



Xteam Software International Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8178

INTERIM REPORT

2007



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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. 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 (*Chairman*)

Ms. Liang Ye Ping

Mr. Jiang Qi Ping

Remuneration Committee

Ms. Ma Yu Hua (*Chairman*)

Ms. Liang Ye Ping

Mr. Jiang Qi Ping

Mr. Li Kang Ying

Auditors

Ernst & Young

Legal Advisor

Conyers Dill & Pearman

Principal Banker

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.hk

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 2007 amounted to approximately HK\$32,294,000, representing an increase of 122% from last year (2006: approximately HK\$14,571,000).
- Loss attributable to equity holders of the Company for the six months ended 30 June 2007 amounted to approximately HK\$3,915,000 (2006: approximately HK\$7,819,000).
- The Board does not recommend the payment of an interim dividend for the period (2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group's turnover for the six months ended 30 June 2007 was approximately HK\$32,294,000, which was 122% more than last year's corresponding figure of approximately HK\$14,571,000.

The loss attributable to equity holders of the Company for the period was approximately HK\$3,915,000 compared with a loss of approximately HK\$7,819,000 recorded in the corresponding period of last year.

Business review and prospects

Company business:

In the first half of the year, the various operations of the Group have been developing well. Of these, application software business such as social security, e-business, administration of floating population indicated good development trends.

In the second half of the year, the various operations of the Group will continue to maintain good development trends, and a number of projects will be entering into the stages of contract execution and implementation. Among these, the social security and labour market application software business will continue to develop steadily, while e-business and floating population administration software business will have active performances.

Very substantial acquisition:

The potential acquisition of Run Tong Group is expected to bring considerable profits to the Group. Business of Run Tong Group has been able to keep up with and compliment with the business of the Company. It is expected that the Company will soon complete the merging of the business and teamworks of both parties, and the principle operations of the Company will be more specific, business model more upgraded, market channels more diversified, and the Company will be developing more rapidly and steadily, bringing greater returns to shareholders.

On 13 August 2007, a circular in relation to the very substantial acquisition was despatched to the shareholders of the Company and an extraordinary general meeting will be held on 28 August 2007 to consider and, if thought fit, approve the acquisition.

Financial position

As at 30 June 2007, the Group had cash and bank balances of approximately HK\$195,920,000 (as at 31 December 2006: approximately HK\$39,655,000) and had no outstanding bank loan (as at 31 December 2006: Nil).

The gearing ratio (defined as total liabilities over total equity) of the Group as at 30 June 2007 was approximately 4.8% (as at 31 December 2006: approximately 19.7%).

The debt ratio (defined as total liabilities over total assets) of the Group as at 30 June 2007 was approximately 4.6% (as at 31 December 2006: approximately 16.4%).

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 2007, the Group employed approximately 315 employees, including Directors (as at 31 December 2006: 330 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

13 August 2007

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 2007, together with the unaudited comparative figures for the corresponding periods in 2006, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended		Six months ended	
		30 June	2006	30 June	2006
		2007	2006	2007	2006
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	3	19,547	6,780	32,294	14,571
Cost of sales		(10,925)	(1,929)	(18,577)	(4,653)
Gross profit		8,622	4,851	13,717	9,918
Other revenue	4	62	144	293	259
Selling and distribution expenses		(2,061)	(1,773)	(3,820)	(3,761)
Administrative expenses		(7,563)	(5,968)	(15,509)	(15,090)
LOSS FROM OPERATING ACTIVITIES		(940)	(2,746)	(5,319)	(8,674)
Finance costs, net	5	756	(79)	678	(131)
LOSS BEFORE TAX	6	(184)	(2,825)	(4,611)	(8,805)
TAX	7	(269)	86	(411)	(1)
LOSS FOR THE PERIOD		(453)	(2,739)	(5,052)	(8,806)
ATTRIBUTABLE TO:					
Equity holders of the Company		623	(1,770)	(3,915)	(7,819)
Minority interests		(1,076)	(969)	(1,137)	(987)
		(453)	(2,739)	(5,052)	(8,806)
EARNINGS/(LOSS) PER SHARE	8				
Basic (cents)		0.01	(0.04)	(0.09)	(0.20)
Diluted (cents)		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June	31 December
		2007	2006
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		5,175	4,883
Goodwill		78,706	78,706
Other intangible assets		2,592	3,040
Total non-current assets		86,473	86,629
CURRENT ASSETS			
Inventories		6,049	3,726
Trade receivables	10	32,041	29,642
Prepayments, deposits and other receivables		9,386	8,352
Cash and bank balances		195,920	39,655
Total current assets		243,396	81,375
CURRENT LIABILITIES			
Trade payables	11	4,343	3,500
Other payables and accruals		8,809	9,109
Due to holding company		–	12,913
Tax payable		2,055	2,089
Total current liabilities		15,207	27,611
NET CURRENT ASSETS		228,189	53,764
Net assets		314,662	140,393
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	12	46,679	38,426
Reserves		258,457	91,601
		305,136	130,027
Minority interests		9,526	10,366
Total equity		314,662	140,393

