive officer*)

Mr. Cao Wei

Mr. E Meng

Mr. Yan Qing

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. Ng Weng Sin

### QUALIFIED ACCOUNTANT

Ms. Ng Weng Sin

### COMPLIANCE OFFICER

Mr. Wang Dong Bin

### AUTHORISED REPRESENTATIVES

Mr. Wang Dong Bin

Ms. Ng Wen Sin

### AUDIT COMMITTEE

Ms. Ma Yu Hua

Ms. Liang Ye Ping

Mr. Jiang Qi Ping

### AUDITORS

Ernst & Young

### LEGAL ADVISORS

Conyers Dill & Pearman

### PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 3401, West Tower, Shun Tak Centre  
200 Connaught Road Central, 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

Butterfield Fund Services (Cayman) Ltd.  
Butterfield House, 68 Fort Street  
P.O. Box 705, George Town  
Grand Cayman, Cayman Islands  
British West Indies

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
17th Floor, Hopewell Centre  
183 Queen's Road East, Hong Kong

### GEM STOCK CODE

8178

### WEB-SITE ADDRESS

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 2006 amounted to approximately HK\$14,571,000, representing an decrease of 42.2% from last year (2005: approximately HK\$25,212,000).
- Loss attributable to equity holders of the parent for the six months ended 30 June 2006 amounted to approximately HK\$7,819,000 (2005: profit of approximately HK\$3,142,000).
- The Board does not recommend the payment of an interim dividend for the period (2005: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The Group's turnover for the six months ended 30 June 2006 was approximately HK\$14,571,000, which was 42.2% less than last year's corresponding figure of approximately HK\$25,212,000.

The loss attributable to equity holders of the Company for the period was approximately HK\$7,819,000 compared with a profit of approximately HK\$3,142,000 recorded in the corresponding period of last year.

The Group was loss-making for the period which was mainly attributable to the one-off administrative expense incurred from the settlement of certain historical issues in Shanghai Pantosoft, and the fact that a wholly-owned subsidiary acquired at the end of 2005 still being in research and development and pre-operation preparing phase.

### BUSINESS REVIEW AND PROSPECTS

Business of the Group was in a transitional period during the second quarter. While the Group remained in loss-making during the first half of the year, the losses for the second quarter had been considerably lower compared to the first quarter, a sign suggesting that contracts of certain projects under the Group's operating companies had been successfully secured and implementation of certain projects had commenced.

Implementation of the Group's various business projects will be underway in full force during the second half of this year. The principal business of the Group, namely the development of large scale software applications for the PRC Government and industrial and commercial sectors, has in general progressed into a stage where contracts are being concluded and implementations have commenced. Among all the projects, we expect those software applications in the areas of education, social security and labour market will remain in stable and sustainable growth. On the other hand, applications for e-government and population flow management etc. have shown strong momentum and are expected to be the new driving force to the Group's business development.

With the large-scale issuance and application of the "Smart" card of Beijing's public transportation system in this year, the Beijing Primary and Secondary Students IC Card, an affiliate to "Smart" card, will also be issued to most of its holders within this year. Such development will become a major stimulus in education-related operations and services.

After more than a half year of product modification and market preparation work, the In@box project, which the Group acquired at the end of last year, has now entered into marketing phase. The Group has agreed with a number of major provincial and municipal carriers to cooperate in the form of bundling sales with these carriers' broadband business. Under the revenue sharing arrangement, revenue will be generated from the business line during the second half of the year.

Based on the current good progress of the various business lines of the Group, and that the restructuring of the Group's business is also undergoing on track, we are confident to the Group's future development.

## FINANCIAL POSITION

As at 30 June 2006, the Group had cash and bank balances of approximately HK\$16,322,000 (as at 31 December 2005: approximately HK\$30,949,000) and had no outstanding bank loan (as at 31 December 2005: Nil).

The gearing ratio (defined as total liabilities over total equity) of the Group as at 30 June 2006 was approximately 6.9% (as at 31 December 2005: approximately 7.5%).

The debt ratio (defined as total liabilities over total assets) of the Group as at 30 June 2006 was approximately 6.3% (as at 31 December 2005: approximately 6.8%).

