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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST MARCH, 2004

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The Stock Exchange takes no responsibility of the contents of this announcement, 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 announcement.

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.

SUMMARY

- The Group is one of the early movers in the development of the Chinese Linux operating system with kernel rewritten to specifically cater for Chinese users in the People's Republic of China ("PRC") and software based on the Linux operating platform for various hardware appliances. While its products support personal computer applications, the Group is also widely recognized for its efficient operating system that leads the server, Internet and Intranet markets. The Group also provides technical support and after-sales services to its customers.
- Turnover for the year ended 31st March, 2004 amounted to approximately HK$26,823,000, representing an increase of 0.5% from last year (2003: approximately HK$26,694,000).
- Loss attributable to shareholders for the year ended 31st March, 2004 amounted to approximately HK$34,847,000 (2003: approximately HK$10,589,000).
- The Board does not recommend the payment of a final dividend for the year (2003: Nil).

FINAL RESULTS FOR YEAR ENDED 31ST MARCH, 2004

The board of Directors (the "Board") of the Company announces the audited results of the Company and its subsidiaries (collectively, the "Group") for the year 31st March, 2004, together with the audited comparative figures for the corresponding year in 2003, as follows:

	Note	**2004** ***HK$'000***	2003 *HK$'000*
Revenue	*2*	**26,823**	26,694
Cost of sales and services		**(23,176)**	(13,463)
Gross profit		**3,647**	13,231
Other revenue		**1,687**	542
Operating expenses		**(22,107)**	(19,633)
Provision against inventories		**(7,976)**	(4,267)
Impairment loss in respect of intangible assets		**(8,320)**	–
Loss from operating activities	*3*	**(33,069)**	(10,127)
Finance costs		**(36)**	(200)
Loss before taxation		**(33,104)**	(10,327)
Taxation	*4*	**(318)**	(117)
Loss for the year		**(33,423)**	(10,444)
Minority interests		**(1,424)**	(145)
Loss attributable to shareholders		**(34,847)**	(10,589)
Loss per share	*5*		
– Basic (in cents)		**(5.38)**	(1.84)
– Diluted (in cents)		**(5.36)**	(1.75)
Dividend per share	*6*	**Nil**	Nil

Notes:

1. **Basis of presentation**

The financial statements have been prepared in accordance with accounting policies generally accepted in Hong Kong and under the historical cost convention and in compliance with the Companies Ordinance.

The accounting policies and methods of computation used in the preparation of the financial statements for the year ended 31st March, 2004 are consistent with those adopted in the 2003 financial statements except that the Group has adopted, for the first time, Hong Kong Financial Reporting Standard – Statement of Standard Accounting Practice 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants. The adoption of the revised statement has had no material effect on the results for the current or prior periods.

2. **Turnover and 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:

	2004	2003
	HK$'000	*HK$'000*
Sales of computer software	**8,060**	21,596
Provision of system integration and related services	**18,763**	4,500
Provision of software development and related services	**–**	598
	26,823	26,694

3. Loss from operating activities

Loss from operating activities is arrived at after charging/(crediting):

	2004	2003
	HK$'000	*HK$'000*
Amortization of goodwill	**1,125**	375
Amortization of intangible assets	**4,641**	4,625
Auditors' remuneration		
– current year provision	**324**	420
– overprovision in prior year	**–**	(109)
Bad and doubtful debts	**1,217**	41
Cost of inventories sold	**17,666**	9,126
Depreciation of fixed assets	**808**	485
Operating lease rentals in respect of land and buildings	**1,760**	1,202
Staff costs:		
Wages and salaries (including directors' emoluments)	**10,496**	6,789
Contributions to retirement/pension schemes and other benefits	**683**	309

4. Taxation

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

(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 year in those jurisdictions. The tax expenses during the year represents tax charges on the assessable profits of certain subsidiaries operating in the PRC calculated at the applicable rates.

(iii) No deferred tax asset has been recognized due to the unpredictability of future profit streams.

5. Loss per share

The basic loss per share is calculated based on the Group's loss attributable to shareholders of approximately HK$34,847,000 (2003: approximately HK$10,589,000) and on the weighted average of 648,122,801 (2003: 574,075,967) ordinary shares in issue during the year.

The diluted loss per share is based on the 649,648,509 (2003: 604,696,820) ordinary shares, which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 1,525,708 (2003: 30,620,853) ordinary shares deemed to be issued if all outstanding options had been exercised at the date they were granted.

6. Dividend

The Board does not recommend the payment of a final dividend for the year (2003: Nil).

7. Movements in reserves

	Share premium account *HK$'000*	Statutory reserve fund *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1st April, 2002	36,248	–	(6,191)	30,057
Issue of new shares	23,499	–	–	23,499
Adjustment for over-accrued share issue expenses in prior year	1,058	–	–	1,058
Share issue expenses	(1,404)	–	–	(1,404)
Loss for the year	–	–	(10,589)	(10,589)
At 31st March, 2003 and 1st April 2004	59,401	–	(16,780)	42,621
Issue of new shares	13,531	–	–	13,531
Share issue expenses	(1,111)	–	–	(1,111)
Transfer	–	60	(60)	–
Loss for the year	–	–	(34,847)	(34,847)
At 31st March, 2004	71,821	60	(51,687)	20,194

8. Comparative amounts

The comparative figure for provision against inventories for the year ended 31st March, 2003 has been reclassified from cost of sales and services to show as a separate item in the consolidated profit and loss account as such presentation provides a more appropriate presentation of the Group's operating results.

CHAIRMAN'S STATEMENT

2003 was a year of challenges for the Group. Our operations in the early 2003 were affected by SARS outbreak and normal business activities were muted. Though the PRC economy picked up steadily after the SARS outbreak, the Group had to squeeze the gross profit margin of the products to capture the market share. The Group's consolidated turnover for the year ended 31st March, 2004 was approximately HK$26,823,000, a slight increase compared with approximately HK$26,694,000 last year.

In view of changing market conditions, the Group decided to make significant impairment provisions. Management believes this reflects the appropriate current worth of the Group's assets and will provide a sound basis to generate value for shareholders in the future. The Group incurred approximately HK$16,296,000 in aggregate, provision against inventories and impairment loss in respect of intangible assets. These provisions have no impact on the Group's operating cash flows. The Group does not expect to incur further materials impairments in 2004 and the foreseeable future.

As a result of the provisions, the Group recorded a consolidated loss attributable to shareholders of approximately HK$34,847,000 for the year ended 31st March, 2004. This compares with a consolidated loss of approximately HK$10,589,000 last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Emerging as a Key Software Player in Beijing

The Group was a pioneer in the world to have a Chinese Linux kernel and has pledged unwavering commitment in becoming the "Open Source Standard in PRC". To accomplish the vision, the Group had already enjoyed top-of-the-class Linux technology, evident by the award for "IT Top 100 Enterprises of China E-Government" presented by China Internet Weekly in 2002 and 2003, as well as the "China's Best Listed Linux Enterprise Award" by China Information World in 2002.

Nevertheless, the Group's results for the past years did not fully reflect our leading-edge technology. The PRC Linux market was largely untapped, but its adoption was still in its infancy and not emulated with the same enthusiasm in US and other European countries. The Group tackled the difficult market conditions with numerous approaches before but the market prevalence took time to take off. In February 2004, the Group entered into a landmark agreement which dawned a new era for the Group to capitalize the opportunities available and foster the rapid deployment of Linux technology in the PRC.

