



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 ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2006

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This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement 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 consolidated turnover of approximately HK\$7,791,000 for the first quarter ended 31 March 2006, down approximately 17.2% compared with the same of approximately HK\$9,406,000 for the corresponding period last year. The profit attributable to shareholders of parent company was recorded a loss of approximately HK\$6,049,000 (2005: profit of approximately HK\$1,102,000) for this quarter.

The Group's turnover decreased as compared to the corresponding period last year was mainly due to the reasonable adjustment after the rapid growth in the past consecutive years of a subsidiary, which is principally engaged in software development. In addition, the increase in the proportion of hardware in turnover caused higher costs of sales in the first quarter which made the profit margin decline. This resulted in the decrease of approximately HK\$3,200,000 of the gross profit for this quarter as compared to the corresponding period last year.

Furthermore, the Group had cleared up some historical headache of Shanghai Pantosoft and rendered a once off administrative expense of approximately HK\$2.4 million.

Prospects

Despite the Group recorded a loss in the first quarter, we still have confidence on the Group's main business, namely the development and sale of computer software primarily for large scale applications to government and major corporate customers in mainland China. Moreover, the research and development of In@box which was acquired at the end of last year are in progress as expected. We believe Xteam will further deeper and consolidate their business under the guidance of the new management, and will start a new stage for the Group.

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 2006, together with the unaudited comparative figures for the corresponding periods in 2005, as follows:

		Three months ended	
		31 March	
		2006	2005
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	<i>Notes</i>		
TURNOVER	2	7,791	9,406
Cost of sales and services		(2,724)	(1,169)
Gross profit		5,067	8,237
Other revenue	2	115	875
Selling and distribution costs		(1,988)	(1,254)
Administrative expenses		(9,122)	(6,352)
Finance costs	3	(52)	(115)
(LOSS)/PROFIT BEFORE TAX	4	(5,980)	1,391
TAX	5	(87)	(6)
(LOSS)/PROFIT FOR THE PERIOD		(6,067)	1,385
ATTRIBUTABLE TO:			
Equity holders of the parent		(6,049)	1,102
Minority interests		(18)	283
		(6,067)	1,385
(LOSS)/EARNINGS PER SHARE	6		
Basic (cents)		(0.16)	0.03
Diluted (cents)		N/A	N/A

NOTES

1. BASIS OF PRESENTATION

The Group's unaudited condensed consolidated results have been prepared in accordance with the new Hong Kong Financial Reporting Standards (HKFRSs) and Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, and on the historical cost basis. The accounting policies adopted in preparing the unaudited condensed consolidated results for the three months ended 31 March 2006 and 2005 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005. The condensed consolidated results are unaudited but have been reviewed by the Company's audit committee.

2. TURNOVER AND OTHER REVENUE

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	
	31 March	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Sale of computer software	9	15
Income from software development and system integration	6,228	8,343
Technical support and maintenance	1,554	1,048
	7,791	9,406

Revenue from the following activity has been included in other revenue:

	Three months ended	
	31 March	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Government subsidies	115	875

3. FINANCE COSTS

	Three months ended 31 March	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest expenses on amount due to an intermediate holding company	120	117
Less: bank interest income	(68)	(2)
	<u>52</u>	<u>115</u>

4. (LOSS)/PROFIT BEFORE TAX

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

	Three months ended 31 March	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of fixed assets	306	280
Amortization of intangible assets	43	41
	<u>43</u>	<u>41</u>

5. TAX

- (i) No provision for profits tax has been made as no income was earned or derived from Hong Kong during the period.
- (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.

6. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share for the three months ended 31 March 2006 is based on the Group's unaudited loss attributable to equity holders of the parent of approximately HK\$6,049,000 (2005: profit of approximately HK\$1,102,000), and on 3,842,606,368 shares in issue during the period (2005: 3,758,471,752 shares).

Diluted (loss)/earnings per share for the three months ended 31 March 2006 and 31 March 2005 respectively, have not been disclosed as the outstanding options had an anti-dilutive effect on the basis earnings per share for the these periods.

7. DIVIDEND

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

8. RESERVES

	Share premium account	PRC reserve funds	Exchange fluctuation reserve	Accumulated loss	Total
At 1 January 2005	333,221	60	–	(39,265)	294,016
Profit for the period	–	–	–	1,102	1,102
At 31 March 2005	<u>333,221</u>	<u>60</u>	<u>–</u>	<u>(38,163)</u>	<u>295,118</u>
At 1 January 2006	337,250	1,604	1,385	(30,744)	309,495
(Loss) for the period	–	–	21	(6,049)	(6,028)
At 31 March 2006	<u>337,250</u>	<u>1,604</u>	<u>1,406</u>	<u>(36,793)</u>	<u>303,467</u>

9. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current period's presentation.