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 2006, the Group employed approximately 340 employees, including Directors (as at 31 December 2005: 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

**Li Kang Ying**

*Chairman*

Hong Kong

9 August 2006

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 2006, together with the unaudited comparative figures for the corresponding periods in 2005, as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Three months ended 30 June		Six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
TURNOVER	2	<b>6,780</b>	15,806	<b>14,571</b>	25,212
Cost of sales		<b>(1,929)</b>	(4,373)	<b>(4,653)</b>	(5,542)
Gross profit		<b>4,851</b>	11,433	<b>9,918</b>	19,670
Other revenue	3	<b>144</b>	841	<b>259</b>	1,716
Selling and distribution expenses		<b>(1,773)</b>	(1,880)	<b>(3,761)</b>	(3,134)
Administrative expenses		<b>(5,968)</b>	(6,698)	<b>(15,090)</b>	(13,050)
(LOSS)/PROFIT FROM OPERATING ACTIVITIES		<b>(2,746)</b>	3,696	<b>(8,674)</b>	5,202
Finance costs, net	4	<b>(79)</b>	57	<b>(131)</b>	(58)
(LOSS)/PROFIT BEFORE TAX	5	<b>(2,825)</b>	3,753	<b>(8,805)</b>	5,144
TAX	6	<b>86</b>	(12)	<b>(1)</b>	(18)
(LOSS)/PROFIT FOR THE PERIOD		<b>(2,739)</b>	3,741	<b>(8,806)</b>	5,126
ATTRIBUTABLE TO:					
Equity holders of the parent		<b>(1,770)</b>	2,040	<b>(7,819)</b>	3,142
Minority interests		<b>(969)</b>	1,701	<b>(987)</b>	1,984
		<b>(2,739)</b>	3,741	<b>(8,806)</b>	5,126
(LOSS)/EARNINGS PER SHARE	7				
Basic (cents)		<b>(0.04)</b>	0.05	<b>(0.20)</b>	0.08
Diluted (cents)		<b>N/A</b>	N/A	<b>N/A</b>	N/A



## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>4,906</b>	4,087
Goodwill	9	<b>289,465</b>	289,465
Other intangible assets		<b>2,109</b>	2,174
<b>Total non-current assets</b>		<b>296,480</b>	295,726
<b>CURRENT ASSETS</b>			
Inventories		<b>5,946</b>	2,863
Trade receivables	10	<b>47,210</b>	48,840
Prepayments, deposits and other receivables		<b>8,736</b>	8,800
Cash and bank balances		<b>16,322</b>	30,949
<b>Total current assets</b>		<b>78,214</b>	91,452
<b>CURRENT LIABILITIES</b>			
Trade payables	11	<b>2,671</b>	3,739
Other payables and accruals		<b>8,263</b>	10,123
Due to an intermediate holding company		<b>12,491</b>	12,181
Tax payable		<b>221</b>	245
<b>Total current liabilities</b>		<b>23,646</b>	26,288
<b>NET CURRENT ASSETS</b>		<b>54,568</b>	65,164
<b>Net assets</b>		<b>351,048</b>	360,890
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	12	<b>38,426</b>	38,426
Reserves		<b>301,464</b>	309,495
		<b>339,890</b>	347,921
<b>Minority interests</b>		<b>11,158</b>	12,969
<b>Total equity</b>		<b>351,048</b>	360,890

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to equity holders of the parent					Total	Minority interests	Total equity
	Issued capital	Share premium account	PRC reserve funds	Exchange fluctuation reserve	Accumulated loss			
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)	-	-	-
<b>At 30 June 2005</b>	<b>37,585</b>	<b>333,221</b>	<b>1,013</b>	<b>101</b>	<b>(37,076)</b>	<b>334,844</b>	<b>4,639</b>	<b>339,483</b>
At 1 January 2006	38,426	337,250	1,604	1,385	(30,744)	347,921	12,969	360,890
Exchange realignment	-	-	-	(212)	-	(212)	(9)	(221)
Loss for the period	-	-	-	-	(7,819)	(7,819)	(987)	(8,806)
Dividends paid to minority interests	-	-	-	-	-	-	(815)	(815)
Transfer to PRC reserve funds	-	-	1,155	-	(1,155)	-	-	-
<b>At 30 June 2006</b>	<b>38,426</b>	<b>337,250</b>	<b>2,759</b>	<b>1,173</b>	<b>(39,718)</b>	<b>339,890</b>	<b>11,158</b>	<b>351,048</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended	
	30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(13,458)	6,723
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(1,257)	(1,110)
NET CASH INFLOW FROM FINANCING ACTIVITIES	309	–
<hr/>		
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(14,406)	5,613
Cash and cash equivalents at beginning of the period	30,949	16,459
Effect of foreign exchange rate changes, net	(221)	51
<hr/>		
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	16,322	22,123
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ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	16,322	22,123
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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**1. BASIS OF PRESENTATION**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of the Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standards 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated results are unaudited but have been reviewed by the Company's audit committee.

