



**Xteam Software International Limited**  
**衝浪平台軟件國際有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8178)**

**THIRD QUARTERLY RESULTS REPORT**  
**FOR THE NINE MONTHS ENDED**  
**30 SEPTEMBER 2006**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW

The Group's turnover for the nine months ended 30 September 2006 was approximately HK\$21,644,000, which was approximately 44.1% less than last year's corresponding figure of approximately HK\$38,735,000.

The loss attributable to shareholders of the parant for the period was approximately HK\$10,437,000 compared with a profit of approximately HK\$4,260,000 recorded in the corresponding period of last year.

The Group was loss-making for the period which was mainly attributable to the turnover has decreased compared to last year, and also the one-off administrative expense of HK\$2,400,000 was incurred from the settlement of certain historical issues in Shanghai Pantosoft during the period, and a wholly-owned subsidiary acquired at the end of 2005 was still in research and development and pre-operation preparing phase.

### Prospects

Although the Group was loss-making for the period, implementation of the Group's various business projects still undergoing normally. Among them, applications for e-government and population flow management have shown strong momentum.

Same with previous years, it is expected that the fourth quarter will be the harvesting season of the Group.

By order of the board of

**Li Kang Ying**

*Chairman*

Hong Kong, 10 November 2006

## Xteam Software International Limited

The board of Directors (the "Board") of the Company announces the unaudited results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 30 September 2006, together with the unaudited comparative figures for the corresponding periods in 2005, as follows:

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
TURNOVER	2	<b>7,073</b>	13,523	<b>21,644</b>	38,735
Cost of sales		<b>(2,105)</b>	(3,463)	<b>(6,758)</b>	(9,005)
Gross profit		<b>4,968</b>	10,060	<b>14,886</b>	29,730
Other revenue	3	<b>330</b>	977	<b>589</b>	2,693
Selling and distribution expenses		<b>(2,369)</b>	(803)	<b>(6,130)</b>	(3,937)
Administrative expenses		<b>(6,026)</b>	(7,940)	<b>(21,116)</b>	(20,990)
(LOSS)/PROFIT FROM OPERATING ACTIVITIES		<b>(3,097)</b>	2,294	<b>(11,771)</b>	7,496
Finance costs, net	4	<b>(135)</b>	(88)	<b>(266)</b>	(146)
(LOSS)/PROFIT BEFORE TAX	5	<b>(3,232)</b>	2,206	<b>(12,037)</b>	7,350
TAX	6	<b>(17)</b>	-	<b>(18)</b>	(18)
(LOSS)/PROFIT FOR THE PERIOD		<b>(3,249)</b>	2,206	<b>(12,055)</b>	7,332
ATTRIBUTABLE TO:					
Equity holders of the parent		<b>(2,618)</b>	1,118	<b>(10,437)</b>	4,260
Minority interests		<b>(631)</b>	1,088	<b>(1,618)</b>	3,072
		<b>(3,249)</b>	2,206	<b>(12,055)</b>	7,332
(LOSS)/EARNINGS PER SHARE	7				
Basic (cents)		<b>(0.07)</b>	0.03	<b>(0.27)</b>	0.11
Diluted (cents)		<b>N/A</b>	N/A	<b>N/A</b>	N/A

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of the Stock Exchange of Hong Kong Limited and Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) 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 same as those used in the annual financial statements for the year ended 31 December 2005.

### 2. TURNOVER

Turnover represents the net invoiced value of sold, after allowance for returns and trade discounts; and the value of services rendered during the period.