GENERAL INFORMATION

1. Directors' service contracts

At 31 March 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 three months ended 31 March 2006.

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

At 31 March 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 holding company	8,000,000	Directly beneficially owned	1.62
Mr. Cao Wei	Beijing Development	Company's holding company	8,000,000	Directly beneficially owned	1.62

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	Beijing Development	Company's 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 31 March 2006, the interests of directors in options to subscribe for shares of Beijing Development (Hong Kong) Limited (“Beijing Development”), the Company’s holding company, under the share option scheme of Beijing Development were as follows:

Name of Directors	Number of options held	
	Note (a)	Note (b)
Mr. Li Kang Ying	–	2,700,000
Mr. Wang Dong Bin	–	500,000
Mr. Cao Wei	–	2,500,000
Mr. E Meng	1,600,000	1,200,000
Mr. Ng Kong Fat, Brian	2,300,000	1,200,000

Notes:

- (a) These options were granted on 19 June 2001 at an exercise price of HK\$1.13 per share. The options can be exercised in two or three equal portions. The first portion is exercisable at any time commencing on 1 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 26 June 2006. No such options were exercised during the period.
- (b) 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.

Save as disclosed above, as at 31 March 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 herein, as at 31 March 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 31 March 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	Capital and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Beijing Development	(a)	Through a controlled corporation	2,115,513,445	55.05
Beijing Enterprises Holdings Limited ("BEHL")	(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
Amberwood Group Ltd.	(h)	Directly beneficially owned	204,712,000	5.33
Ms. Chong Sok Un	(i)	Through a controlled corporation	204,712,000	5.33

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) BEHL 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 BEHL.
- (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.
- (h) Amberwood Group Ltd. is wholly owned by Ms. Chong Sok Un.
- (i) Ms. Chong Sok Un held these shares through Amberwood Group Ltd. in which she is the sole beneficial owner.

Save as disclosed above, as at 31 March 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 OPTIONS SCHEME

(a) Pre-IPO Share Option Scheme

Pursuant to the pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) of the Company adopted on 30 May 2001, the Directors and employees of the Group may be granted share options to subscribe for shares of the Company at an exercise price of HK\$0.266 each.

Details of the outstanding pre-IPO share options granted and to a former Director is as follows:

Name of a former Director	Date granted	Exercise period	No. of shares eligible for subscription under the Pre-IPO Share Option Scheme	Exercise price per share
Mr. Ma Gary Ming Fai	14 November 2001	11 June 2002 to 13 November 2011	50,000,000	HK\$0.266

Up to 31 March 2006, no option under the Pre-IPO Share Option Scheme has been exercised, and 50,000,000 outstanding Pre-IPO share options will lapse in July 2006 due to the resignation of Mr. Ma Gary Ming Fai on 26 April 2006.

(b) Post-IPO Share Option Scheme

On 21 November 2001, the shareholders of the Company adopted a share option scheme (“Post-IPO Share Option Scheme”). Under the terms of the Post-IPO Share Option Scheme, the Board may, at their discretion, invite any full-time employees of the Group, including any executive and non-executive Directors, and any advisers, consultants of or to any member of the Group to take up options to subscribe for shares in the Company.

On 19 December 2003, 63,000,000 post-IPO share options were granted and accepted at an exercise price of HK\$0.14 per share.

Details of the outstanding post-IPO share options granted are as follows:

Type of grantee	Number of Share Options			At 31 March 2006
	At 1 January 2006	Granted during the period	Lapsed during the period	
Employees	13,500,000	–	–	13,500,000
Advisers and consultants	33,000,000	–	–	33,000,000
	<u>46,500,000</u>	<u>–</u>	<u>–</u>	<u>46,500,000</u>

Up to 31 March 2006, no option under the Post-IPO Share Option Scheme have been exercised.

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

During the three months ended 31 March 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

Board Practices and Procedures

The Company has complied with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules for the three months ended 31 March 2006.

Code of Conduct Regarding Securities Transactions by Directors

During the three months ended 31 March 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 three months ended 31 March 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.

By order of the Board

Li Kang Ying

Chairman

Hong Kong, 11 May 2006

As of the date of this announcement, the Board comprises Mr. Li Kang Ying, Mr. Wang Dong Bin, Mr. Ma Gary Ming Fai, Mr. Cao Wei, Mr. E Meng, Mr. Yan Qing, Mr. Ng Kong Fat, Brian and Ms. Chen Zhi (who are executive directors), and Ms. Ma Yu Hua, Ms. Liang Ye Ping and Mr. Jiang Qi Ping (who are independent non-executive directors).

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