**2. TURNOVER**

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		Six months ended	
	30 June		30 June	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of computer software	–	7	9	22
Income from software development and system integration	4,587	11,931	10,815	20,274
Technical support and maintenance	2,193	3,868	3,747	4,916
	<b>6,780</b>	15,806	<b>14,571</b>	25,212

## 3. OTHER REVENUE

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

	Three months ended 30 June		Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Government subsidies	144	831	259	1,706
Others	-	10	-	10
	<b>144</b>	<b>841</b>	<b>259</b>	<b>1,716</b>

## 4. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Bank interest income	40	137	108	39
Interest expenses on amount due to an intermediate holding company	(119)	(80)	(239)	(97)
	<b>(79)</b>	<b>57</b>	<b>(131)</b>	<b>(58)</b>

The interest expenses were charged at a rate of 5% per annum on the outstanding loan principal.

## 5. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit before tax was arrived at after charging the following:

	Three months ended 30 June		Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Depreciation of fixed assets	322	277	549	677
Amortization of intangible assets	30	30	65	60

**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. (LOSS)/EARNINGS PER SHARE**

The calculation of basic loss per share for the three months and six months ended 30 June 2006 is calculated based on the Group's unaudited loss attributable to equity holders of the parent of approximately HK\$1,770,000 and HK\$7,819,000, respectively (2005: profit of approximately HK\$2,040,000 and HK\$3,142,000, respectively), and on 3,842,606,368 share in issue during the periods (2005: 3,758,471,752 shares).

Diluted earnings per share for the three months and the six months ended 30 June 2006 have not been disclosed as the outstanding options had an anti-dilutive effect on the basis earnings per share for the current periods.

**8. DIVIDEND**

The Board does not recommend the payment of an interim dividend for the period (2005: Nil).

**9. GOODWILL**

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Snow Fair	<b>26,728</b>	26,728
Astoria and Wisdom Elite	<b>252,721</b>	252,721
Asren	<b>10,016</b>	10,016
Carrying amount of goodwill	<b>289,465</b>	289,465

**10. TRADE RECEIVABLES**

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

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Within 1 to 3 months	43,605	37,112
4 to 6 months	694	2,350
7 to 12 months	806	3,637
Over 1 year	2,105	5,741
	<b>47,210</b>	<b>48,840</b>

Generally, the Group has granted credit terms to its customers, ranging from 30 to 90 days.

Including in the Group's trade receivables are amounts due from the Group's fellow subsidiaries of HK\$644,000 (2005: 644,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

**11. TRADE PAYABLES**

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

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Within 1 to 3 months	1,107	2,794
4 to 6 months	44	3
7 to 12 months	608	22
Over 1 year	912	920
	<b>2,671</b>	<b>3,739</b>

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

**12. ISSUED CAPITAL**

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	<b>100,000</b>	100,000
Issued and fully paid:		
3,842,606,368 ordinary shares of HK\$0.01 each	<b>38,426</b>	38,426

**13. RELATED PARTY TRANSACTIONS**

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following balance as the end of balance sheet date.

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Amount due from fellow subsidiaries	<b>2,800</b>	2,769

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

**14. CONTINGENT LIABILITIES**

At 30 June 2006, the Group did not have any material contingent liabilities.

**15. CAPITAL COMMITMENTS**

At 30 June 2006, the Group did not have any material capital commitments.

**16. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 9 August 2006.



## GENERAL INFORMATION

### 1. DIRECTORS' SERVICE CONTRACTS

At 30 June 2006, 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 2006.

