



Beijing Development (Hong Kong) Limited

Stock Code: 154



07  
Interim Report 2007



## CONTENTS

CORPORATE INFORMATION	2
CORPORATE STRUCTURE	3
MANAGEMENT DISCUSSION AND ANALYSIS	4
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	
Condensed Consolidated Income Statement	8
Condensed Consolidated Balance Sheet	9
Consolidated Statement of Changes in Equity	11
Condensed Consolidated Cash Flow Statement	12
Notes to Condensed Consolidated Financial Statements	13
GENERAL INFORMATION	30
CORPORATE GOVERNANCE REPORT	39

## CORPORATE INFORMATION

### Directors

*Executive directors:*

Mr. Zhang Honghai (*Chairman*)

Mr. Li Kangying

Mr. E Meng

Mr. Wang Yong

Mr. Cao Wei

Dr. Yu Xiaoyang

Mr. Ng Kong Fat, Brian

*Independent non-executive directors:*

Mr. Cao Guixing

Prof. Liu Wei

Dr. Jin Lizuo

### Company Secretary

Mr. Wong Kwok Wai, Robin

### Qualified Accountant

Mr. Wong Kwok Wai, Robin

### Authorised Representatives

Mr. Ng Kong Fat, Brian

Mr. Wong Kwok Wai, Robin

### Registered Office

Room 3401, West Tower

Shun Tak Centre

200 Connaught Road Central

Hong Kong

### Website

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

### Stock Code

154

### Share Registrars

Tengis Limited

Level 25

Three Pacific Place

1 Queen's Road East

Hong Kong

### Auditors

Ernst & Young

### Principal Bankers

*In Hong Kong:*

Bank of China (Hong Kong) Limited

*In Mainland China:*

Bank of Beijing

Bank of Communications

China CITIC Bank

China Construction Bank

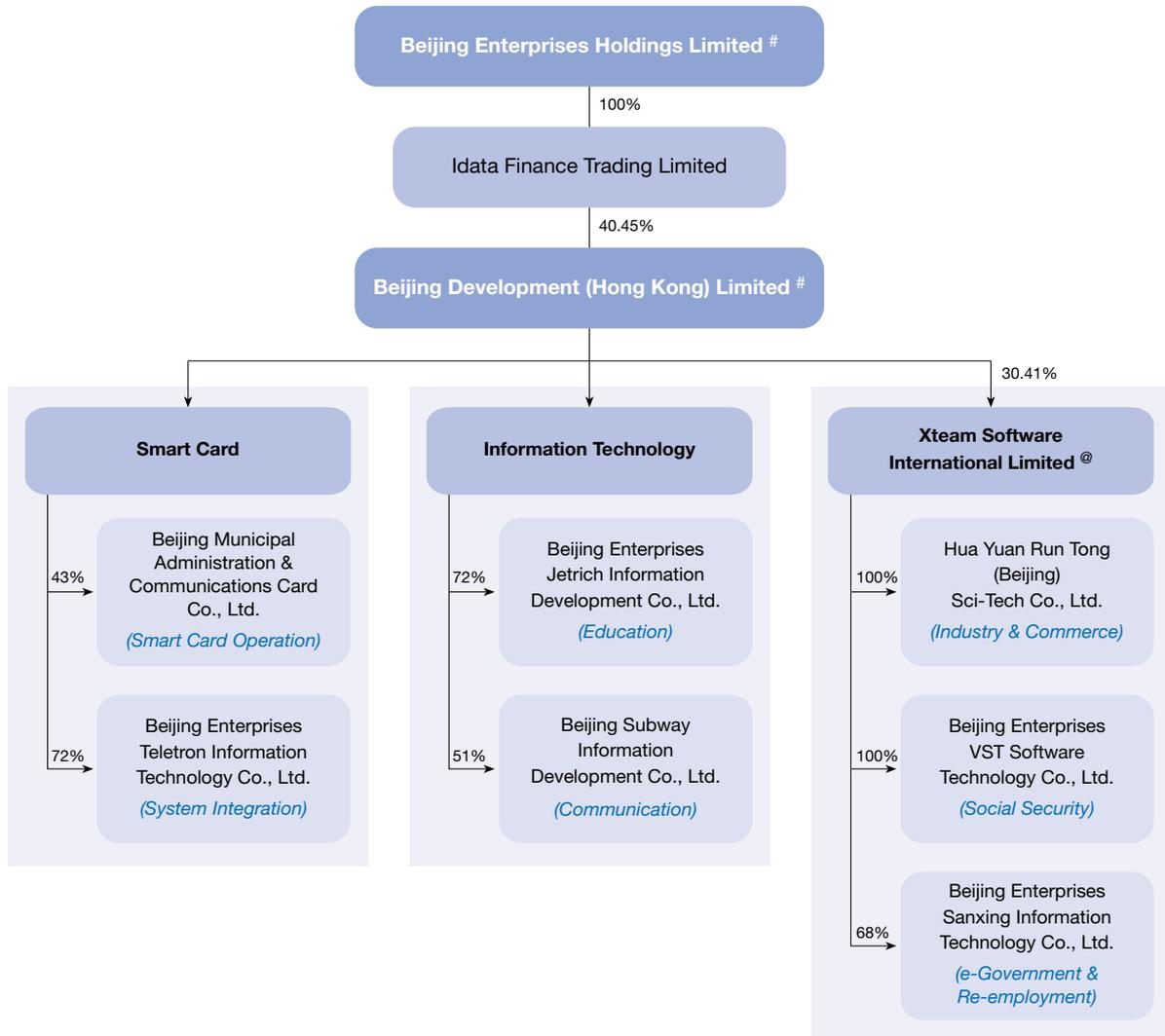
China Minsheng Banking Corp., Ltd.

Huaxia Bank



# CORPORATE STRUCTURE

As at 18 September 2007



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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The Company identified the construction, operation and maintenance of electronic settlement and clearance platform for urban infrastructure and public utilities as its core business. In order to optimise and streamline its organisational structure, the Company had started to gradually dispose of its non-core operations. The sale of its restaurant business was completed in the first half of the year at a consideration of HK\$25.3 million. It had also committed to reduce the Group's property holdings and realise HK\$40 million cash in the second half year. Satisfactory progress was primarily made in the restructuring of the Company's resources and the rationalisation of its businesses.