In February 2004, the Group signed a conditional agreement with Beijing Development (Hong Kong) Limited ("Beijing Development") to acquire its Software Businesses. The Group has also announced to enter the conditional agreements to increase its stake in Snow Fair Co., Ltd. ("Snow Fair") and Pantosoft International Limited ("Pantosoft") to 100%. Upon the completion of the acquisitions, Beijing Development will become the largest shareholder of the Group. The transaction will provide a reliable revenue source for the Group as the Software Businesses of Beijing Development recorded net profit of approximately HK$41,329,000 for the year ended 31 December 2003. The injection of profitable business will also improve the Group's financial position for future R&D initiatives and expansion across the PRC. The Software Businesses of Beijing Development is the pre-eminent player in Beijing in provision of software and information management systems to various government departments in the PRC. It has already established a strong clientele from the Beijing Government, such as the Beijing Education Bureau, the Labour and Social Security and Tax Authorities in the PRC.

The new Xteam is set to provide Linux operating systems and software solutions to government authorities in four key sectors: social security, labour security, e-government and e-education. The PRC Government played an overriding role to urge the government departments to use Linux-based operation systems and application software. Such government-led initiatives will help Xteam to push the Linux adoption in the four key sectors and secure a solid revenue base from the Government. The Group will also leverage on Beijing Development's closer ties with various government departments, as well as the combined expertise in Linux and government systems, to expand the client base in government departments in Beijing and the rest of the PRC.

Prospects

The Group saw burgeoning potential in PRC Government software market. In August 2003, the State Council in the PRC announced that all government ministries had to purchase only PRC-made software at their next upgrade. According to China Centre of Information Industry Development ("CCID"), the Beijing Municipal Government purchased 2,801 suites of Linux operating systems and 11,143 automation software from domestic software companies in 2002. The PRC software market is further boosted by the promotion of e-government and e-education by the PRC Government. IDC forecasts that the PRC government's expenditure in IT services will increase from US$1.8 billion in 1999 to US$4.94 billion in 2004. These converging forces will cement the Group's position to capture the growing demand of software solutions from the largest sector in the PRC.

Looking ahead, the well-established clientele from Beijing Development, with the combined efforts of Xteam's leading-edge Linux technology, will provide the critical mass for the Group to replicate the successful business models in other provinces and expand into other sectors of the government and enterprise markets. Our ultimate goal is to bring widespread prevalence of Chinese-based software across the PRC, starting from the government divisions to enterprises, and then the largest chunk in the market - 1.3 billion people in the PRC. Our unique Chinese Linux kernel stands us in good stead to work towards this goal and set the "Open Source Standard in PRC". The Group is determined to becoming the largest open source platform and service centre in the PRC to embrace the enormous potential in the PRC Software market.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$26,823,000 for the year ended 31st March, 2004, compared with a turnover of approximately HK$26,694,000 last year. The slight increase in turnover was mainly attributable to the increase in sales of low-margin products after the SARS outbreak to maintain its market presence.

The loss attributable to shareholders of the Group was approximately HK$34,847,000 (2003: approximately HK$10,589,000). The loss was mainly due to the substantial impairment provisions of approximately HK$8,320,000 (2003: Nil) against certain intangible assets and provision against obsolete inventories of approximately HK$7,976,000 (2003: approximately HK$4,267,000). The Group's gross profit margin was approximately 13.6% (2003: approximately 49.6%). The drop in gross profit margin was mainly due to keen competition in software market and the relatively low margin of hardware products which contributed to approximately 69.9% (2003: approximately 16.8%) of the Group's total turnover for the year.

LIQUIDITY, FINANCIAL RESOURCES AND DEBT RATIO

As at 31st March, 2004, the Group has no outstanding bank loans (2003: HK$1,415,000). The loan as at 31st March, 2003 was primarily used to finance short-term cash flows for the Group's operations in Shanghai, China. This loan carried a fixed interest rate of 5.31% per annum and has been fully repaid on 3rd June, 2003.

The gearing ratio (defined as total liabilities over equity) of the Group as at 31st March, 2004 was approximately 44.4% (2003: approximately 39.1%).

The debt ratio (defined as total liabilities over total assets) of the Group as at 31st March, 2004 was approximately 30.8% (2003: approximately 28.1%).

CAPITAL STRUCTURE, EXPOSURE TO EXCHANGE RATES FLUCTUATION

As at 31st March, 2004, the number of issued share capital of the Company was 693,007,938 (2003: 588,327,938). During the year, a total of 104,680,000 new ordinary shares of the Company were issued to raise funds for product(s) development, advertising and marketing activities and general working capital of the Group.

As at 31st March, 2004 the Group held cash and cash equivalents denominated in Hong Kong Dollars and Renminbi.

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not freely convertible into foreign currencies. The Group had prudent policy to manage currency and interest rate exposures, and as most of the Group's monetary assets and liabilities are denominated in Renminbi and Hong Kong Dollars, the exchange rate risks of the Group is considered minimal.

FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash and cash equivalents, trade receivables and payable, other receivables and payables, approximately their fair values because of the short maturity of these instruments.

The Group did not enter into any foreign exchange forward contracts to hedge against fluctuations.

PROSPECTS OF NEW PRODUCTS

The Group considers that the server market is the main target market; therefore, the Group intends to put more efforts in developing and creating new features and in the enhancement of its server application software.

MATERIAL ACQUISITIONS AND DISPOSALS DURING THE YEAR AND FUTURE PLANS FOR MATERIAL INVESTMENTS

On 10th February 2004, the Group entered into several share purchase agreements as follows:

(a) Snow Fair entered into share purchases agreement to acquire 49 shares of Pantosoft from its minority shareholder, Fortune Leo Investment Limited ("Fortune Leo") at a consideration of approximately HK$16,000,000, to be satisfied partly by cash of HK$312,000 and partly by the Company issuing 105,422,000 new shares to Fortune Leo. After the completion of this transaction, the Company will own 100% of Pantosoft and its subsidiary, Shanghai Pantosoft Company Limited.

(b) The Company entered into two share purchase agreements to acquire a total of 31 shares of Snow Fair from its minority shareholders, MC Capital B.V. and Cosmo Town Limited for total considerations of approximately HK$4,921,000, to be satisfied by the allotment of 33,938,000 new shares of the Company. After the completion of this transaction, the Company will own 100% of Snow Fair.

(c) A deed was entered into by the Company and Beijing Development pursuant to which the Company has agreed to purchase 680 shares of Astoria Innovations Limited ("Astoria"), representing 68% interest in Astoria, and 100 shares of Wisdom Elite Limited ("Wisdom"), representing 100% interest in Wisdom. Astoria and Wisdom are subsidiaries of Beijing Development and are engaged in the software business. The considerations will be satisfied by the Company issuing new shares to Beijing Development.

For details of the acquisitions, please refer to the announcement of the Company dated 19th May 2004.

SEGMENTAL INFORMATION

No analysis of the Group's turnover and its contribution to profit before taxation by principal activities for the year were presented as 100% (2003: 100%) of the Group's turnover and operating results arose from the sales of computer software and rendering of system integration, software development and related services in the PRC.

STAFF

As at 31st March, 2004, the Group employed 104 employees, including directors of the Company, (2003: 112) at market remuneration and benefits such as defined retirement/pension contributions, employee share options and medical insurance, etc. Total staff costs for the reported year were approximately HK$10,496,000 (2003: approximately HK$6,789,000). The increase was mainly due to the acquisition of a subsidiary in 2003.

CHARGE OF ASSETS

As at 31st March, 2004, the Group did not have any charge on its assets (2003: Nil).

CONTINGENT LIABILITIES

As at 31st March, 2004 the Group did not have any material contingent liabilities (2003: Nil).