	Three months ended		Nine months ended	
	30 September		30 September	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of computer software	420	-	429	-
Income from software development and system integration	4,678	9,929	15,493	30,225
Technical support and maintenance	1,975	3,594	5,722	8,510
	<b>7,073</b>	13,523	<b>21,644</b>	38,735

### 3. OTHER REVENUE

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

	Three months ended 30 September		Nine months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Government subsidies	321	977	580	2,683
Others	9	-	9	10
	<u>330</u>	<u>977</u>	<u>589</u>	<u>2,693</u>

### 4. FINANCE COSTS, NET

	Three months ended 30 September		Nine months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Bank interest income	23	20	131	59
Interest expenses on amount due to an intermediate holding company	(158)	(108)	(397)	(205)
	<u>(135)</u>	<u>(88)</u>	<u>(266)</u>	<u>(146)</u>

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

5. (LOSS)/PROFIT BEFORE TAX

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

	Three months ended 30 September		Nine months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Depreciation of fixed assets	427	254	976	931
Amortization of intangible assets	13	66	78	126

6. TAX

- (i) No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (Period ended 30 September 2005: Nil).
- (ii) No provision for profits tax has been provided in respect of the Cayman Islands or the British Virgin Islands as there were no assessable tax for the period in those jurisdictions.
- (iii) The tax expenses during the period represent tax charges on the assessable profits of certain subsidiaries operating in the PRC calculated at the applicable rates. Certain of the subsidiaries in the PRC enjoy tax exemptions.
- (iv) No deferred tax asset has been recognized due to the unpredictability of future profit streams.

7. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share for the three months and nine months ended 30 September 2006 is calculated based on the Group's unaudited loss attributable to equity holders of the parent of approximately HK\$2,618,000 and HK\$10,437,000 respectively (2005: profit of approximately HK\$1,118,000 and HK\$4,260,000 respectively), and the weighted average number of 3,842,606,368 (2005: 3,758,471,752) ordinary shares in issue during the periods.

Diluted loss per share for the three months and the nine months ended 30 September 2006 and 2005 have not been disclosed as the outstanding options had an anti-dilutive effect on the basis loss per share for the current periods.

8. DIVIDEND

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



9. RESERVES

	Attributable to equity holders of the parent					Total
	Issued capital	Share premium account	PRC reserve funds	Exchange fluctuation reserve	Accumulated loss	
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
At 1 January 2005	37,585	333,221	60	-	(39,265)	331,601
Exchange realignment	-	-	-	101	-	101
Profit for the period	-	-	-	-	4,260	4,260
Transfer to PRC reserve funds	-	-	953	-	(953)	-
At 30 September 2005	<u>37,585</u>	<u>333,221</u>	<u>1,013</u>	<u>101</u>	<u>(35,958)</u>	<u>335,962</u>
At 1 January 2006	38,426	337,250	1,604	1,385	(30,744)	347,921
Exchange realignment	-	-	-	1,390	-	1,390
Loss for the period	-	-	-	-	(10,437)	(10,437)
Transfer to PRC reserve funds	-	-	1,155	-	(1,155)	-
At 30 September 2006	<u>38,426</u>	<u>337,250</u>	<u>2,759</u>	<u>2,775</u>	<u>(42,336)</u>	<u>338,874</u>

## GENERAL INFORMATION

### 1. DIRECTORS' SERVICE CONTRACTS

At 30 September 2006, none of the Directors had any existing or proposed service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### 2. DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors had any direct or indirect material interest in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries and fellow subsidiaries was a party during the nine months ended 30 September 2006.

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

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

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

Name of director	Name of associated corporation	Relationship with the Company	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Wang Dong Bin	Beijing Development	Company's intermediate holding company	8,000,000	Directly beneficially owned	1.72

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. Cao Wei	Beijing Development	Company's intermediate holding company	8,000,000	Directly beneficially owned	1.72
Mr. Ng Kong Fat, Brian	Beijing Development	Company's intermediate holding company	8,792,755	Through a controlled corporation (Note)	1.78
Mr. Ng Kong Fat, Brian	BD Ah Yat Abalone Group Limited	Company's fellow subsidiary	1,462,000	Directly beneficially owned	21.5

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

(2) Interests in underlying shares of associated corporations:

At 30 September 2006, the interests of directors in options to subscribe for shares of Beijing Development (Hong Kong) Limited ("Beijing Development"), and Beijing Enterprises Holdings Limited (Beijing Enterprises), the Company's intermediate holding companies, under their share option schemes were as follows:

Name of Directors	Name of associated corporation	Number of options held		
		Note (a)	Note (b)	Note (c)
Mr. Li Kang Ying	Beijing Development	2,700,000	800,000	
Mr. Wang Dong Bin	Beijing Development	500,000	700,000	
Mr. Cao Wei	Beijing Development	2,500,000	500,000	
Mr. E Meng	Beijing Development	1,200,000	1,600,000	
	Beijing Enterprises			300,000
Mr. Ng Kong Fat,	Beijing Development	1,200,000	1,600,000	
Mr. Yan Qing	Beijing Development	–	2,500,000	

*Notes:*

- (a) These options were granted on 18 January 2002 at an exercise price of HK\$1.00 per share. The options can be exercised in three equal portions. The first portion is exercisable at any time commencing on 18 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 17 January 2007. No such options were exercised during the period.
- (b) These options were granted on 27 June 2006 at an exercise price of HK\$1.00 per share. All of the options, if not otherwise exercised, will lapse on 17 January 2011. No such options were exercised during the period.
- (c) These options were granted on 19 July 2006 at an exercise price of HK\$12.55 per share of the Company. The cash consideration paid by each grantee for the options was HK\$1.00 per grant of options. The options can be exercised in two portions. The first portion representing 80% of the total number of options granted to a grantee is exercisable at any time after 19 January 2007. The second portion representing the remaining 20% of the total number of options granted to a grantee is exercisable after 19 January 2007 and upon the Company's full satisfaction of performance appraisal at the end of the grantee's contract with the Company. All the options, if not otherwise exercised, will lapse on 18 July 2011.

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

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

Save as disclosed, as at 30 September 2006, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and/or the chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executive or their respective spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

5. INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 30 September 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:

<b>Name</b>	<i>Notes</i>	<b>Capital and nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Percentage of the Company's issued share capital</b>
Beijing Development	(a)	Through a controlled corporation	2,115,513,445	55.05
Beijing Enterprises	(b)	Through a controlled corporation	2,115,513,445	55.05
Beijing Enterprises Investments Limited	(c)	Through a controlled corporation	2,115,513,445	55.05
Beijing Holdings Limited	(d)	Through a controlled corporation	2,115,513,445	55.05
Mr. Chung Kwok Ho	(e)	Through a controlled corporation	382,864,129	9.96
Ms. Lee Man Yee	(f)	Interest of spouse	382,864,129	9.96
Cosmos Vantage Limited	(g)	Directly beneficially owned	382,864,129	9.96

*Notes:*

- (a) Beijing Development was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Prime Technology Group Limited and E-tron Limited.
- (b) Beijing Enterprises was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Beijing Development.
- (c) Beijing Enterprises Investments Limited was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Beijing Enterprises.
- (d) Beijing Holdings Limited was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Beijing Enterprises Investments Limited.
- (e) Mr. Chung Kwok Ho held these shares through Cosmos Vantage Limited in which he is the sole beneficial owner.
- (f) These shares were held by Cosmos Vantage Limited, which is wholly owned by Mr. Chung Kwok Ho. Ms. Lee Man Yee is the spouse of Mr. Chung Kwok Ho and accordingly she was deemed to be interested in these shares.
- (g) Cosmos Vantage Limited is wholly owned by Mr. Chung Kwok Ho.

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

6. SHARE OPTION SCHEME

Details of the outstanding share options granted are as follows:

Type of grantee	Number of Share Options			At 30 September 2006
	At 1 January 2006	Granted during the period	Lapsed during the period	
Employees	13,500,000	–	4,700,000	8,800,000
Advisers and consultants	33,000,000	–	–	33,000,000
	<u>46,500,000</u>	<u>–</u>	<u>4,700,000</u>	<u>41,800,000</u>

Up to 30 September 2006, no option under the Share Option Scheme have been exercised. 4,700,000 outstanding share options lapsed due to employers' resignation.

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

During the nine months ended 30 September 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

8. COMPETING INTERESTS

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

## CORPORATE GOVERNANCE

### Code on Corporate Governance Practices

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

### Code of Conduct Regarding Securities Transactions by Directors

During the nine months ended 30 September 2006, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

### Audit Committee

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

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