#### *Smart Card*

Under the strong support of the Beijing Municipal Government, Smart Cards officially replaced the paper monthly tickets since 1 January 2007. With the introduction of the 60% discount offer on Smart Cards usage, a total of more than 12.9 million Cards (excluding 1.4 million Student Cards) were issued up to the present. Smart Cards are used in public transportation including Beijing subway, public buses and taxies, with over 10 million transactions registered each day. It is anticipated that the number of Cards issued and transaction volume will grow further upon the commencement of the operation of Automated Fare Collection and Clearing Center ("ACC") and Automated Fare Collection ("AFC") System for the subway next year. Application of Smart Cards has also been expanded to cover small payment sectors such as the drive-through tolling stations of Beijing highways, residential estates/school campuses, tourist attractions, cinemas, car parks, fast-food stores and telephone booths.

#### *Rail Transportation*

The ACC had passed its system test and was ready for the trial run of Beijing Subway. The delivery of general equipment and software of the AFC System for Lines 1 and 2 and the Batong Line were completed, and the in-house examination of the customised equipment such as ticket vending and verification machines was finalised. The trial operation, installation and design of the safety door system for Lines 5, 10 and 4 had commenced respectively, as well as for the Building Automation System ("BAS") for Lines 5 and 1.



#### *Communications Platform for the Subway*

The Company established a joint venture, Beijing Subway Information Development Co., Ltd., with Beijing Subway Operation Company Limited to build Beijing Subway's Public Communications Information System Platform. Systems for Lines 1 and 2 would commence operation before the opening of 2008 Olympics, providing public signaling inflow services for all kinds of information operators and value-added service suppliers. Passengers would have access to these value-added services such as audio, graphic, data and multimedia broadcast and mobile data application.

#### *Xteam*

The Company recorded capital gain of HK\$189 million from the capital restructuring conducted by Xteam in the first half of the year. Upon completion of the acquisition of the Run Tong Group by Xteam in September 2007, the Company's equity interests in Xteam was further diluted to 30.4%. The substantial profit to be generated by the Run Tong Group, coupled with the clarification of Xteam's operational focus and business model, as well as the diversification of market channels, higher investment return would be created for the Company.

### **Prospects**

As Beijing's public transportation system is gradually enhanced and the network of subway being expanded, Smart Cards will become more popular, providing a favourable environment for the development of its small payment business. The Company will strengthen its controlling rights over Smart Cards, strive for business turnaround after concluding certain business deals. It will also seek to achieve a rapid breakthrough in the small payment sector.

Leveraging on our successful experience and progress, the Company will further focus on the development of its core businesses and market expansion for securing its revenue base. The Company is committed to making contribution to its shareholders and the society through maximising shareholder's value and achieving outstanding performance.



## Financial Review

The Group's equity interest in BD Ah Yat Abalone Group Limited ("BD Ah Yat") was disposed in June 2007, and the Group's restaurant operation was discontinued accordingly.

Consolidated revenue of the Group's continuing operations for the six months ended 30 June 2007 was HK\$97 million, increased by 120% comparing to the corresponding period last year of HK\$44 million. The growth was mainly driven by the revenue of IT projects from the railway transportation sector.

The placing of 768 million new shares by Xteam Software International Limited ("Xteam") and the exercise of certain share options of Xteam by its share option holders during the period under review gave rise to an exceptional gain of HK\$69 million to the Group through the dilution of its effective equity interest in Xteam. Xteam ceased to be a subsidiary of the Company and became an associate of the Company in May 2007, at which time the Group deconsolidated Xteam and its subsidiaries. In June 2007, the Group further disposed 220 million shares of Xteam and derived an exceptional gain of HK\$120 million. On the other side, the Group made a one-off provision of HK\$25 million for other investments and receivables.

After offsetting the above exceptional items, the operating and investment losses for the period of HK\$40 million and HK\$12 million, respectively, net profit for the period from continuing operations and discontinued operation amounted to HK\$112 million and HK\$16 million (included a gain on disposal of BD Ah Yat of HK\$4 million), respectively. In conclusion of the above, the Group had a total net profit attributable to equity holders of the Company of HK\$131 million, which represented a turnaround from loss of HK\$18 million to profit as compared with the corresponding period last year.

The board of directors does not recommend the payment of an interim dividend for the period.

## Financial Position

As at 30 June 2007, the Company has a total of 680,981,150 shares in issue. Total assets and total liabilities amounted to HK\$1,303 million and HK\$295 million, respectively. Shareholders' equity increased by HK\$380 million to HK\$945 million, was mainly due to the issuance of 50 million new shares of the Company at HK\$4.3 each in cash, the gain on Xteam's capital restructuring, and the exercise of certain share options of the Company during the period.

	<b>30 June 2007</b>	31 December 2006
Gearing ratio:	<b>5.4%</b>	12.5%
– Bank borrowings	<b>HK\$54 million</b>	HK\$83 million
– Total equity	<b>HK\$1,008 million</b>	HK\$665 million
Current ratio:	<b>326%</b>	190%
– Current assets	<b>HK\$963 million</b>	HK\$671 million
– Current liabilities	<b>HK\$295 million</b>	HK\$354 million



As compared with that as at 31 December 2006, cash and bank deposits held by the Group as at 30 June 2007 increased by HK\$340 million to HK\$642 million, of which approximately 75% and 25% were denominated in Hong Kong dollars and Renminbi, respectively. The Group's current assets and current liabilities are mainly denominated in Renminbi. Due to the gradual and steady appreciation in Renminbi against Hong Kong dollars, the Group will record exchange gains when consolidating the net assets of subsidiaries.

As at 30 June 2007, Renminbi denominated bank loan was equivalent to HK\$50 million, which is unsecured, with fixed interest rate of approximately 5.5% per annum and repayment term less than one year, while the remaining Singaporean dollars denominated and secured bank loan of HK\$4 million has been fully settled in August 2007.

### **Capital expenditure and contingent liabilities**

During the first half of the year of 2007, the Group incurred capital expenditure of HK\$4 million. As at 30 June 2007, the Group have share of a jointly-controlled entity's capital commitments amounted to HK\$16 million, and did not have any material contingent liabilities.

### **Employees**

As at 30 June 2007, approximately 400 full-time employees (31 December 2006: 475) were employed by the Group's continuing operations. Salaries of the employees are maintained at competitive levels with share options and bonuses granted based on individual and business performance.

### **Appreciation**

On behalf of the Board, I would like to express my sincere thanks to all shareholders and business partners of the Group for their continuous support, and to all employees of the Group for their valuable contribution.

By Order of the Board

**ZHANG HONGHAI**

*Chairman*

Hong Kong

18 September 2007

**CONDENSED CONSOLIDATED INCOME STATEMENT**

For the six months ended 30 June 2007

		Six months ended 30 June	
	Notes	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000 (Restated)
<b>CONTINUING OPERATIONS:</b>			
REVENUE	3	97,084	44,460
Cost of sales		(80,604)	(27,656)
Gross profit		16,480	16,804
Gain on deemed disposal of partial interest in a subsidiary	4	69,083	–
Gain on disposal of partial interest in an associate	5	119,532	–
Bank interest income		2,896	608
Other income and gains, net	3	1,528	7,820
Selling and distribution costs		(8,081)	(7,656)
Administrative expenses		(49,983)	(40,868)
Other expenses		(25,199)	–
Finance costs	6	(1,338)	(3,395)
Share of profits and losses of:			
Associates		(662)	(270)
Jointly-controlled entities		(11,836)	(922)
PROFIT/(LOSS) BEFORE TAX	7	112,420	(27,879)
TAX	8	(325)	(225)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		112,095	(28,104)
<b>DISCONTINUED OPERATION:</b>			
Profit for the period from the discontinued operation	9	16,251	4,874
PROFIT/(LOSS) FOR THE PERIOD		128,346	(23,230)
Attributable to:			
Equity holders of the Company:			
Continuing operations		121,838	(19,872)
Discontinued operation		9,556	1,833
		131,394	(18,039)
Minority interests		(3,048)	(5,191)
		128,346	(23,230)
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
Basic (HK cents)	10		
– For profit/(loss) for the period		20.90	(3.65)
– For profit/(loss) from continuing operations		19.38	(4.02)
Diluted (HK cents)			
– For profit for the period		20.76	N/A
– For profit from continuing operations		19.25	N/A



## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	Note	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		9,624	68,858
Investment properties		35,640	48,390
Goodwill		105,497	140,964
Other intangible assets		9,233	11,789
Interests in associates		118,309	6,824
Interests in jointly-controlled entities		55,579	67,520
Available-for-sale investments		–	1,160
Trade receivables	12	6,285	7,756
Other receivables		–	797
Deferred tax assets		403	484
Total non-current assets		<b>340,570</b>	354,542
<b>CURRENT ASSETS</b>			
Properties held for sale		44,108	–
Inventories		24,924	65,687
Amounts due from customers for contract works		26,873	12,717
Trade and bills receivables	12	89,221	161,369
Other receivables, prepayments and deposits		135,671	128,621
Pledged deposits		17,488	21,331
Cash and bank balances		624,464	281,052
Total current assets		<b>962,749</b>	670,777

## CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30 June 2007

	Notes	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	13	87,233	96,191
Amounts due to customers for contract works		27,621	15,998
Tax payable		150	6,058
Other payables and accruals		126,480	158,681
Interest-bearing bank borrowings		53,960	76,928
Total current liabilities		295,444	353,856
<b>NET CURRENT ASSETS</b>		667,305	316,921
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,007,875	671,463
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		–	6,423
Net assets		1,007,875	665,040
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company:</b>			
Issued capital	14	680,981	591,981
Reserves		264,466	(26,646)
		945,447	565,335
<b>Minority interests</b>		62,428	99,705
Total equity		1,007,875	665,040

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Attributable to equity holders of the Company									
	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Asset revaluation reserve (Unaudited) HK\$'000	PRC reserve funds (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits/ (accumulated losses) (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2007	591,981	5,961*	5,214*	30,877*	34,883*	8,902*	(112,483)*	565,335	99,705	665,040
Exchange realignment	-	-	-	-	-	550	-	550	(58)	492
Total income and expense for the period recognized directly in equity	-	-	-	-	-	550	-	550	(58)	492
Profit/(Loss) for the period	-	-	-	-	-	-	131,394	131,394	(3,048)	128,346
Total income and expense for the period	-	-	-	-	-	550	131,394	131,944	(3,106)	128,838
Capital contribution from minority interests	-	-	-	-	-	-	-	-	15,000	15,000
Disposal of interest in a subsidiary	-	-	-	-	-	-	-	-	(15,180)	(15,180)
Deconsolidation of subsidiaries	-	-	-	-	-	-	-	-	(33,597)	(33,597)
Transfer to PRC reserve funds	-	-	-	-	1,134	-	(1,134)	-	-	-
Transfer to retained profits/(accumulated losses)	-	-	(4,083)	(461)	-	-	4,544	-	-	-
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	(394)	(394)
Issue of shares	89,000	165,000	-	-	-	-	-	254,000	-	254,000
Share issue expenses	-	(5,832)	-	-	-	-	-	(5,832)	-	(5,832)
At 30 June 2007	<b>680,981</b>	<b>165,129*</b>	<b>1,131*</b>	<b>30,416*</b>	<b>36,017*</b>	<b>9,452*</b>	<b>22,321*</b>	<b>945,447</b>	<b>62,428</b>	<b>1,007,875</b>
At 1 January 2006	493,981	-	-	31,799	30,392	839	(120,994)	436,017	80,543	516,560
Exchange realignment	-	-	-	-	-	(10)	-	(10)	(20)	(30)
Total income and expense for the period recognized directly in equity	-	-	-	-	-	(10)	-	(10)	(20)	(30)
Loss for the period	-	-	-	-	-	-	(18,039)	(18,039)	(5,191)	(23,230)
Total income and expense for the period	-	-	-	-	-	(10)	(18,039)	(18,049)	(5,211)	(23,260)
Transfer to PRC reserve funds	-	-	-	-	1,236	-	(1,236)	-	-	-
Transfer to retained profits/(accumulated losses)	-	-	-	(460)	-	-	460	-	-	-
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	(1,200)	(1,200)
At 30 June 2006	<b>493,981</b>	<b>-</b>	<b>-</b>	<b>31,339</b>	<b>31,628</b>	<b>829</b>	<b>(139,809)</b>	<b>417,968</b>	<b>74,132</b>	<b>492,100</b>

\* These reserve accounts comprise the consolidated reserves of HK\$264,466,000 (31 December 2006: negative consolidated reserves of HK\$26,646,000) in the condensed consolidated balance sheet.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(33,476)	30,808
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	127,340	(16,908)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	249,362	(4,483)
NET INCREASE IN CASH AND CASH EQUIVALENTS	343,226	9,417
Cash and cash equivalents at beginning of period	281,052	138,765
Effect of foreign exchange rate changes, net	186	(31)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>624,464</b>	<b>148,151</b>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	624,464	160,841
Bank overdrafts	-	(12,690)
	<b>624,464</b>	<b>148,151</b>



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation

The unaudited condensed consolidated financial statements for the six months ended 30 June 2007 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies and basis of preparation adopted in the preparation of these condensed consolidated financial statements are as the same as those used in the annual financial statements for the year ended 31 December 2006.

These condensed consolidated financial statements have not been audited, but have been reviewed by the Company’s audit committee.

### 2. Segment information

The Group’s operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group’s business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

The following tables present revenue and profit/(loss) for the Group’s business segments for the six months ended 30 June 2007 and 2006.