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	Issued capital (Unaudited)	Share premium account (Unaudited)	PRC reserve funds (Unaudited)	Exchange fluctuation reserve (Unaudited)	Accumulated losses (Unaudited)	Total (Unaudited)	Minority interests (Unaudited)	Total equity (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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)	-	-	-
At 30 June 2006	38,426	337,250*	2,759*	1,173*	(39,718)*	339,890	11,158	351,048
At 1 January 2007	38,426	337,250	3,343	3,738	(252,730)	130,027	10,366	140,393
Exchange realignment	-	-	-	1,740	-	1,740	296	2,036
Loss for the period	-	-	-	-	(3,915)	(3,915)	(1,136)	(5,051)
Transfer to PRC reserve funds	-	-	2,426	-	(2,426)	-	-	-
Issue of shares	8,253	168,637	-	-	-	176,890	-	176,890
Equity-settled share options	-	-	-	-	394	394	-	394
At 30 June 2007	46,679	505,887*	5,769*	5,478*	(258,677)*	305,136	9,526	314,662

* These reserve accounts comprise the reserves of HK\$258,457,000 (2006: HK\$301,464,000) in the condensed consolidated balance sheet.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(7,171)	(13,458)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(979)	(1,257)
NET CASH INFLOW FROM FINANCING ACTIVITIES	164,032	309
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	155,882	(14,406)
Cash and cash equivalents at beginning of the period	39,655	30,949
Effect of foreign exchange rate changes, net	383	(221)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	195,920	16,322
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	195,920	16,322

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 (the "Stock Exchange") and Hong Kong Accounting Standards 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies and basis of preparation used in the preparation of the condensed financial statements are consistent with those used in the Company's audited financial statements for the year ended 31 December 2006.

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

2. Segment Information

Segment information is not presented as the Group's sole business is the development and sale of computer software and the provision of system integration and related support services in the People's Republic of China ("PRC").

3. 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	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of computer software and hardware	417	–	974	9
Provision of software development and system integration	14,679	4,587	26,156	10,815
Provision of technical support and maintenance services	4,451	2,193	5,164	3,747
	<u>19,547</u>	<u>6,780</u>	<u>32,294</u>	<u>14,571</u>

4. Other revenue

Other revenue represents PRC tax subsidies.

5. Finance costs, net

	Three months ended		Six months ended	
	30 June		30 June	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank interest income	756	40	814	108
Interest expenses on amount due to a substantial shareholder	-	(119)	(136)	(239)
	<u>756</u>	<u>(79)</u>	<u>678</u>	<u>(131)</u>

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

6. Loss before tax

Loss before tax was arrived at after charging the following:

	Three months ended		Six months ended	
	30 June		30 June	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	318	322	684	549
Amortization of other intangible assets	44	30	88	65
	<u>44</u>	<u>30</u>	<u>88</u>	<u>65</u>

7. Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2006: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's PRC subsidiaries enjoy income tax exemptions and reductions. Certain PRC subsidiaries are subject to income tax rates ranging from 0% to 15%.

8. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the three months ended 30 June 2007 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$623,000 (2006: loss of approximately HK\$1,770,000) and the weighted average number of 4,464,807,468 (2006: 3,842,606,368) ordinary shares in issue during the period.

The calculation of basic loss per share for the six months ended 30 June 2007 is based on the unaudited loss attributable to equity holders of the Company of approximately HK\$3,915,000 (2006: loss of approximately HK\$7,819,000) and the weighted average number of 4,231,947,252 (2006: 3,842,606,368) ordinary shares in issue during the period.

Diluted earnings/(loss) per share for the three months and six months ended 30 June 2007 and 2006 have not been disclosed as the outstanding options had an anti-dilutive effect on the basic earnings/(loss) per share for the relevant periods.

9. Dividend

The Board does not recommend the payment of an interim dividend for the period (2006: Nil).

10. Trade receivables

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Within 1 month	26,561	23,646
1 to 2 months	340	350
2 to 3 months	220	124
Over 3 months	4,920	5,522
	<u>32,041</u>	<u>29,642</u>

Generally, the Group has granted credit terms to its customers, ranging from 30 to 90 days. In certain cases, the Group would request payment in advance from the customers.

Included in the Group's trade receivables are amounts due from a subsidiary of the Company's substantial shareholder of HK\$9,599,000 (2006: HK\$2,384,000), 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:

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Within 1 month	2,862	1,661
1 to 2 months	266	264
2 to 3 months	4	3
Over 3 months	1,211	1,572
	<u>4,343</u>	<u>3,500</u>

Included in the trade payables is an amount due to a subsidiary of the Company's substantial shareholder of HK\$154,000 (2006: 150,000), which is repayable on similar credit terms to those offered by the related company to their customers.

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

12. Issued capital

	30 June	31 December
	2007	2006
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.01 each	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
4,667,906,368 (2006: 3,842,606,368) ordinary shares of HK\$0.01 each	<u>46,679</u>	<u>38,426</u>

Pursuant to the placing and subscription agreement dated 8 February 2007, 300,000,000 ordinary shares of the Company were allotted at HK\$0.098 each to its shareholders for a total cash consideration, before expenses, of HK\$29,400,000.

Pursuant to the placing agreement dated 24 April 2007, 468,000,000 ordinary shares of the Company were allotted at HK\$0.315 each to its shareholders for a total cash consideration, before expenses, of HK\$147,420,000.

During the six months ended 30 June 2007, 35,100,000 and 22,200,000 ordinary shares of the Company were allotted at HK\$0.14 and HK\$0.044 each, respectively, upon the exercise of the share options of the Company for a total cash consideration, before expenses, of HK\$5,891,000.

A summary of the transaction during the six months ended 30 June 2007 with reference to the above movements in the issued ordinary share capital of the Company is as follows:

	Number of shares in issue	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006				
and 1 January 2007	3,842,606,368	38,426	337,250	375,676
Allotment of new shares	825,300,000	8,253	174,458	182,711
Share issue expenses	–	–	(5,821)	(5,821)
	<u>4,667,906,368</u>	<u>46,679</u>	<u>505,887</u>	<u>552,566</u>
At 30 June 2007	<u>4,667,906,368</u>	<u>46,679</u>	<u>505,887</u>	<u>552,566</u>

13. Related party transactions

(a) Material transaction with a related party:

	Six months ended	
	30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales to a subsidiary of the Company's substantial shareholder	<u>11,421</u>	<u>–</u>

(b) Material outstanding balance with a related party:

	30 June	31 December
	2007	2006
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due from a subsidiary of the Company's substantial shareholder	<u>9,599</u>	<u>2,384</u>

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

14. Contingent liabilities

At 30 June 2007, the Group did not have any material contingent liabilities.

15. Capital commitments

At 30 June 2007, the Group did not have any material capital commitments.

16. Subsequent Event

On 29 May 2007, Proud Stars Limited, a wholly-owned subsidiary of the Company, entered into an agreement with Mr. Li Kecheng (the "Vendor") for the acquisition of the entire issued share capital of Full Trump International Limited from the Vendor for an aggregated total consideration of HK\$500 million. The consideration shall be satisfied by way of issue of 1,560,000,000 new ordinary shares of the Company and convertible bonds in the aggregate principal amount of HK\$200,246,000. Immediately after completion, Full Trump International Limited will become a wholly-owned subsidiary of the Company. A circular in relation to the acquisition has been despatched to the shareholders of the Company on 13 August 2007 and an extraordinary general meeting will be held on 28 August 2007.

17. Approval of the condensed consolidated interim financial statements

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 13 August 2007.

GENERAL INFORMATION

1. Directors' service contracts

At 30 June 2007, 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 substantial shareholders, subsidiaries and subsidiaries of substantial shareholders was a party during the six months ended 30 June 2007.