### 3. DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2006, the interests and short positions of the directors in the share capital and underlying shares capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

#### (1) Long positions in shares of associated corporations:

Name of director	Name of associated corporation	Relationship with the Company	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Wang Dong Bin	Beijing Development	Company's holding company	8,000,000	Directly beneficially owned	1.62
Mr. Cao Wei	Beijing Development	Company's holding company	8,000,000	Directly beneficially owned	1.62
Mr. Ng Kong Fat, Brian	Beijing Development	Company's holding company	8,792,755	Through a controlled corporation (Note)	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

*Note:* These shares are held by Sunbird Holdings Limited and Sunbird Holdings Limited is beneficially owned by Mr. Ng Kong Fat, Brian.

(2) *Interests in underlying shares of associated corporations:*

At 30 June 2006, the interests of directors in options to subscribe for shares of Beijing Development (Hong Kong) Limited ("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 (a)	Note (b)
Mr. Li Kang Ying	2,700,000	800,000
Mr. Wang Dong Bin	500,000	700,000
Mr. Cao Wei	2,500,000	500,000
Mr. E Meng	1,200,000	1,600,000
Mr. Ng Kong Fat, Brian	1,200,000	1,600,000
Mr. Yan Qing	–	2,500,000

*Notes:*

- (a) 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.
- (b) These options were granted on 27 June 2006 at an exercise price of HK\$1.00 per share. All of the options, if not otherwise exercised, will lapse on 17 January 2011. No such options were exercised during the period.

Save as disclosed above, as at 30 June 2006, none of the directors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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

Save as disclosed herein, as at 30 June 2006, 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

At 30 June 2006, 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	Capital and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Beijing Development	(a)	Through a controlled corporation	2,115,513,445	55.05
Beijing Enterprises Holdings Limited ("BEHL")	(b)	Through a controlled corporation	2,115,513,445	55.05
Beijing Enterprises Investments Limited	(c)	Through a controlled corporation	2,115,513,445	55.05
Beijing Holdings Limited	(d)	Through a controlled corporation	2,115,513,445	55.05
Mr. Chung Kwok Ho	(e)	Through a controlled corporation	382,864,129	9.96
Ms. Lee Man Yee	(f)	Interest of spouse	382,864,129	9.96
Cosmos Vantage Limited	(g)	Directly beneficially owned	382,864,129	9.96
Amberwood Group Ltd.	(h)	Directly beneficially owned	200,192,000	5.21
Ms. Chong Sok Un	(i)	Through a controlled corporation	200,192,000	5.21

Notes:

- (a) Beijing Development was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Prime Technology Group Limited and E-tron Limited.
- (b) BEHL was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Beijing Development.

- (c) Beijing Enterprises Investments Limited was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in BEHL.
- (d) 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.
- (e) Mr. Chung Kwok Ho held these shares through Cosmos Vantage Limited in which he is the sole beneficial owner.
- (f) 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.
- (g) Cosmos Vantage Limited is wholly owned by Mr. Chung Kwok Ho.
- (h) Amberwood Group Ltd. is wholly owned by Ms. Chong Sok Un.
- (i) 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 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## 6. SHARE OPTIONS SCHEME

### (a) Pre-IPO Share Option Scheme

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 outstanding pre-IPO share options granted and to a former Director is as follows:

Name of a former 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	14 November	11 June 2002 to	50,000,000	HK\$0.266
Ming Fai	2001	13 November 2011		

Up to 30 June 2006, no option under the Pre-IPO Share Option Scheme has been exercised, and 50,000,000 outstanding Pre-IPO share options will lapse in July 2006 due to the resignation of Mr. Ma Gary Ming Fai on 26 April 2006.

**(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"). 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 2006
	At 1 January 2006	Granted during the period	Lapsed during the period	
Employees	13,500,000	-	2,200,000	<b>11,300,000</b>
Advisers and consultants	33,000,000	-	-	<b>33,000,000</b>
	<b>46,500,000</b>	-	<b>2,200,000</b>	<b>44,300,000</b>

Up to 30 June 2006, no option under the Post-IPO Share Option Scheme have been exercised. 2,200,000 outstanding Post-IPO share options lapsed due to employers' resignation.

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

During the six months ended 30 June 2006, 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**

### **Code on Corporate Governance Practices**

During the six months ended 30 June 2006, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

### **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 2006.

### **Code of Conduct Regarding Securities Transactions by Directors**

During the six months ended 30 June 2006, 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 Chairman of the audit committee is Ms. Ma Yu Hua.

The Group's unaudited results for the six months ended 30 June 2006 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards.