

2007

Third Quarterly Report



Xteam Software International Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8178

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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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.



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CORPORATE INFORMATION

Executive Directors

Mr. Li Kangying (*Chairman*)

Mr. Wang Zhenyu (*Chief executive officer, appointed on 13 September 2007*)

Dr. Yu Xiaoyang (*Vice president, appointed on 13 September 2007*)

Mr. Yan Qing (*Vice president*)

Mr. Zhang Zhihong (*Vice president, appointed on 13 September 2007*)

Mr. E Meng

Mr. Cao Wei

Mr. Wang Dongbin (*resigned on 8 November 2007*)

Mr. Ng Kong Fat (*resigned on 13 September 2007*)

Ms. Chen Zhi (*resigned on 13 September 2007*)

Independent Non-Executive Directors

Ms. Ma Yuhua

Ms. Liang Yeping

Dr. Zhou Chunsheng (*appointed on 13 September 2007*)

Mr. Jiang Qiping (*resigned on 13 September 2007*)

Company Secretary

Ms. Ng Weng Sin

Qualified Accountant

Ms. Ng Weng Sin

Compliance Officer

Dr. Yu Xiaoyang (*appointed on 13 September 2007*)

Mr. Wang Dongbin (*resigned on 13 September 2007*)

Authorised Representatives

Mr. Wang Zhenyu (*appointed on 13 September 2007*)

Mr. Wang Dongbin (*resigned on 13 September 2007*)

Ms. Ng Wen Sin

Audit Committee

Ms. Ma Yuhua (*Chairman*)

Ms. Liang Yeping

Dr. Zhou Chunsheng (*appointed on 13 September 2007*)

Mr. Jiang Qiping (*resigned on 13 September 2007*)

Remuneration Committee

Ms. Ma Yuhua (*Chairman*)

Ms. Liang Yeping

Dr. Zhou Chunsheng (*appointed on 13 September 2007*)

Mr. Li Kangying

Mr. Jiang Qiping (*resigned on 13 September 2007*)

Auditors

Ernst & Young

Legal Advisor

Conyers Dill & Pearman

Principal Banker

The Hongkong and Shanghai Banking Corporation Limited

Head Office and Principal Place of Business

Room 3401, West Tower, Shun Tak Centre
200 Connaught Road Central, Sheung Wan
Hong Kong

Registered Office

Cricket Square
Hutchins Drive, P.O. Box 2861
Grand Cayman KY1-1111
Cayman Islands

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Ltd.
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman, Cayman Islands
British West Indies

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
17th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

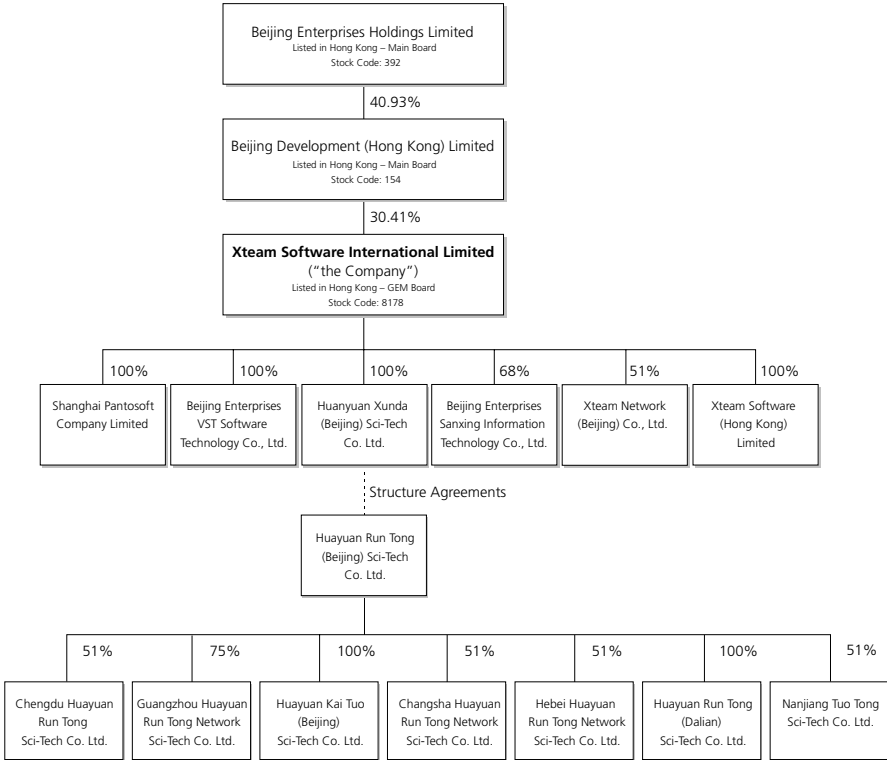
GEM Stock Code

8178

Web-site address

Xteamlinux.com.hk

CORPORATE STRUCTURE



As at 30 September 2007

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group's turnover for the nine months ended 30 September 2007 was approximately HK\$76,391,000, which was 253% more than last year's corresponding figure of approximately HK\$21,644,000.

The profit attributable to equity holders of the Company for the period was approximately HK\$4,103,000 compared with a loss of approximately HK\$10,437,000 recorded in the corresponding period of last year.

Prospects

The Group turned its overall performance around during the period ended 30 September 2007 after a long period of loss. This was attributed to the effort of all our staff as well as the completion of acquisition of Huayuan Run Tong Group ("Run Tong") on 18 September 2007. Run Tong contributed a profit after tax of approximately HK\$10,455,000 to the Group within thirteen days from 18 to 30 September 2007.

The principal businesses of Run Tong include:

1) Proprietary Mobile Execution System

This system, a proprietary product of Run Tong, is an execution platform for the relevant law enforcement authorities. Its revenue includes one-off integration and terminal installation fee as well recurrent monthly incomes from daily operation, maintenance and communication services which are calculated on a profit-sharing basis. The promotion of this system platform has been commenced in over ten provinces and cities in China.

2) Value-added Information Services

Mingsuo.com (www.mingsuo.com) of Run Tong, together with 95001315/96001315 IVR platforms and 12315 SMS enquiry platforms, are engaged in the provision of corporate information to the public for the Ministry of Commerce. These value-added services will contribute stable long-term revenue for the Company.

3) Capital Olympic Food Inspection and Information Platform

In order to strengthen food safety inspection in the capital and ensure food safety in the 2008 Olympics, Run Tong has developed and implemented the “Capital Food Safety Information System” for the Beijing government. The platform has been approved and adopted by various local governments such as that of Hebei Province.

For the last three months of this year, the Company will continue to enhance its business management and maximise its return on equity. The Company will also strive for further market expansion to increase its profitability and investors’ confidence.

By order of the Board

Li Kangying

Chairman

Hong Kong, 14 November 2007

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended		Nine months ended	
		30 September		30 September	
		2007	2006	2007	2006
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	3	44,097	7,073	76,391	21,644
Cost of sales		(17,443)	(2,105)	(36,020)	(6,758)
Gross profit		26,654	4,968	40,371	14,886
Other revenue	4	1,808	330	2,101	589
Selling and distribution expenses		(2,259)	(2,369)	(6,079)	(6,130)
Administrative expenses		(14,795)	(6,026)	(30,304)	(21,116)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		11,408	(3,097)	6,089	(11,771)
Finance costs, net	5	1,204	(135)	1,882	(266)
PROFIT/(LOSS) BEFORE TAX	6	12,612	(3,232)	7,971	(12,037)
TAX	7	(1,574)	(17)	(1,985)	(18)
PROFIT/(LOSS) FOR THE PERIOD		11,038	(3,249)	5,986	(12,055)
ATTRIBUTABLE TO:					
Equity holders of the Company		8,018	(2,618)	4,103	(10,437)
Minority interests		3,020	(631)	1,883	(1,618)
		11,038	(3,249)	5,986	(12,055)
EARNINGS/(LOSS) PER SHARE	8				
Basic (cents)		0.16	(0.07)	0.09	(0.27)
Diluted (cents)		0.16	N/A	0.09	N/A



NOTES TO CONDENSED CONSOLIDATED INCOME STATEMENT

1. Basis of presentation

The condensed financial statements have been prepared in accordance with the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies and basis of preparation used in the preparation of the condensed financial statements are consistent with those used in the Company's audited financial statements for the year ended 31 December 2006.

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

2. Segment Information

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

3. Turnover

Turnover represents the invoiced value of goods sold and services rendered, net of value added tax and business tax in the PRC, and after allowances for goods returned and trade discounts.

Turnover consisted of:

	Three months ended		Nine months ended	
	30 September		30 September	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of computer software and hardware	1,507	420	2,481	429
Provision of software development and system integration	33,335	4,678	59,491	15,493
Provision of technical support and maintenance services	2,794	1,975	7,958	5,722
Internet, mobile and telecommunication value-added services	6,461	–	6,461	–
	<u>44,097</u>	<u>7,073</u>	<u>76,391</u>	<u>21,644</u>

4. Other revenue

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC tax subsidies	1,690	321	1,983	580
Others	118	9	118	9
	<u>1,808</u>	<u>330</u>	<u>2,101</u>	<u>589</u>

5. Finance costs, net

	Three months ended		Nine months ended	
	30 September		30 September	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank interest income	1,521	23	2,335	131
Interest expenses on amount due to a substantial shareholder	-	(158)	(136)	(397)
Interest on convertible bonds	(317)	-	(317)	-
	<u>1,204</u>	<u>(135)</u>	<u>1,882</u>	<u>(266)</u>

The interest expenses on amount due to a substantial shareholder were charged at a rate of 5% per annum on the outstanding balance.

6. Profit/(loss) before tax

Profit/(loss) before tax was arrived at after charging the following:

	Three months ended		Nine months ended	
	30 September		30 September	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	380	427	1,064	976
Amortization of other intangible assets	59	13	147	78
	<u>439</u>	<u>440</u>	<u>1,211</u>	<u>1,054</u>

7. Tax

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

In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's PRC subsidiaries enjoy income tax exemptions and reductions. Certain PRC subsidiaries are subject to income tax rates ranging from 0% to 33%.

8. Earnings/(loss) per share

The calculation of basic earnings per share for the three months ended 30 September 2007 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$8,018,000 (2006: loss of approximately HK\$2,618,000) and the weighted average number of 4,979,123,759 (2006: 3,842,606,368) ordinary shares in issue during the period.

The calculation of basic earnings per share for the nine months ended 30 September 2007 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$4,103,000 (2006: loss of approximately HK\$10,437,000) and the weighted average number of 4,483,259,483 (2006: 3,842,606,368) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the three months and the nine months ended 30 September 2007 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$8,018,000 and approximately HK\$4,103,000 respectively, divided by the weighted average number of ordinary shares used in calculation of the diluted earnings per share for the three months and the nine months ended 30 September 2007 of 5,004,989,693 shares and 4,509,125,417 shares respectively.

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

9. Dividend

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

10. Reserves

	Attributable to equity holders of the Company							Total Unaudited HK\$000
	Issued capital Unaudited HK\$000	Share premium account Unaudited HK\$000	PRC reserve funds Unaudited HK\$000	Equity component of convertible bonds Unaudited HK\$000	Share option reserve Unaudited HK\$000	Exchange fluctuation reserve Unaudited HK\$000	Retained profits/ (Accumulated losses) Unaudited HK\$000	
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	38,426	337,250	2,759	-	-	2,775	(42,336)	338,874
At 1 January 2007	38,426	337,250	3,343	-	-	3,738	(252,730)	130,027
Issue of convertible bonds	-	-	-	28,082	-	-	-	28,082
Exchange realignment	-	-	-	-	-	2,799	-	2,799
Equity-settled share option arrangements	-	-	-	-	5,416	-	-	5,416
Transfer to PRC reserve funds	-	-	2,479	-	-	-	(2,479)	-
Profit for the period	-	-	-	-	-	-	4,103	4,103
Set off of accumulated losses with share premium	-	(258,676)	-	-	-	-	258,676	-
Issue of share	23,913	1,589,016	-	-	-	-	-	1,612,929
At 30 September 2007	62,339	1,667,590	5,822	28,082	5,416	6,537	7,570	1,783,356

11. Related party transaction

Material transaction with a related party:

	Nine months ended	
	30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales to a subsidiary of the Company's substantial shareholder	<u>11,742</u>	<u>–</u>

12. Approval of the condensed consolidated income statement

This condensed consolidated income statement was approved and authorised for issue by the Board on 14 November 2007.

GENERAL INFORMATION

1. Directors' service contracts

At 30 September 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

Save as disclosed in note 11 to this condensed consolidated income statement, none of the Directors had any direct or indirect material interest in any contract of significance to the business of the Group to which the Company, or any of its substantial shareholders, subsidiaries and subsidiaries of substantial shareholders was a party during the nine months ended 30 September 2007.

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

At 30 September 2007, the interests and short positions of the directors in the shares 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 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 Kangying	Beijing Development (Hong Kong) Limited ("Beijing Development")	Company's substantial shareholder	304,000	Directly beneficially owned	0.04

Name of director	Name of associated corporation	Relationship with the Company	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Dr. Yu Xiaoyang	Beijing Development	Company's substantial shareholder	500,000	Directly beneficially owned	0.07
Mr. E Meng	Beijing Development	Company's substantial shareholder	601,000	Directly beneficially owned	0.09
Mr. E Meng	Beijing Enterprises Holdings Limited	Company's substantial shareholder	20,000	Directly beneficially owned	0.002
Mr. Cao Wei	Beijing Development	Company's substantial shareholder	190,000	Directly beneficially owned	0.03
Mr. Wang Dongbin	Beijing Development	Company's substantial shareholder	3,500,000	Directly beneficially owned	0.51

(2) Interests in underlying shares of associated corporations:

At 30 September 2007, the interests of directors in options to subscribe for shares of Beijing Development, the Company substantial shareholder, under the share option schemes of Beijing Development was as follows:

Name of director	Number of options held
	<i>Note</i>
Dr. Yu Xiaoyang	2,300,000

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.

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 nine months ended 30 September 2007 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its substantial shareholders, subsidiaries or subsidiaries of substantial shareholders a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

5. Interests discloseable under the SFO and substantial shareholders

At 30 September 2007, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	<i>Notes</i>	Capacity and nature of interest	Number of ordinary Shares held	Percentage of the Company's issued share capital
Beijing Development	(a)	Through controlled corporations	1,895,513,445	30.41
Beijing Enterprises Holdings Limited	(b)	Through controlled corporations	1,895,513,445	30.41
Beijing Enterprises Investments Limited	(c)	Through controlled corporations	1,895,513,445	30.41
Beijing Enterprises Group Company Limited	(d)	Through controlled corporations	1,895,513,445	30.41
Mr. Li Kecheng		Directly beneficially owned	1,560,000,000	25.02

Notes:

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

Save as disclosed above, as at 30 September 2007, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

6. Share options scheme

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

Name or category of participant	Number of share options				At 30 September 2007
	At 1 January 2007	Granted during the period	Exercised during the period	Forfeited during the period	
	Note (a)	Note (b)/(c)	Note (d)	Note (e)	
Executive directors:					
Mr. Li Kangying	–	36,000,000	–	–	36,000,000
Mr. Wang Zhenyu	–	35,000,000	–	–	35,000,000
Dr. Yu Xiaoyang	–	32,400,000	–	–	32,400,000
Mr. Yang Qing	–	32,400,000	–	–	32,400,000
Mr. Zhang Zhihong	–	32,400,000	–	–	32,400,000
Mr. E Meng	–	32,400,000	–	–	32,400,000
Mr. Cao Wei	–	32,400,000	–	–	32,400,000
Mr. Wang Dongbin	–	32,400,000	–	–	32,400,000
Independent non-executive directors:					
Ms. Ma Yuhua	–	4,000,000	–	–	4,000,000
Ms. Liang Yeping	–	4,000,000	–	–	4,000,000
Dr. Zhou Chunsheng	–	4,000,000	–	–	4,000,000
Other employees:					
In aggregate	8,800,000	123,100,000	30,300,000	700,000	100,900,000
Adviser and consultants:					
In aggregate	<u>33,000,000</u>	<u>14,000,000</u>	<u>33,000,000</u>	<u>–</u>	<u>14,000,000</u>
	<u>41,800,000</u>	<u>414,500,000</u>	<u>63,300,000</u>	<u>700,000</u>	<u>392,300,000</u>

Notes:

- (a) 41,800,000 share options were granted on 19 December 2003 at the exercise price of HK\$0.14 per share. The exercise period is ten years from 19 December 2003 to 18 December 2013.

- (b) 22,200,000 share options were granted on 4 January 2007 at the exercise price of HK\$0.044 per share. The exercise period is ten years from 4 January 2007 to 3 January 2017. The closing price of the Company's shares at the date of grant was HK\$0.042 per share. The fair value of these share options granted was estimated as at the date of grant, using the Black-Scholes-Merton option pricing model, at HK\$394,000, which was fully recognized by the Company as a share option expense during the nine months ended 30 September 2007.

The exercise prices of the share options are subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

- (c) 265,400,000 share options were granted to executive directors, 12,000,000 share options were granted to independent non-executive directors, 100,900,000 share options were granted to employees and 14,000,000 share options were granted to advisers and consultant on 13 September 2007 at the exercise price of HK\$0.79 per share. The exercise period is five years, subject to an annual cap of not more than 25% of the share options. However, no option is exercisable within the first six months from the date of grant of the share options. Subject to the approvals of the Share Option Committee and the Remuneration Committee, executive directors and independent non-executive directors are entitled to exercise all the share options within three months from the date of termination of the employment.
- (d) The weighted average closing price of the Company's shares immediately before the dates on which share options were exercised was HK\$0.39.
- (e) 700,000 share options have been forfeited on 21 July 2007.

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

During the nine months ended 30 September 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of Company's listed securities.

8. Competing Interests

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

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

During the nine months ended 30 September 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 nine months ended 30 September 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 Yuhua, Ms. Liang Yeping and Dr. Zhou Chunsheng (appointed on 13 September 2007), Mr. Jiang Qiping (resigned on 13 September 2007). The Chairman of the audit committee is Ms. Ma Yuhua.

The Group's unaudited results for the nine months ended 30 September 2007 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards.

Remuneration Committee

The remuneration committee of the Company was established in March 2006 in accordance with the Code Provisions as set out in Appendix 15 of GEM Listing Rules. The role and function of the remuneration committee include the determination of the specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. Members of the remuneration committee include the three independent non-executive directors, Ms. Ma Yuhua (chairman of the remuneration committee), Ms. Liang Yeping and Mr. Zhou Chunsheng (appointed on 13 September 2007), Mr. Jiang Qiping (resigned on 13 September 2007) and the chairman of the Board Mr. Li Kangying.