3. Directors' interests and short positions in shares and underlying shares

At 30 June 2007, 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 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. Li Kang Ying	Beijing Development (Hong Kong) Limited ("Beijing Development")	Company's substantial shareholder	304,000	Directly beneficially owned	0.04

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 substantial shareholder	3,500,000	Directly beneficially owned	0.51
Mr. Cao Wei	Beijing Development	Company's substantial shareholder	190,000	Directly beneficially owned	0.03
Mr. E Meng	Beijing Development	Company's substantial shareholder	601,000	Directly beneficially owned	0.09
Mr. E Meng	Beijing Enterprises Holdings Limited	Company's substantial shareholder	60,000	Directly beneficially owned	0.01
Mr. Ng Kong Fat, Brian	Beijing Development	Company's substantial shareholder	8,792,755	Through a controlled corporation (Note)	1.29
Mr. Ng Kong Fat, Brian	Beijing Development	Company's substantial shareholder	1,600,000	Directly beneficially owned	0.23

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

4. Directors' rights to acquire shares or debentures

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above, at no time during the six months ended 30 June 2007 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 spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its substantial shareholders, subsidiaries or subsidiaries of substantial shareholders a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

5. Interests discloseable under the SFO and substantial shareholders

At 30 June 2007, 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:

Name	<i>Notes</i>	Capacity and nature of interest	Number of ordinary Shares held	Percentage of the Company's issued share capital
Beijing Development	(a)	Through controlled corporations	1,895,513,445	40.61
Beijing Enterprises Holdings Limited	(b)	Through controlled corporations	1,895,513,445	40.61
Beijing Enterprises Investments Limited	(c)	Through controlled corporations	1,895,513,445	40.61
Beijing Enterprises Group Company Limited	(d)	Through controlled corporations	1,895,513,445	40.61

Notes:

- (a) Beijing Development was deemed to be interested in the 1,895,513,445 Shares by virtue of its controlling interests in its wholly owned subsidiaries, Prime Technology Group Limited and E-tron Limited.
- (b) Beijing Enterprises Holdings Limited was deemed to be interested in the 1,895,513,445 Shares by virtue of its controlling interests in Beijing Development.
- (c) Beijing Enterprises Investments Limited was deemed to be interested in the 1,895,513,445 Shares by virtue of its controlling interests in Beijing Enterprises Holdings Limited.
- (d) Beijing Enterprises Group Company Limited was deemed to be interested in the 1,895,513,445 Shares by virtue of its controlling interests in Beijing Enterprises Investments Limited and Beijing Enterprises Holdings Limited.

Save as disclosed above, as at 30 June 2007, 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

The following share options were outstanding under the share option scheme of the Company during the six months ended 30 June 2007:

Category of participant	Number of Share Options				Date of grant (Note c)	Exercise period	Exercise price (Note d) HK\$ per share
	At 1 January 2007	Granted during the period (Note a)	Exercise during the period (Note b)	At 30 June 2007			
Employees	8,800,000	-	8,100,000	700,000	19 December 2003	19 December 2003 to 18 December 2013	0.14
Employee	-	22,200,000	22,200,000	-	4 January 2007	4 January 2007 to 3 January 2017	0.044
Advisers and consultants	33,000,000	-	27,000,000	6,000,000	19 December 2003	19 December 2003 to 18 December 2013	0.14
	<u>41,800,000</u>	<u>22,200,000</u>	<u>57,300,000</u>	<u>6,700,000</u>			

Notes:

- a. These share options were granted on 4 January 2007 at an exercise price of HK\$0.044 per share. The closing price of the Company's shares at the date of grant was HK\$0.042 per share. The fair value of these share options granted was estimated as at the date of grant, using the Black-Scholes-Merton option pricing model, at HK\$394,000, which was fully recognized by the Company as a share option expense during the six months ended 30 June 2007.
- b. The weighted average closing price of the Company's shares immediately before the dates on which share options were exercised was HK\$0.362 per share.
- c. The share options vested on the date of the grant.
- d. The exercise prices of the share options are subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

On 23 July 2007, a participant has exercised 6,000,000 share options at an exercise price of HK\$0.14 per share. The closing price of the Company's shares immediately before the date on which share options were exercised was HK\$0.71 per share. In addition, 700,000 share options have been forfeited on 21 July 2007.

7. Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of 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 2007, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

Code of Conduct regarding Securities Transactions by Directors

During the six months ended 30 June 2007, 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 2007 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards.



Remuneration Committee

The remuneration committee of the Company was established in March 2006 in accordance with the Code Provisions as set out in Appendix 15 of GEM Listing Rules. 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. Members of the remuneration committee include the three independent non-executive directors, Ms. Ma Yu Hua (chairman of the remuneration committee), Ms. Liang Ye Ping, Mr. Jiang Qi Ping and the chairman of the executive directors Mr. Li Kang Ying.