



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)

FIRST QUARTERLY RESULTS REPORT
FOR THE THREE MONTHS ENDED
31 MARCH 2007

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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The Stock Exchange takes no responsibility of the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

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 recorded a turnover of approximately HK\$11,790,000 for the first quarter ended 31 March 2007, representing an increase of approximately 51.3% as compared to approximately HK\$7,791,000 for the corresponding period last year. The loss attributable to shareholders of the parent company for this quarter amounted to approximately HK\$4,538,000 (2006: HK\$6,049,000).

The increase in the Group's turnover as compared to the corresponding period last year was mainly attributable to the continuous effort of the Group in software development and system maintenance for the period and the improved sales performance of hardwares when comparing with the previous year.

Prospects

With China's booming economy and the opportunities brought by the 2008 Beijing Olympic Games, the demand for efficient software applications will be increased, thus generating more sales of software upgrade and maintenance services.

Under the two share placements in February and April this year, the Group placed 768,000,000 shares in aggregate and raised approximately HK\$170,900,000 for its working capital and for potential investments, so as to facilitate the business development of the Group.

By order of the Board

Li Kang Ying

Chairman

Hong Kong, 14 May 2007

The board of Directors (the "Board") of the Company announces the unaudited results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31 March 2007, together with the unaudited comparative figures for the corresponding periods in 2006, as follows:

		Three months ended	
		31 March	
		2007	2006
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Revenue	3	11,790	7,791
Cost of sales and services		(7,652)	(2,724)
Gross profit		4,138	5,067
Other income and gains	3	1,188	115
Selling and distribution costs		(1,759)	(1,988)
Administrative expenses		(7,946)	(9,122)
Finance costs	4	(78)	(52)
LOSS BEFORE TAX	5	(4,457)	(5,980)
TAX	6	(142)	(87)
LOSS FOR THE PERIOD		(4,599)	(6,067)
ATTRIBUTABLE TO:			
Equity holders of the parent		(4,538)	(6,049)
Minority interests		(61)	(18)
		(4,599)	(6,067)
LOSS PER SHARE	7		
Basic (cents)		(0.11)	(0.16)
Diluted (cents)		(0.11)	N/A

NOTES

1. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with 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, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated. The condensed consolidated results are unaudited but have been reviewed by the Company’s audit committee.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the three months ended 31 March 2007. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries.

2. SEGMENT INFORMATION

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

4. FINANCE COSTS

	Three months ended	
	31 March	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Bank interest income	58	68
Interest expenses on amount due to an intermediate holding company	<u>(136)</u>	<u>(120)</u>
	<u>(78)</u>	<u>(52)</u>

5. LOSS BEFORE TAX

Loss before tax was arrived at after charging the following:

	Three months ended	
	31 March	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of fixed assets	366	306
Amortization of intangible assets	<u>44</u>	<u>43</u>

6. TAX

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

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

	Three months ended	
	31 March	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Group:		
Current – Hong Kong	–	–
Current – PRC		
Charge for the period	(142)	87
	<hr/>	<hr/>
Total tax charge for the period	(142)	87
	<hr/>	<hr/>

7. LOSS PER SHARE

Basic

The calculation of basic loss per share for the three months ended 31 March 2007 is based on the Group's unaudited loss attributable to equity holders of the parent of approximately HK\$4,538,000 (2006: loss of approximately HK\$6,049,000), and on the weighted average number of 3,989,883,035 ordinary shares in issue during the period (2006: 3,842,606,368 shares).

Diluted

The calculation of the diluted earnings per share for the three months ended 31 March 2007 is based on the profit attributable to ordinary equity holders of the Company of approximately HK\$4,538,000, and the weighted average number of 4,003,351,572 ordinary shares in issue during the period, adjusted for the effects of all dilutive potential shares.

The weighted average of number of shares used in the calculation of diluted earnings per share is calculated based on the 3,989,833,035 ordinary shares in issue during the period ended 31 March 2007 plus the weighted average of 13,518,537 ordinary shares deemed to be issued at no consideration as if all of the Company's outstanding share options have been exercised.

8. DIVIDEND

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

9. RESERVES

	Share premium account <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	PRC reserve funds <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006	337,250	–	1,604	1,385	(30,744)	309,495
Exchange realignment	–	–	–	21	–	21
Loss for the period	–	–	–	–	(6,049)	(6,049)
	<u>337,250</u>	<u>–</u>	<u>1,604</u>	<u>1,406</u>	<u>(36,793)</u>	<u>303,467</u>
At 31 March 2006	<u>337,250</u>	<u>–</u>	<u>1,604</u>	<u>1,406</u>	<u>(36,793)</u>	<u>303,467</u>
At 1 January 2007	337,250	–	3,343	3,738	(252,730)	91,601
Exchange realignment	–	–	–	(1,249)	–	(1,249)
Transfer to PRC to reserve funds	–	–	1,818	–	(1,818)	–
Loss for the period	–	–	–	–	(4,538)	(4,538)
Issue of shares	25,720	–	–	–	–	25,720
Equity-settled share option	–	393	–	–	–	393
	<u>362,970</u>	<u>393</u>	<u>5,161</u>	<u>2,489</u>	<u>(259,086)</u>	<u>111,927</u>
At 31 March 2007	<u>362,970</u>	<u>393</u>	<u>5,161</u>	<u>2,489</u>	<u>(259,086)</u>	<u>111,927</u>

GENERAL INFORMATION

1. DIRECTORS' SERVICE CONTRACTS

At 31 March 2007, none of the Directors had any existing or proposed service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

2. DIRECTORS' INTERESTS IN CONTRACTS

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 or fellow subsidiaries was a party during the three months ended 31 March 2007.

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

At 31 March 2007, the interests and short positions of the directors in the share capital and underlying shares of the Company's 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. Li Kang Ying	Beijing Development (Hong Kong) Limited ("Beijing Development")	Company's holding company	304,000	Directly beneficially owned	0.05
Mr. Wang Dong Bin	Beijing Development	Company's holding company	3,500,000	Directly beneficially owned	0.56
Mr. Cao Wei	Beijing Development	Company's holding company	190,000	Directly beneficially owned	0.03
Mr. E Meng	Beijing Development	Company's holding company	901,000	Directly beneficially owned	0.14
Mr. Ng Kong Fat, Brian	Beijing Development	Company's holding company	8,792,755 (Note)	Through a controlled corporation (Note)	1.40
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 which is beneficially owned by Mr. Ng Kong Fat, Brian.

(2) Interests in underlying shares of associated corporations:

At 31 March 2007, the interests of directors in options to subscribe for shares of Beijing Development, the Company's holding company, under the share option schemes of Beijing Development were as follows:

Name of director	Number of options held
	<i>Note</i>
Mr. Ng Kong Fat, Brian	1,600,000

Note:

These options were granted on 27 June 2006 at an exercise price of HK\$1.00 per share. The options may be exercised at any time commencing on 27 June 2006 and, if not otherwise exercised, will lapse on 17 June 2011. No such options were exercised during the period.

In addition to the above, Mr. Li Kang Ying has a non-beneficial personal equity interests in a subsidiary 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 31 March 2007, none of the directors or chief executive had registered an interest or a 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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above, at no time during the three months ended 31 March 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 holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

5. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 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:

Name	<i>Notes</i>	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Beijing Development (Hong Kong) Limited	(a)	Through controlled corporations	2,115,513,445	51.01
Beijing Enterprises Holdings Limited	(b)	Through controlled corporations	2,115,513,445	51.01
Beijing Enterprises Investments Limited	(c)	Through controlled corporations	2,115,513,445	51.01
Beijing Holdings Limited	(d)	Through controlled corporations	2,115,513,445	51.01

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 Holdings Limited 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 Holdings Limited.
- (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.

Save as disclosed above, as at 31 March 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 a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

6. SHARE OPTIONS SCHEME

The following share options were outstanding under the Share Option Scheme are as follow:

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options	Exercise price of share options** <i>HK\$ per share</i>
	At 1 January 2007	Granted during the period	Exercise during the period	At 31 March 2007			
Employees	8,800,000	-	1,000,000	7,800,000	19 December 2003	19 December 2003 to 18 December 2013	0.14
Employee	-	22,200,000	-	22,200,000	4 January 2007	4 January 2007 to 3 January 2017	0.044
Advisers and consultants	33,000,000	-	4,000,000	29,000,000	19 December 2003	19 December 2003 to 18 December 2013	0.14
	<u>41,800,000</u>	<u>22,200,000</u>	<u>5,000,000</u>	<u>59,000,000</u>			

Notes to the reconciliation of share options outstanding during the period:

* The share options vested on the date of the grant.

** 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 Company's share capital.

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

During the three months ended 31 March 2007, 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 three months ended 31 March 2007, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 31 March 2007, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

AUDIT COMMITTEE

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

The Group's unaudited results for the three months ended 31 March 2007 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards.