

Beijing Development (Hong Kong) Limited

(Stock Code: 154)



INTERIM REPORT
2006

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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

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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

LEGAL ADVISERS

Baker & McKenzie

PRINCIPAL BANKERS

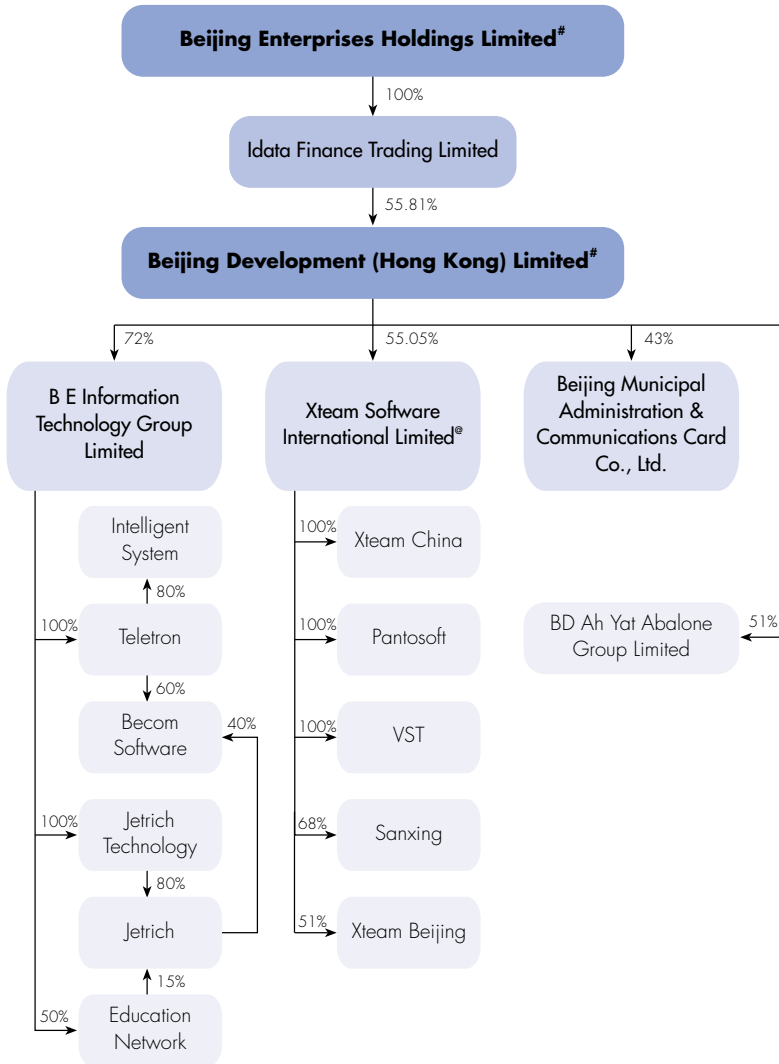
In Hong Kong:

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



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

Looking back at the first half of the year, the Group continuously devoted more resources to the information technology segment and established three main information technology business sectors, namely Beijing Municipal Administration & Communications Card Co., Ltd., B E Information Technology Group Limited ("B E Info") and Xteam Software International Limited ("Xteam").

The Smart Cards (一卡通) has successfully transitioned from the construction stage to the operational stage. Since 10 May 2006, Smart Cards has fully substituted for the monthly pass of buses and Metro Lines in Beijing and implemented in all buses, Metro Lines and almost half of the taxis. The total Smart Cards issued amounted to over 4,300,000 so far with an average daily transaction volume of approximately 6,000,000. The overall operation of the system was steady and normal. With continual development of its applications in transportation and non-transportation areas, it is expected that the circulation of the Smart Cards will reach 5,000,000, which included the issuance of 900,000 student IC cards.

B E Info has expanded into railway business and formally entered into the Contract of Automated Fare Collection Clearing Centre System ("ACC") of Beijing Mass Transit Network Management & Support Project in March. It is anticipated that ACC will commence operation before 2008 Beijing Olympics. The coordination of certain railway routes and multi-operating units and the unification of automated fare collection clearing centre system can provide unimpeded journey for all passengers using Smart Cards. B E Info has also signed the Procurement Contract of Automated Fare Collection ("AFC") System for Beijing Metro Lines 1 & 2 and Batong Line in May. AFC system is an important part of the public transportation in the capital and acts as the infrastructural transportation operating system for 2008 Beijing Olympics.

Xteam has completed the establishment of Childbirth Insurance System and Data Exchange Platform System for the Beijing Labour and Society Security Department. In addition to this, it also completed the construction and maintenance services of the Centralized Four Insurances System for the Beijing Labour and Society Security Department and commenced the research and development of Labour Supervision System and Internet Application System for Socialised Medical Scheme. Through actively involved in the management of temporary urban residents and establishment of service information platform, Xteam made great contributions in the information technology of labour market and street level e-government administration businesses.

STRATEGIES AND PROSPECTS

Given the stable and continual economic development of the PRC, various large and medium-sized cities continue to devote more resources to infrastructure, particularly the transportation sector, and prioritise the development of railway. Based on our extensive experiences in railway sector and electronic settlement and clearing system with Smart Cards as the core, and the market development trend in the future, the Company has set the development goal as becoming the constructor and operator of electronic settlement and clearing platform in infrastructure and utilities sectors.

The Group's development projects of railway sector in Beijing, including the ACC, AFC, Building Automation System ("BAS") and Full Height Safety Doors System, so far amounted to almost one billion. The Group fully commits itself to expand into the railway business and proactively seeks for opportunities of international cooperation, with an aim to accumulate extensive experience in terms of technologies, human resources reserve, management models and cooperation mechanism. The railway management in Beijing will enter into a new phase upon the completion of ACC. ACC also has significant implication for improving the railway management standards in Beijing, enhancing the image of Beijing as an international city as well as establishing digital Beijing and digital Olympics. Following the completion of ACC, it will become an important component of Smart Card system, which will contribute to more extensive applications of Smart Cards. This also signifies that the Group has added a new node to support itself for the development of the largest settlement and clearing system platform for Beijing.

FINANCIAL REVIEW

The consolidated revenue of the Group for the six months ended 30 June 2006 was HK\$176.8 million, representing a decline of 11.9% as compared with the corresponding period last year of HK\$200.5 million. Revenue from information technology business segment decreased by 35% from HK\$66.9 million in the corresponding period last year to HK\$43.5 million. On the other hand, revenue from restaurant business segment increased by 1.8% from HK\$129.9 million in the corresponding period last year to HK\$132.3 million.

The loss attributable to shareholders of the Company for the six months ended 30 June 2006 was HK\$18 million, increased by HK\$9.5 million as compared with the corresponding period last year of HK\$8.5 million. The board of directors does not recommend the payment of an interim dividend for the period.

FINANCIAL POSITION

For the six months ended 30 June 2006, the Group had net cash inflow from operating activities of HK\$30.8 million, as compared with the net cash outflow in the corresponding period last year of HK\$4.2 million. At 30 June 2006, the Group had total assets and total liabilities of HK\$855.7 million and HK\$363.6 million, respectively. Equity attributable to equity holders of the parent and minority interests amounted to HK\$418 million and HK\$74.1 million, respectively.

	30 June 2006 HK\$ million	31 December 2005 HK\$ million
Cash and bank balances	160.8	146.8
Bank loans	113.1	112.3
Loan from an intermediate holding company	50.0	50.0
Net debt	2.3	15.5
Gearing ratio (net debt/total equity)	0.5%	3.0%
Current ratio (current assets/current liabilities)	136.1%	140.7%

At balance sheet date, over 95% of the Group's cash and bank balances were denominated in Renminbi. The Group's bank loans were wholly repayable within one year, except for HK\$3.7 million which was repayable by instalment up to the year 2012. Approximately 85% of the Group's bank loans were denominated in Renminbi, unsecured and have fixed interest rates of approximately 5% per annum. Approximately 15% of the Group's bank loans were secured by certain of the Group's leasehold land and buildings which had an aggregate net book value of HK\$44 million as at 30 June 2006.

The Group incurred capital expenditures of HK\$10.2 million during the period under review and have share of a jointly-controlled entity's own capital commitments of HK\$23.2 million as at 30 June 2006. The Company has guarantees given to banks in connection with facilities granted to subsidiaries of HK\$150.3 million, which were utilised to the extent of HK\$100.4 million as at 30 June 2006.

EMPLOYEES

At 30 June 2006, 1,910 full-time employees (31 December 2005: 1,940) were employed by the Group. Salaries of our 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
13 September 2006

CONDENSED CONSOLIDATED INCOME STATEMENT*For the six months ended 30 June 2006*

		Six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
	Notes		
REVENUE	3	176,750	200,534
Cost of sales		(87,530)	(95,926)
Gross profit		89,220	104,608
Bank interest income		635	446
Other income and gains, net	3	8,128	3,322
Selling and distribution costs		(72,237)	(67,684)
Administrative expenses		(41,631)	(37,512)
Finance costs	4	(4,206)	(4,982)
Share of profits and losses of:			
Associates		(270)	(136)
Jointly-controlled entities		(922)	(1,539)
LOSS BEFORE TAX	5	(21,283)	(3,477)
Tax	6	(1,947)	(1,659)
LOSS FOR THE PERIOD		(23,230)	(5,136)
Attributable to:			
Equity holders of the parent		(18,039)	(8,477)
Minority interests		(5,191)	3,341
		(23,230)	(5,136)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (cents)	7	(3.65)	(1.72)

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	Note	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		77,011	72,628
Investment properties		34,400	34,400
Goodwill		140,964	140,964
Other intangible assets		11,595	12,773
Interests in associates		12,341	12,521
Interests in jointly-controlled entities		66,794	67,716
Available-for-sale investments		1,848	1,896
Trade receivables	9	11,704	33,202
Other receivables		8,379	7,546
Deferred tax assets		733	733
Total non-current assets		365,769	384,379
CURRENT ASSETS			
Inventories		78,440	66,827
Amounts due from customers for contract works		14,845	7,585
Trade and bills receivables	9	172,778	182,042
Other receivables, prepayments and deposits		52,467	63,755
Pledged deposits		10,519	3,612
Cash and bank balances		160,841	146,833
Total current assets		489,890	470,654

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30 June 2006

	Notes	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
CURRENT LIABILITIES			
Trade and bills payables	10	52,493	62,639
Amounts due to customers for contract works		66,850	14,074
Tax payable		2,537	2,951
Other payables and accruals		128,567	146,502
Bank loans		109,389	108,287
Total current liabilities		359,836	334,453
NET CURRENT ASSETS			
		130,054	136,201
TOTAL ASSETS LESS CURRENT LIABILITIES			
		495,823	520,580
NON-CURRENT LIABILITIES			
Bank loans		3,723	4,020
Net assets		492,100	516,560
EQUITY			
Equity attributable to equity holders of the parent:			
Issued capital	11	493,981	493,981
Reserves		(76,013)	(57,964)
		417,968	436,017
Minority interests			
		74,132	80,543
Total equity		492,100	516,560

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Attributable to equity holders of the parent							Total equity (Unaudited) HK\$'000
	Issued share capital (Unaudited) HK\$'000	Asset revaluation reserve (Unaudited) HK\$'000	PRC reserve funds (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Minority interests (Unaudited) HK\$'000	
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 recognised 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 accumulated losses	-	(460)	-	-	460	-	-	-
Dividends paid to minority shareholders	-	-	-	-	-	-	(1,200)	(1,200)
At 30 June 2006	493,981	31,339*	31,628*	829*	(139,809)*	417,968	74,132	492,100
At 1 January 2005								
As previously reported	493,981	32,721	28,397	(2,919)	(72,169)	480,011	71,067	551,078
Effect of the adoption of HKAS 39 - discounting long term receivables	-	-	-	-	(12,710)	(12,710)	(4,943)	(17,653)
As restated	493,981	32,721	28,397	(2,919)	(84,879)	467,301	66,124	533,425
Exchange realignment	-	-	-	289	-	289	(649)	(360)
Total income and expense for the period recognised directly in equity	-	-	-	289	-	289	(649)	(360)
Profit/(loss) for the period	-	-	-	-	(8,477)	(8,477)	3,341	(5,136)
Total income and expense for the period	-	-	-	289	(8,477)	(8,188)	2,692	(5,496)
Transfer to PRC reserve funds	-	-	613	-	(613)	-	-	-
Transfer to accumulated losses	-	(460)	-	-	460	-	-	-
Dividends paid to minority shareholders	-	-	-	-	-	-	(866)	(866)
Acquisition of a subsidiary	-	-	-	-	-	-	2,231	2,231
At 30 June 2005	493,981	32,261	29,010	(2,630)	(93,509)	459,113	70,181	529,294

* These reserve accounts comprise the negative reserves of HK\$76,013,000 (31 December 2005: HK\$57,964,000) in the condensed consolidated balance sheet.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2006*

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	30,808	(4,221)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	(16,908)	12,590
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(4,483)	(9,804)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	9,417	(1,435)
Cash and cash equivalents at beginning of period	138,765	88,930
Effect of foreign exchange rate changes, net	(31)	(341)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>148,151</u>	<u>87,154</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	160,841	99,403
Bank overdrafts	(12,690)	(12,249)
	<u>148,151</u>	<u>87,154</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed interim consolidated financial statements for the six months ended 30 June 2006 are prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of these interim financial statements are as the same as those used in the annual financial statements for the year ended 31 December 2005.

These interim 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 organised 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.

2. SEGMENT INFORMATION (continued)

The following tables present revenue and profit/(loss) for the Group's business segments.

	Six months ended 30 June 2006				
	Information technology (Unaudited) HK\$'000	Restaurants (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:					
Sales to external customers	43,491	132,290	969	-	176,750
Intersegment sales	-	-	225	(225)	-
Other income and gains, net	7,789	308	-	-	8,097
Total	<u>51,280</u>	<u>132,598</u>	<u>1,194</u>	<u>(225)</u>	<u>184,847</u>
Segment results	<u>(16,661)</u>	<u>7,380</u>	<u>(240)</u>		(9,521)
Bank interest income					635
Unallocated corporate expenses, net					(6,999)
Finance costs					(4,206)
Share of profits and losses of:					
Associates	(155)	-	(115)		(270)
Jointly-controlled entities	(922)	-	-		(922)
Loss before tax					(21,283)
Tax					(1,947)
Loss for the period					<u>(23,230)</u>

2. SEGMENT INFORMATION (continued)

	Six months ended 30 June 2005				Consolidated (Unaudited) HK\$'000
	Information technology (Unaudited) HK\$'000	Restaurants (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Eliminations (Unaudited) HK\$'000	
Segment revenue:					
Sales to external customers	66,884	129,910	3,740	-	200,534
Intersegment sales	-	-	451	(451)	-
Other income and gains, net	2,954	320	23	-	3,297
Total	<u>69,838</u>	<u>130,230</u>	<u>4,214</u>	<u>(451)</u>	<u>203,831</u>
Segment results	<u>(1,731)</u>	<u>10,610</u>	<u>1,371</u>		10,250
Bank interest income					446
Unallocated corporate expenses, net					(7,516)
Finance costs					(4,982)
Share of profits and losses of:					
Associates	(251)	-	115		(136)
Jointly-controlled entities	(1,539)	-	-		(1,539)
Loss before tax					(3,477)
Tax					(1,659)
Loss for the period					<u>(5,136)</u>

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; proceeds from the sale of properties held for sale; gross rental income; and receipts from restaurant operations.

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

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Revenue		
Construction contracts	21,401	32,471
Rendering of services	22,091	34,413
Receipts from restaurant operations	131,658	129,910
Sales of dried seafood	631	–
Gross rental income	969	1,390
Sales of properties held for sale	–	2,350
	176,750	200,534
Other income and gains, net		
Imputed interest on interest-free trade and other receivables	6,473	–
PRC and overseas tax subsidies	1,313	3,227
Others	342	95
	8,128	3,322

4. FINANCE COSTS

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	3,206	4,842
Interest on loan from an intermediate holding company	1,000	140
	4,206	4,982

5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Depreciation	5,498	7,790
Amortisation of other intangible assets *	1,178	1,156

* The amortisation of intangible assets is included in "Cost of sales" on the face of the condensed consolidated income statement.

6. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the six months ended 30 June 2006. 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 in 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%.

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Current – Hong Kong		
Charge for the period	150	592
Current – Elsewhere		
Charge for the period	1,817	1,288
Under/(over) provision in prior periods	(20)	380
Deferred	-	(601)
Total tax charge for the period	1,947	1,659

The share of tax attributable to a jointly-controlled entity for the six months ended 30 June 2006 amounted to HK\$1,000 (2005: tax credit of HK\$32,000) is included in "Share of profits and losses of jointly-controlled entities" on the face of the condensed consolidated income statement.

7. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share amounts for the six months ended 30 June 2006 is based on the loss attributable to ordinary equity holders of the parent of HK\$18,039,000 (2005: HK\$8,477,000) and the 493,981,150 (2005: 493,981,150) ordinary shares in issue during the period.

Diluted loss per share amounts for the six months ended 30 June 2006 and 2005 have not been disclosed as the share options outstanding during those periods had an anti-dilutive effect on the basic loss per share for the periods.

8. INTERIM DIVIDEND

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

9. 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:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Current and within 3 months	157,269	177,682
4 to 6 months	5,901	4,022
7 to 12 months	5,129	12,668
Over 1 year	16,183	20,872
	184,482	215,244
Portion classified as current assets	(172,778)	(182,042)
Long term portion	11,704	33,202

10. 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:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within 3 months	32,263	47,754
4 to 6 months	1,845	2,332
7 to 12 months	8,589	3,038
Over 1 year	9,796	9,515
	<u>52,493</u>	<u>62,639</u>

11. SHARE CAPITAL

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Authorised: 1,000,000,000 ordinary shares of HK\$1 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid: 493,981,150 ordinary shares of HK\$1 each	<u>493,981</u>	<u>493,981</u>

Share options

Details of the Company's share options scheme and the share options issued under the scheme are set out under the heading "Share Option Schemes" in the section of "General Information" on pages 27 to 30.

12. CONTINGENT LIABILITIES

At 30 June 2006, the Company's contingent liabilities not provided for in the condensed consolidated financial statements were as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	<u>150,341</u>	<u>222,456</u>

At 30 June 2006, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$100,422,000 (31 December 2005: HK\$100,681,000).

13. CAPITAL COMMITMENTS

At 30 June 2006, the Group's share of a jointly-controlled entity's own capital commitments is as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Contracted, but not provided for	<u>23,152</u>	<u>22,797</u>

14. RELATED PARTY TRANSACTIONS**(a) Transactions with related parties**

		Six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Notes			
	Interest expense on loan from an intermediate holding company	1,000	140
	Jointly-controlled entities:		
	Sale of products	-	805
	Purchases of products	-	932
	Entities in which directors of the Group have beneficial interests:		
	Sales of products	631	195

Notes:

- (i) The interest expense on loan from an intermediate holding company was charged at 4% per annum on the outstanding loan principal.
- (ii) The sale to and purchases from related parties were priced at the estimated market prices.

14. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties

	Notes	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Due from related parties:			
Fellow subsidiaries		2,488	2,488
A jointly-controlled entity		1,387	3,251
An associate		4	4
Minority shareholders		120	24
Companies in which directors of the Company have beneficial interest	(ii)	32,130	26,245
Due to related parties:			
An intermediate holding company (iii)		51,623	50,623
A jointly-controlled entity		1,406	1,065
Associates		1,933	2,904
Minority shareholders		10,532	11,198
Companies in which directors of the Company have beneficial interest		3,279	2,990

Notes:

- (i) Unless otherwise stated, the balances with related parties are unsecured, interest-free and have no fixed terms of repayment
- (ii) Certain amounts due from related companies of HK\$22,480,000 (31 December 2005: HK\$23,189,000) are secured and repayable by instalment up to the year 2008.
- (iii) An amount due to an intermediate holding company of HK\$50,000,000 (31 December 2005: HK\$50,000,000) bears interest at 4% per annum and is repayable within one year.

14. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the group

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Short term employee benefits	1,947	3,231
Post-employment benefits	36	39
Total compensation paid to key management personnel	1,983	3,270

15. APPROVAL OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These condensed interim consolidated financial statements were approved and authorised for issue by the board of directors on 13 September 2006.

GENERAL INFORMATION

DIRECTORS' SERVICE CONTRACTS

At 30 June 2006, 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 14 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 holding companies, subsidiaries and fellow subsidiaries was a party during the six months ended 30 June 2006.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2006, 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:

Name of director	Number of shares held	Capacity and nature of interest	Percentage of the Company's issued share capital
Mr. Ng Kong Fat, Brian	8,792,755*	Through a controlled corporation	1.78
Mr. Cao Wei	8,000,000	Directly beneficially owned	1.62

* 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. Ng Kong Fat, Brian	BD Ah Yat Abalone Group Limited	Company's subsidiary	1,462,000	Directly beneficially owned	21.5

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 2006, 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 2006 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 holding companies, subsidiaries and fellow subsidiaries 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 the 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, if applicable, 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 the 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 the 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 share options were outstanding under the Scheme during the six months ended 30 June 2006:

Name or category of participant	Notes	Number of share options			
		At 1 January 2006	Granted during the period	Lapsed/ forfeited during the period	At 30 June 2006
Executive directors:					
Mr. Zhang Honghai	(c)	–	4,000,000	–	4,000,000
Mr. Li Kangying	(b)	2,700,000	–	–	2,700,000
	(c)	–	800,000	–	800,000
		2,700,000	800,000	–	3,500,000
Mr. E Meng	(a)	1,600,000	–	(1,600,000)	–
	(b)	1,200,000	–	–	1,200,000
	(c)	–	1,600,000	–	1,600,000
		2,800,000	1,600,000	(1,600,000)	2,800,000
Mr. Wang Yong	(c)	–	3,000,000	–	3,000,000
Mr. Cao Wei	(b)	2,500,000	–	–	2,500,000
	(c)	–	500,000	–	500,000
		2,500,000	500,000	–	3,000,000
Dr. Yu Xiaoyang	(c)	–	2,800,000	–	2,800,000
Mr. Ng Kong Fat, Brian	(a)	2,300,000	–	(2,300,000)	–
	(b)	1,200,000	–	–	1,200,000
	(c)	–	1,600,000	–	1,600,000
		3,500,000	1,600,000	(2,300,000)	2,800,000
Other employees:					
In aggregate	(a)	4,060,000	–	(4,060,000)	–
	(b)	12,500,000	–	(6,300,000)	6,200,000
	(c)	–	17,200,000	–	17,200,000
		16,560,000	17,200,000	(10,360,000)	23,400,000
	28,060,000	31,500,000	(14,260,000)	45,300,000	

SHARE OPTION SCHEMES (continued)

The Company (continued)

Notes:

- (a) These options were granted on 19 June 2001 at an exercise price of HK\$1.13 per share and lapsed on 26 June 2006.
- (b) These options were granted on 18 January 2002 at an exercise price of HK\$1.00 per share. The 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 of the options, if not otherwise exercised, will lapse on 17 January 2007.
- (c) These options were granted on 27 June 2006 at an exercise price of HK\$1.00 per share. The closing price of the Company's shares on the Stock Exchange on the trading day immediately prior to the date of the grant of the share options was HK\$0.84. The options may be exercised at any time commencing on 27 June 2006 and, if not otherwise exercised, will lapse on 26 June 2011.

31,500,000 share options were granted during the six months ended 30 June 2006. The value of such share options granted are not material to the financial statements for the period under review. No share options were exercised during the six months ended 30 June 2006. At 30 June 2006, the Company had 45,300,000 share options outstanding under the Scheme, which represented approximately 9.2% of the Company's shares in issue. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 45,300,000 additional ordinary shares of the Company and additional share capital of HK\$45,300,000.

Xteam Software International Limited ("Xteam")

Xteam adopted a pre-IPO share option scheme on 30 May 2001 pursuant to which the directors and employees of the Xteam Group may be granted share options to subscribe for shares in Xteam.

Xteam also adopted a post-IPO share option scheme on 21 November 2001 pursuant to which the board of directors of Xteam may, at their discretion, invite any full-time employees of the Xteam Group, including any executive and non-executive directors, and any advisers, consultants of or to any member of the Xteam Group to take up options to subscribe for shares in Xteam.

SHARE OPTION SCHEMES (continued)**Xteam Software International Limited (“Xteam”)** (continued)

Pursuant to Xteam’s pre-IPO share option scheme and post-IPO share option scheme, the following share options were outstanding during the six months ended 30 June 2006:

Name or category of participant	Notes	Number of share options			At 30 June 2006
		At 1 January 2006	Granted during the period	Forfeited during the period	
A former employee	(a)	50,000,000	–	–	50,000,000
Existing employees	(b)	13,500,000	–	(2,200,000)	11,300,000
Advisers and consultants	(b)	33,000,000	–	–	33,000,000
		<u>96,500,000</u>	<u>–</u>	<u>(2,200,000)</u>	<u>94,300,000</u>

Notes:

- (a) These options were granted to an employee on 14 November 2001 under the pre-IPO share option scheme at an exercise price of HK\$0.266 per share. No such share options were exercised during the six months ended 30 June 2006, and the 50,000,000 outstanding pre-IPO share options were forfeited in July 2006 due to the resignation of the employee.
- (b) These options were granted on 19 December 2003 under the post-IPO share option scheme at an exercise price of HK\$0.14 per share. No such share options were exercised during the six months ended 30 June 2006.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name	Notes	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Idata Finance Trading Limited ("IFTL")	(a)	Directly beneficially owned	275,675,000	55.81
Illumination Holdings Limited ("IHL")	(b)	Directly beneficially owned	49,325,613	9.99
Beijing Enterprises Holdings Limited ("BEHL")	(a)	Through a controlled corporation	275,675,000	55.81
Beijing Enterprises Investments Limited ("BEIL")	(a)	Through a controlled corporation	275,675,000	55.81
Beijing Holdings Limited ("BHL")	(a)/(b)	Through controlled corporations	325,000,613	65.79

Notes:

- (a) IFTL is a direct wholly-owned subsidiary of BEHL, which is held directly as to approximately 44% and indirectly as to approximately 16% by BEIL. BEIL is held indirectly as to approximately 66.5% by BHL. Accordingly, the shares in which IFTL is shown to be interested are also the shares in which BEHL, BEIL and BHL are interested.
- (b) IHL is an indirect wholly-owned subsidiary of BHL. The shares in which IHL is shown to be interested are included in the shares in which BHL are interested.

Save as disclosed above, as at 30 June 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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 2006.

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 Provision A.4.1.

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. None of the existing non-executive directors of the Company is appointed for a specific term, which constitutes a deviation from Code Provision A.4.1. However, 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 2006.

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.