	Six months ended 30 June 2007					Consolidated (unaudited) HK\$’000
	Continuing Operations			Total (unaudited) HK\$’000	Discontinued Operation	
	Information technology (unaudited) HK\$’000	Property investment (unaudited) HK\$’000	Eliminations (unaudited) HK\$’000		Restaurants (unaudited) HK\$’000	
<b>SEGMENT REVENUE</b>						
Sales to external customers	95,268	1,816	-	97,084	143,784	240,868
Gain on deemed disposal of partial interest in a subsidiary	69,083	-	-	69,083	-	69,083
Gain on disposal of partial interest in an associate	119,532	-	-	119,532	-	119,532
Gain on disposal of the discontinued operation	-	-	-	-	4,309	4,309
Other income and gains, net	1,528	-	-	1,528	430	1,958
<b>Total</b>	<b>285,411</b>	<b>1,816</b>	<b>-</b>	<b>287,227</b>	<b>148,523</b>	<b>435,750</b>
<b>SEGMENT RESULTS</b>	<b>140,852</b>	<b>(3,739)</b>		<b>137,113</b>	<b>17,094</b>	<b>154,207</b>
Bank interest income				2,896	16	2,912
Unallocated corporate expenses, net				(13,753)	-	(13,753)
Finance costs				(1,338)	(250)	(1,588)
Share of profits and losses of:						
Associates	(598)	(64)	-	(662)	-	(662)
Jointly-controlled entities	(11,836)	-	-	(11,836)	1,105	(10,731)
Profit before tax				112,420	17,965	130,385
Tax				(325)	(1,714)	(2,039)
<b>Profit for the period</b>				<b>112,095</b>	<b>16,251</b>	<b>128,346</b>

## 2. Segment information (continued)

	Six months ended 30 June 2006 (Restated)					Consolidated (unaudited) HK\$'000
	Continuing Operations			Total (unaudited) HK\$'000	Discontinued Operation	
	Information technology (unaudited) HK\$'000	Property investment (unaudited) HK\$'000	Eliminations (unaudited) HK\$'000		Restaurants (unaudited) HK\$'000	
<b>SEGMENT REVENUE</b>						
Sales to external customers	43,491	969	–	44,460	132,290	176,750
Intersegment sales	–	225	(225)	–	–	–
Other income and gains, net	7,789	–	–	7,789	308	8,097
<b>Total</b>	<b>51,280</b>	<b>1,194</b>	<b>(225)</b>	<b>52,249</b>	<b>132,598</b>	<b>184,847</b>
<b>SEGMENT RESULTS</b>	<b>(16,661)</b>	<b>(240)</b>		<b>(16,901)</b>	<b>7,380</b>	<b>(9,521)</b>
Bank interest income				608	27	635
Unallocated corporate expenses, net				(6,999)	–	(6,999)
Finance costs				(3,395)	(811)	(4,206)
Share of profits and losses of:						
Associates	(155)	(115)	–	(270)	–	(270)
Jointly-controlled entities	(922)	–	–	(922)	–	(922)
Profit/(Loss) before tax				(27,879)	6,596	(21,283)
Tax				(225)	(1,722)	(1,947)
<b>Profit/(Loss) for the period</b>				<b>(28,104)</b>	<b>4,874</b>	<b>(23,230)</b>



### 3. Revenue, other income and gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; gross rental income; and receipts from restaurant operations.

An analysis of revenue, other income and gains is as follows:

	<b>Six months ended 30 June</b>	
	<b>2007 (Unaudited) HK\$'000</b>	2006 (Unaudited) HK\$'000 (Restated)
<b>Revenue</b>		
Construction contracts	<b>67,150</b>	21,401
Rendering of services	<b>28,118</b>	22,090
Gross rental income	<b>1,816</b>	969
Receipts from restaurant operations	<b>143,784</b>	132,290
	<b>240,868</b>	176,750
Attributable to:		
Continuing operations reported in the condensed consolidated income statement	<b>97,084</b>	44,460
Discontinued operation – note 9 (a)	<b>143,784</b>	132,290
	<b>240,868</b>	176,750
<b>Other income and gains, net</b>		
Imputed interest on interest-free trade and other receivables	<b>351</b>	6,473
PRC and overseas tax subsidies	<b>1,320</b>	1,313
Others	<b>287</b>	342
	<b>1,958</b>	8,128
Attributable to:		
Continuing operations reported in the condensed consolidated income statement	<b>1,528</b>	7,820
Discontinued operation – note 9 (a)	<b>430</b>	308
	<b>1,958</b>	8,128

#### 4. Gain on deemed disposal of partial interest in a subsidiary

The gain on deemed disposal of partial interest in a subsidiary of HK\$69,083,000 recognised during the six months ended 30 June 2007 arose from the dilution of the Group's effective equity interest in Xteam Software International Limited ("Xteam"), a then indirectly held subsidiary of the Company, from 55.05% to 45.43% upon (i) the issuance of 300,000,000 and 468,000,000 new ordinary shares by Xteam in February 2007 and May 2007, respectively; and (ii) the exercise of share options of Xteam by certain option holders in exchange for 46,300,000 ordinary shares of Xteam.

Xteam ceased to be a subsidiary of the Company and became an associate of the Company in May 2007, at which time the Group deconsolidated Xteam and its subsidiaries.

The major classes of assets and liabilities of the deconsolidated subsidiaries are as follows:

	<b>(Unaudited)</b> <b>HK\$'000</b>
Net assets deconsolidated:	
Property, plant and equipment	5,506
Goodwill	31,119
Other intangible assets	1,084
Inventories	3,449
Trade receivables	42,918
Other receivables, prepayments and deposits	10,338
Cash and bank balances	39,986
Trade payables	(7,579)
Tax payable	(1,121)
Other payables and accruals	(4,821)
Minority Interests	(49,357)
	<hr/>
Reclassification to interests in associates from interests in subsidiaries	71,522
	<hr/>

#### 5. Gain on disposal of partial interest in an associate

The gain on disposal of partial interest in an associate of HK\$119,532,000 recognised during the six months ended 30 June 2007 arose from the disposal by the Group of 220,000,000 ordinary shares of Xteam in June 2007 for a cash consideration of HK\$136,400,000.



## 6. Finance costs

	Six months ended	
	30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest on bank borrowings and overdrafts	1,588	3,206
Interest on loan from an intermediate holding company	–	1,000
	<b>1,588</b>	<b>4,206</b>
Attributable to:		
Continuing operations reported in the condensed consolidated income statement	1,338	3,395
Discontinued operation – note 9 (a)	250	811
	<b>1,588</b>	<b>4,206</b>

## 7. Profit/(loss) before tax

The Group's profit/(loss) before tax (including those attributable to discontinued operation) is arrived at after charging:

	Six months ended	
	30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Depreciation	5,605	5,498
Amortisation of other intangible assets *	1,490	1,178
Impairment of available-for-sale investments @	1,160	47
Impairment of trade and other receivables @	19,874	–
Provision against an amount due from an associate @	4,146	–
Impairment provision of inventories *	1,696	–

\* These amounts are included in “Cost of sales” on the face of the condensed consolidated income statement.

@ These amounts are included in “Other expenses” on the face of the condensed consolidated income statement.

## 8. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the six months ended 30 June 2007. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's PRC subsidiaries, associates and jointly-controlled entities enjoy income tax exemptions and reductions. Certain PRC subsidiaries, associates and jointly-controlled entities are subject to income tax rates ranging from 7.5% to 33%.

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Current – Hong Kong		
Charge for the period	<b>51</b>	150
Current – Elsewhere		
Charge for the period	<b>1,825</b>	1,817
Under/(over) provision in prior periods	<b>83</b>	(20)
Deferred	<b>80</b>	–
Total tax charge for the period	<b>2,039</b>	1,947
Attributable to:		
Continuing operations reported in the condensed consolidated income statement	<b>325</b>	225
Discontinued operation – note 9 (a)	<b>1,714</b>	1,722
	<b>2,039</b>	1,947

The share of tax attributable to a jointly-controlled entity for the six months ended 30 June 2006 amounted to HK\$1,000 is included in “Share of profits and losses of jointly-controlled entities” on the face of the condensed consolidated income statement.



## 9. Discontinued operation

Pursuant to a conditional sale and purchase agreement entered into between the Company and Charterwood Limited dated 11 May 2007, the Company disposed its entire 51% equity interest in BD Ah Yat for a cash consideration of HK\$25,300,000 (the "Disposal"). Approval from the independent shareholders of the Company regarding the Disposal was obtained on 20 June 2007 and the share transfer was completed on 22 June 2007.

50% of the consideration, being HK\$12,650,000, was settled on 22 June 2007 while the remaining balance of HK\$12,650,000 was due for settlement on or before 30 June 2008. Pursuant to a deed of charge and assignment entered into between the Company and Charterwood Limited, Charterwood Limited has charged and assigned to the Company the 25.5% of the entire issued share capital of BD Ah Yat as a security for the due and punctual payment of the remaining consideration from Charterwood Limited to the Company.

The Group's restaurant operation was solely undertaken by BD Ah Yat. Accordingly, the restaurant operation of the Group was discontinued upon the completion of the Disposal.

- (a) The results of the discontinued operation dealt with in the condensed consolidated financial statements for the six months ended 30 June 2007 and 2006 are summarised as follows:

		<b>Six months ended</b>	
		<b>30 June</b>	
	Notes	<b>2007</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2006 (Unaudited) HK\$'000 (Restated)
Revenue	3	<b>143,784</b>	132,290
Cost of sales		<b>(65,890)</b>	(59,874)
Gross profit		<b>77,894</b>	72,416
Bank interest income		<b>16</b>	27
Other income and gains, net	3	<b>430</b>	308
Selling and distribution costs		<b>(64,482)</b>	(64,581)
Administrative expenses		<b>(1,057)</b>	(763)
Finance costs	6	<b>(250)</b>	(811)
Share of profits and losses of jointly-controlled entities		<b>1,105</b>	–
Profit before tax of the discontinued operation		<b>13,656</b>	6,596
Gain on disposal of the discontinued operation	9(b)	<b>4,309</b>	–
Profit before tax from the discontinued operation		<b>17,965</b>	6,596
Tax	8	<b>(1,714)</b>	(1,722)
Profit for the period from the discontinued operation		<b>16,251</b>	4,874

**9. Discontinued operation** (continued)

(b) The major classes of assets and liabilities of the discontinued operation are as follow:

	<b>(Unaudited)</b> <b>HK\$'000</b>
Net assets disposed of:	
Property, plant and equipment	19,239
Goodwill	1,545
Interests in jointly-controlled entities	1,210
Inventories	53,245
Trade receivables	7,385
Other receivables, prepayments and deposits	19,788
Pledged deposits	522
Cash and bank balances	10,135
Trade payables	(18,047)
Tax payable	(2,711)
Other payables and accruals	(38,505)
Interest-bearing bank borrowings	(16,626)
Minority interests	(15,180)
	<hr/> 22,000
Exchange fluctuation reserve realised	(1,309)
Costs associated with the disposal	300
Gain on disposal of the discontinued operation - note 9(a)	4,309
	<hr/> 25,300



## 9. Discontinued operation (continued)

(c) The net cash flows of the discontinued operation dealt with in the condensed consolidated financial statements for the six months ended 30 June 2007 and 2006 are as follows:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
		(Restated)
Net cash inflow from operating activities	<b>18,972</b>	7,387
Net cash outflow from investing activities	<b>(577)</b>	(6,814)
Net cash outflow from financing activities	<b>(18,555)</b>	(2,131)
Net cash outflow attributed to the discontinued operation	<b>(160)</b>	(1,558)

(d) Earnings per share from the discontinued operation

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK cents</b>	HK cents
		(Restated)
Basic from the discontinued operation	<b>1.52</b>	0.37
Diluted from the discontinued operation	<b>1.51</b>	N/A



**9. Discontinued operation** (continued)

(d) Earnings per share from the discontinued operation (continued)

The calculation of basic and diluted earnings per share amounts from the discontinued operation is based on:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
		(Restated)
Profit for the period attributable to ordinary equity holders of the Company from the discontinued operation	<b>HK\$ 9,556,000</b>	HK\$1,833,000
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation - note 10	<b>628,794,962</b>	493,981,150
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation - note 10	<b>632,958,980</b>	N/A

**10. Earnings/(loss) per share attributable to ordinary equity holders of the Company**

The calculation of basic earnings/(loss) per share amounts for the six months ended 30 June 2007 and 2006 is based on the profit/(loss) for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the periods.

The calculation of diluted earnings per share amount for the six months ended 30 June 2007 is based on the profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options of the Company into ordinary shares.

A diluted loss per share amount for the six months ended 30 June 2006 had not been disclosed as the share options outstanding during that period had an anti-dilutive effect on the basic loss per share for that period.



## 10. Earnings/(loss) per share attributable to ordinary equity holders of the Company (continued)

The calculation of the basic and diluted earnings/(loss) per share amounts is based on the following data:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
		(Restated)
<b>Earnings:</b>		
Profit/(loss) for the period attributable to ordinary equity holders of the Company used in the basic and diluted earnings/(loss) per share calculation		
From continuing operations	<b>121,838</b>	(19,872)
From discontinued operation – note 9 (d)	<b>9,556</b>	1,833
	<b>131,394</b>	(18,039)
<b>Number of ordinary shares:</b>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation – note 9 (d)	<b>628,794,962</b>	493,981,150
Effect of dilution of share options – weighted average number of ordinary shares	<b>4,164,018</b>	
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation – note 9 (d)	<b>632,958,980</b>	

## 11. Interim dividend

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

## 12. Trade and bills receivables

The various Group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. Certain customers are allowed to settle the construction contract sum by three annual instalments. An aged analysis of trade receivables is regularly prepared and closely monitored in order to minimise any related credit risk. Trade and bills receivables are non-interest-bearing.

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

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Current and within 3 months	<b>86,657</b>	137,094
4 to 6 months	<b>1,698</b>	1,346
7 to 12 months	<b>4,003</b>	14,369
Over 1 year	<b>3,148</b>	16,316
	<b>95,506</b>	169,125
Portion classified as current assets	<b>(89,221)</b>	(161,369)
Long term portion	<b>6,285</b>	7,756



### 13. Trade and bills payables

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

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

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Within 3 months	<b>40,906</b>	74,992
4 to 6 months	<b>33,807</b>	4,542
7 to 12 months	<b>6,644</b>	3,026
Over 1 year	<b>5,876</b>	13,631
	<b>87,233</b>	96,191

### 14. Share capital

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Authorised: 1,000,000,000 ordinary shares of HK\$1 each	<b>1,000,000</b>	1,000,000
Issued and fully paid: 680,981,150 (31 December 2006: 591,981,150) ordinary shares of HK\$1 each	<b>680,981</b>	591,981

Pursuant to the placing and subscription agreement dated 11 June 2007, 50,000,000 ordinary shares of the Company were allotted at HK\$4.3 each to its shareholders for a total cash consideration, before expenses, of HK\$215,000,000.

During the six months ended 30 June 2007, 39,000,000 ordinary shares of the Company were allotted at HK\$1 each upon the exercise of the share options of the Company for a total cash consideration, before expenses, of HK\$39,000,000.

**14. Share capital** (continued)

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

	<b>Number of shares in issue</b>	<b>Issued share capital HK\$'000</b>	<b>Share premium account HK\$'000</b>	<b>Total HK\$'000</b>
At 1 January 2007	591,981,150	591,981	5,961	597,942
Allotment of new shares	89,000,000	89,000	165,000	254,000
Share issue expenses	–	–	(5,832)	(5,832)
<b>At 30 June 2007</b>	<b>680,981,150</b>	<b>680,981</b>	<b>165,129</b>	<b>846,110</b>

Subsequent to the balance sheet date, 500,000 ordinary shares of the Company were allotted at HK\$1 each upon the exercise of the share options of the Company by a director of the Company in August 2007.

*Share options*

Details of the Company's share options scheme and the movement in share options granted under the scheme are set out under the heading "Share Option Schemes" in the section of "General Information" on pages 32 to 34.

**15. Contingent liabilities**

At 30 June 2007, the Group did not have any material contingent liabilities (31 December 2006: Nil).

**16. Capital commitments**

At 30 June 2007, the Group's share of a jointly-controlled entity's capital commitments is as follows:

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Contracted, but not provided for	<b>15,627</b>	16,363



## 17. Related party transactions

### (a) Transactions with related parties

		<b>Six months ended</b>	
		<b>30 June</b>	
	Notes	<b>2007</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2006 (Unaudited) HK\$'000
An associate:			
Sub-contracting fee	(i)	<b>9,046</b>	–
Interest expense on loan from an intermediate holding company	(ii)	–	1,000
Entities in which directors of the Group have beneficial interests:			
Sales of products	(iii)	–	631

#### Notes:

- (i) The sub-contracting fee paid to an associate was determined with reference to fees paid to third parties.
- (ii) The interest expense on loan from an intermediate holding company was charged at 4% per annum on the outstanding loan principal.
- (iii) The sale to related parties were priced at the estimated market prices.



**17. Related party transactions** (continued)

*(b) Outstanding balances with related parties*

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Due from related parties:		
Fellow subsidiaries	1,827	2,558
Jointly-controlled entities	2,834	6,594
An associate	191	5
Minority shareholders	1,698	1,625
Related companies	15,431	25,328
Due to related parties:		
A jointly-controlled entity	610	1,066
Associates	6,527	3,877
Minority shareholders	-	11,008
A related company	500	-
	<b>500</b>	<b>-</b>

The balances with related parties are unsecured, interest-free and are repayable on demand, except for an amount of HK\$13,400,000 (31 December 2006: HK\$23,096,000) due from a related company which is secured and repayable by instalments by 2008.

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

	<b>Six months ended 30 June 2007 (Unaudited) HK\$'000</b>	2006 (Unaudited) HK\$'000
Short term employee benefits	1,394	1,947
Post-employment benefits	32	36
Share-based payments	394	-
Total compensation paid to key management personnel	<b>1,820</b>	<b>1,983</b>



## 18. Events after the balance sheet date

Subsequent to the balance sheet date, the following significant events occurred:

- (a) On 29 May 2007, Proud Stars Limited, a wholly-owned subsidiary of Xteam, which is an associate of the Company, entered into an agreement with Mr. Li Kecheng for the acquisition of the entire issued share capital of Full Trump International Limited from Mr. Li Kecheng for an aggregated total consideration of HK\$500,000,000 (the "Acquisition"). The consideration has been satisfied by way of issue of (i) 1,560,000,000 new ordinary shares of Xteam and (ii) convertible bonds in the aggregate principal amount of HK\$200,246,000.

Approval from the shareholders of Xteam regarding the Acquisition was obtained on 28 August 2007. The Acquisition was completed on in September 2007 and the Group's equity interests in Xteam has been diluted from 40.56% to 30.41% immediately after the completion.

- (b) On 5 July 2007, Beijing Singapore Investments Pte. Ltd. ("BSI"), a 90% owned subsidiary of the Company, entered into a sale and purchase agreement and pursuant to which BSI disposed its investment property in Singapore, with a net carrying value of HK\$12,750,000 at the balance sheet date, for a cash consideration of HK\$12,750,000. The transaction was completed in August 2007.
- (c) On 10 September 2007, the Company entered into a sale and purchase agreement and pursuant to which the Company shall dispose its industrial property in Hong Kong, with a net book value of HK\$31,358,000, for a cash consideration of HK\$32,000,000. The completion shall take place by the end of October 2007.

## 19. Comparative amounts

Owing to the disposal of the Group's interests in BD Ah Yat during the six months ended 30 June 2007, the Group's restaurant operation was discontinued. Accordingly, certain comparative amounts for the condensed consolidated income statement have been restated to conform to the current period's presentation. In addition, certain comparative amounts have been reclassified to conform to the current period's presentation.

## 20. Approval of the condensed consolidated financial statements

These condensed consolidated financial statements were approved and authorised for issue by the board of directors on 18 September 2007.



## GENERAL INFORMATION

### Directors' service contracts

At 30 June 2007, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### Directors' interests in contracts

Save as disclosed in note 17 to the condensed consolidated financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its substantial shareholders, subsidiaries and subsidiaries of substantial shareholders was a party during the six months ended 30 June 2007.

### Directors' interests and short positions in shares and underlying shares

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

*Long positions in ordinary shares of the Company:*

<b>Name of director</b>	<b>Number of shares held</b>	<b>Capacity and nature of interest</b>	<b>Percentage of the Company's issued share capital</b>
Mr. Zhang Honghai	600,000	Directly beneficially owned	0.09
Mr. Li Kang Ying	304,000	Directly beneficially owned	0.04
Mr. E Meng	601,000	Directly beneficially owned	0.09
Mr. Cao Wei	190,000	Directly beneficially owned	0.03
Mr. Ng Kong Fat, Brian	8,792,755*	Through a controlled corporation	1.29
Mr. Ng Kong Fat, Brian	1,600,000	Directly beneficially owned	0.23

\* The 8,792,755 shares are held by Sunbird Holdings Limited, a company beneficially owned by Mr. Ng Kong Fat, Brian.



## Directors' interests and short positions in shares and underlying shares (continued)

*Long positions in ordinary shares of an associated corporation of the Company:*

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. E Meng	Beijing Enterprises Holdings Limited	Company's substantial shareholder	60,000	Directly beneficially owned	0.01

The interests of the directors in the share options of the Company are separately disclosed under the heading "Share Option Schemes" below.

In addition to the above, Mr. Ng Kong Fat, Brian has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 30 June 2007, none of the directors and the associates 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.

### Directors' rights to acquire shares or debentures

Save as disclosed under the heading "Share Option Schemes" below, 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 and subsidiaries of substantial shareholders a party to any arrangement to enable the directors to acquire such rights in any other body corporate.



## Share option schemes

### *The Company*

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

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme is limited to 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date on which the offer of the share options is accepted or on the expiry date of the Scheme, whichever is earlier.

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

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.



## Share option schemes (continued)

*The Company* (continued)

The following sets out the movements in the share options granted under the Scheme during the six months ended 30 June 2007:

Name or category of participant	Notes	Number of share options		
		At 1 January 2007	Exercised during the period	At 30 June 2007
<b>Executive directors:</b>				
Mr. Zhang Honghai	(b)	4,000,000	(600,000)	3,400,000
Mr. Li Kangying	(a)	2,700,000	(2,700,000)	–
	(b)	800,000	(800,000)	–
		3,500,000	(3,500,000)	–
Mr. E Meng	(a)	1,200,000	(1,200,000)	–
	(b)	1,600,000	(1,600,000)	–
		2,800,000	(2,800,000)	–
Mr. Wang Yong	(b)	3,000,000	(3,000,000)	–
Mr. Cao Wei	(a)	2,500,000	(2,500,000)	–
	(b)	500,000	(500,000)	–
		3,000,000	(3,000,000)	–
Dr. Yu Xiaoyang	(b)	2,800,000	–	2,800,000
Mr. Ng Kong Fat, Brian	(a)	1,200,000	(1,200,000)	–
	(b)	1,600,000	(1,600,000)	–
		2,800,000	(2,800,000)	–
<b>Other employees:</b>				
In aggregate	(a)	6,200,000	(6,200,000)	–
	(b)	17,100,000	(17,100,000)	–
		23,300,000	(23,300,000)	–
		45,200,000	(39,000,000)	6,200,000

## Share option schemes (continued)

*The Company* (continued)

Notes:

- (a) These share options were granted on 18 January 2002 at an exercise price of HK\$1.00\* per share of the Company. The share options may 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 the outstanding share options were exercised in January 2007.
- (b) These share options were granted on 27 June 2006 at an exercise price of HK\$1.00\* per share of the Company. The share options are exercisable at any time commencing on 27 June 2006 and, if not otherwise exercised, will lapse on 16 June 2011.
- \* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of the Company.

No share options were granted during the six months ended 30 June 2007 and up to the date of approval of these condensed consolidated financial statements.

39,000,000 share options were exercised during the six months ended 30 June 2007. The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was HK\$2.71 per share of the Company.

At 30 June 2007, the Company had 6,200,000 share options outstanding under the Scheme, which represented approximately 0.9% of the shares of the Company in issue at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 6,200,000 additional ordinary shares of the Company and additional share capital of HK\$6,200,000.

Subsequent to 30 June 2007 and up to the date of approval of these condensed consolidated financial statements, 500,000 share options outstanding at 30 June 2007 were exercised, which increased the share capital of the Company by HK\$500,000. The closing price of the shares of the Company immediately before the date on which the share options were exercised was HK\$4.34 per share of the Company.

### *Xteam Software International Limited ("Xteam")*

On 21 November 2001, Xteam, previously a subsidiary of the Company and became an associate of the Company in May 2007 as detailed in note 4 to the condensed consolidated financial statement, adopted a share option scheme (the "Xteam Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Xteam group's operations. Eligible participants of the Xteam Scheme include the executive and non-executive directors of Xteam, full-time employees of the Xteam group, advisers and consultants of the Xteam group. The Xteam Scheme became effective on 21 November 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.



## Share option schemes (continued)

*Xteam Software International Limited ("Xteam") (continued)*

The maximum number of shares which may be issued upon exercise of all options granted and yet to be granted under the Xteam Scheme is currently limited to 30% of the shares of Xteam in issue at any time. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each eligible participant in the Xteam Scheme in any 12-month period up to the date of the grant is limited to 1% of the aggregate number of issued shares of Xteam at any time.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of Xteam at their discretion, and commences on the date upon which the options are deemed to be granted and accepted.

The exercise price of share options is determinable by the directors of Xteam, but may not be less than the higher of (i) the Stock Exchange closing price of shares of Xteam on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the shares of Xteam for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following sets out the movements in the share options granted under the Xteam Scheme during the six months ended 30 June 2007:

Category of participant	Notes	Number of share options			
		At 1 January 2007	Granted during the period	Exercised during the period	At 30 June 2007
<b>Employees:</b>					
In aggregate	(a)	8,800,000	–	(8,100,000)	700,000
	(b)	–	22,200,000	(22,200,000)	–
		8,800,000	22,200,000	(30,300,000)	700,000
<b>Advisers and consultants:</b>					
In aggregate	(a)	33,000,000	–	(27,000,000)	6,000,000
		41,800,000	22,200,000	(57,300,000)	6,700,000

Notes:

- (a) These share options were granted on 19 December 2003 at an exercise price of HK\$0.14\* per share of Xteam. The share options are exercisable at any time commencing on 19 December 2003 and, if not otherwise exercised, will lapse on 18 December 2013.

## Share option schemes (continued)

*Xteam Software International Limited ("Xteam")* (continued)

Notes: (continued)

(b) These share options were granted on 4 January 2007 at an exercise price of HK\$0.044\* per share of Xteam. The closing price of the shares of Xteam on the Stock Exchange on the trading day immediately prior to the date of the grant of the share options was HK\$0.042 per share of Xteam. The share options are exercisable at any time commencing on 4 January 2007 and, if not otherwise exercised, will lapse on 3 January 2017.

\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of Xteam.

The estimated fair value of the 22,200,000 share options granted during the six months ended 30 June 2007 was HK\$394,000, which was fully recognised in the income statement of the Xteam group as share option benefits during the six months ended 30 June 2007. The fair value of the share options as at the date of grant was estimated using the Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the share options were granted.

57,300,000 share options were exercised during the six months ended 30 June 2007. The weighted average closing price of the shares of Xteam immediately before the dates on which the share options were exercised was HK\$0.362 per share of Xteam.

At 30 June 2007, Xteam had 6,700,000 share options outstanding under the Xteam Scheme, which represented approximately 0.14% of the shares of Xteam in issue at that date. The exercise in full of the remaining share options would, under the present capital structure of Xteam, result in the issue of 6,700,000 additional ordinary shares of Xteam and additional share capital of HK\$67,000 and share premium of HK\$871,000 (before any issue expenses).

Subsequent to 30 June 2007, 6,000,000 share options outstanding at 30 June 2007 were exercised, which increased the share capital of Xteam by HK\$60,000 and share premium by HK\$780,000 (before any issue expenses). The closing price of the shares of Xteam immediately before the date on which the share options were exercised was HK\$0.71 per share of Xteam. Owing to the resignation of an employee, the 700,000 share options granted to him were forfeited accordingly.

On 13 September 2007, 392,300,000 share options were granted at an exercise price of HK\$0.79 per share of Xteam, including 277,400,000 share options granted to the directors of Xteam, 100,900,000 share options were granted to the employees of Xteam and 14,000,000 share options were granted to the advisers and consultants of Xteam. The closing price of the shares of Xteam on the Stock Exchange on the trading day immediately prior to the date of the grant of the share options was HK\$0.77 per share of Xteam. The exercise period of the share options is five years, subject to an annual cap of not more than 25% of the share options granted. However, no share option is exercisable within the first six months from the date of grant of the share options.



## Substantial shareholders' interests in shares and underlying shares

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:

*Long positions in ordinary shares of the Company:*

<b>Name</b>	<b>Notes</b>	<b>Number of shares held</b>	<b>Capacity and nature of interest</b>	<b>Percentage of the Company's issued share capital</b>
Idata Finance Trading Limited ("Idata")		275,675,000	Directly beneficially owned	40.48
Beijing Enterprises Holdings Limited ("BEHL")	(a)	275,675,000	Through a controlled corporation	40.48
Beijing Enterprises Investments Limited ("BEIL")	(a)	275,675,000	Through controlled corporations	40.48
Beijing Enterprises Group Company Limited ("BEGCL")	(a)	275,675,000	Through controlled corporations	40.48
Trophy Fund		72,891,250	Directly beneficially owned	10.70
Trophy Asset Management Limited ("TAML")	(b)	79,841,250	Investment manager	11.72
Winnington Capital Limited ("WCL")	(b)	80,041,250	Investment manager	11.75
Mr. Hung Kam Biu ("Mr. Hung")	(b)	80,041,250	Through controlled corporations	11.75
Ms. Chu Jocelyn ("Ms. Chu")	(b)	80,041,250	Through controlled corporations	11.75
Citigroup Inc.		74,865,250	Security interest	10.99
Citigroup Inc.		166,000	Custodian corporation/ approved lending agent	0.02



## Substantial shareholders' interests in shares and underlying shares (continued)

*Long positions in ordinary shares of the Company: (continued)*

Notes:

- (a) The interests disclosed include the shares owned by Idata. Idata is held directly as to 100% by BEHL. BEHL is held directly as to 21.58% by BEIL, 9.64% by Modern Orient Limited ("MOL") and 39.62% by Beijing Enterprises Group (BVI) Company Limited ("BEBVI"). MOL is held directly as to 100% by BEIL. BEIL is held directly as to 72.72% by BEBVI. BEBVI is held directly as to 100% by BEGCL. Accordingly, BEHL, BEIL and BEGCL are deemed to be interested in the shares owned by Idata.
- (b) The interests disclosed include the shares owned by Trophy Fund. TAML and WCL are investment managers of Trophy Fund. Mr. Hung has 100% and 50% beneficial interests in TAML and WCL, respectively. Ms. Chu is the spouse of Mr. Hung. Accordingly, TAML, WCL, Mr. Hung and Ms. Chu are deemed to be interested in the shares owned by Trophy Fund.

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.

### Purchase, redemption or sale of listed securities of the Company

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

### Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issue share capital was held by the public as at the date of this report.



## CORPORATE GOVERNANCE REPORT

### Corporate governance practices

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

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

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

### Directors’ securities transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules to govern securities transactions by the directors. After having made specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code and its code of conduct throughout the period under review.

### Audit committee

The audit committee of the Company was established in compliance with rule 3.21 of the Listing Rules. The role and function of the audit committee include supervising the accounting and financial reporting procedure and auditing the financial statements of the Group, examining and monitoring the internal control system adopted by the Group and reviewing the relevant work of the Group’s external auditors. Members of the audit committee include three independent non-executive directors, Mr. Cao Guixing (chairman of the audit committee), Prof. Liu Wei and Dr. Jin Lizuo.

The audit committee has reviewed the unaudited condensed interim consolidated financial statements for the six months ended 30 June 2007.



### **Remuneration committee**

The remuneration committee of the Company was established in accordance with the Code Provisions. 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 executive chairman of the Company, Mr. Zhang Honghai, and three independent non-executive directors, Mr. Cao Guixing, Prof. Liu Wei and Dr. Jin Lizuo (chairman of the remuneration committee).

### **Internal control**

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