COMPARISON OF USE OF PROCEEDS

The net proceeds raised from the placing on 11th December, 2001 were approximately HK$18.96 million (based on HK$0.38 placing price). The proceeds had been applied to achieve the business objectives as set out in the prospectus dated 30th November, 2001 and are detailed below:

	From the date listed on GEM on 11th December, 2001 to 31st March, 2004	
	Proposed	**Actual**
	HK$'million	*HK$'million*
For product development or related investment through, among other things, acquisition, direct or indirect investment in other Linux based product developers	6.37	6.37
For enhancement of the Group's distribution channels through, among other things, acquisition, direct or indirect investment in other distributors	2.00	2.00
For setting up of a laboratory for e-solution project in Beijing, the PRC	2.50	2.50
For setting up Linux Training and Certificate Programme in Beijing, the PRC	1.00	1.00
For setting up the Group's Shanghai sales office	1.50	1.50
For advertising and marketing activities of the Group to promote the brand awareness and products of the Group	3.07	3.07
General working capital	0.80	0.80

Unused net proceeds were placed with licensed banks in Hong Kong and PRC.

REVIEW OF BUSINESS OBJECTIVES

	Business Objectives	Actual Business Progress
Product launches, sales and marketing	• Continue to co-operate with the hardware vendors and distributors to deploy more embedded system	The Group is working with hardware vendors and distributors to deploy more embedded systems
	• Improve e-solution through strengthening its collaboration with software vendors and distributors	The Group is working with software vendors and distributors to provide e-solutions
	• Enhance sales and distribution channels	The Group had improved sales and distribution channels
	• Launch upgraded XteamServer series	In progress
Business development	• Further improve Xteam Companion	In progress
	• Improve support services and explore opportunities to provide enterprise consulting services	In progress
	• Establish Xteam Companion which is based on Internet sales and service consultancy business to provide tailor-made all-round support to sales network and end-users	In progress
Research and development	• Upgrade XteamServer series	In progress

	Business Objectives	Actual Business Progress
Human resources, operations and administration	• Recruit additional development engineers • Strengthen the Group's support services and start to provide enterprise consulting services	The Group will access the Group's development strategy from time to time in order to meet the human resources requirement
Strategic acquisitions and alliances	• Explore opportunities to acquire or form alliances with companies providing synergies and technological support	The Group has successfully acquired a software company in Shanghai which can also provide certain technological support. In addition, the Group is still continuing to explore opportunities to acquire or form alliances with companies providing synergies and technological support

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31st March, 2004, the interests or short positions of the Directors and chief executives of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(1) Interests in shares

	Number of shares of the Company				
Name of directors	**Personal interests**	**Family interests**	**Corporate interests**	**Total**	**% of issued share capital**
Mr. Ma Gary Ming Fai *(note 1)*	–	–	116,681,821	116,681,821	16.84%
Mr. Ren Yi *(note 2)*	–	–	1,481,507	1,481,507	0.21%
Mr. Wu Meng Jie	6,219,962	–	–	–	0.90%

Notes:

1 These shares are held by Upwise Investments Ltd. and Princeton Venture Partners Limited. 74,821,349 shares are held by Upwise Investment Ltd. and the entire issued share capital of Upwise Investment Ltd. is beneficially owned by Mr. Ma Gary Ming Fai. 41,860,472 shares are held by Princeton Venture Partners Limited. Princeton Venture Partners Limited is wholly owned by PVP Limited. PVP Limited is in turn owned as to 43.56% by Innovative Group Ltd. Innovative Group Ltd. is in turn wholly owned by Mr. Ma Gary Ming Fai. Mr. Ma Gary Ming Fai is taken to be interested in 74,821,349 shares and 41,860,472 shares by virtue of his corporate interests in Upwise Investments Ltd. and Innovative Group Ltd. respectively.

2 The 1,481,507 shares are held by One Focus Group Limited, a company incorporated in the British Virgin Islands, the issued capital of which is beneficially owned by Mr. Ren Yi.

(2) Interests in underlying shares

(a) Pre-IPO share options

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company adopted on 30th 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. All options have a duration of 10 years from the date of grant of the options and exercisable after three months from the date of listing of the Company on GEM on 11th December, 2001.

Details of the pre-IPO share options granted to certain Directors are as follows:

Name of Director	Date granted	Exercise period	No. of shares eligible for subscription under the pre-IPO share option	Exercise price per share
Mr. Ma Gary Ming Fai	14th November, 2001	11th June, 2002 to 13th November, 2011	50,000,000	HK$0.266
Mr. Mak To Wai	14th November, 2001	11th June, 2002 to 13th November, 2011	30,000,000	HK$0.266
			80,000,000	

Up to 31st March, 2004, no options under the Pre-IPO Share Option Scheme have been exercised.

(b) Post-IPO share options

On 21st November, 2001, the shareholders of the Company adopted a share option scheme ("Share Option Scheme"), the principal terms of which were set out on pages 199 to 208 of the Prospectus. Under the terms of the 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 19th 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 to certain Directors are as follows:

Name of Director	Date granted	Exercise period	No. of shares eligible for subscription under the post-IPO share option	Exercise price per share
Mr. Cheng Shu Wing	19th December, 2003	19th December, 2003 to 18th December, 2013	1,000,000	HK$0.14
Mr. Wang Shi Yu	19th December, 2003	19th December, 2003 to 18th December, 2013	1,000,000	HK$0.14
			2,000,000	

Up to 31st March, 2004, no options under the Share Option Scheme have been exercised.

Details of the 61,000,000 outstanding post-IPO share options granted to individuals other than Directors were set out in the sub-section headed "Post-IPO Share Option Scheme" under the section headed "Share Option Scheme".

Save as disclosed above, as at 31st March, 2004, none of the Directors, chief executive of the Company and their associates had any personal, family, corporate or other interest or short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange. During the reporting year, there were no debt securities issued by the Group.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed herein, and other than in connection with the Reorganization prior to the listing of the Company's shares on GEM, as at the date hereof, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and/or the chief executives 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 executives 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.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2004, the following persons (other than the Directors and chief executive of the Company) had interests or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.:

Name	Number of shares	Percentage of issued share capital
Upwise Investments Ltd.	74,821,349 *(note 1)*	10.80%
Princeton Venture Partners Limited	41,860,472 *(note 2)*	6.04%
PVP Limited	41,860,472 *(note 3)*	6,04%
Olympic Glory Limited	41,860,472 *(note 4)*	6.04%
Omnicorp Limited	42,340,472 *(note 5)*	6.11%
Innovative Group Ltd.	41,860,472 *(note 6)*	6.04%
Positivism Securities Limited	33,173,133	4.79%

Notes:

1. The entire issued share capital of Upwise Investments Ltd. is beneficially owned by Mr. Ma Gary Ming Fai, the Chairman of the Company.

2. Princeton Venture Partners Limited is wholly owned by PVP Limited. PVP Limited is in turn owned as to 43.56% by Innovative Group Ltd. and as to 37.22% by Olympic Glory Limited. Olympic Glory Limited is wholly owned by Omnicorp Limited (formerly Omnitech Group Limited), a company incorporated in Bermuda with limited liability and the securities of which are listed on the Main Board of the Exchange.

3. PVP Limited is deemed to be interested in 41,860,472 shares by virtue of its corporate interests in Princeton Venture Partners Limited.

4. Olympic Glory Limited is deemed to be interested in 41,860,472 shares by virtue of its corporate interests in PVP Limited.

5. Omnicorp Limited is deemed to be interested in 41,860,472 shares by virtue of its corporate interests in Olympic Glory Limited. 480,000 shares are held by Clever United Holdings Limited, which is wholly owned by Omnicorp Limited. Omnicorp Limited is deemed to be interested in 480,000 shares by virtue of its corporate interests in Clever United Holdings Limited.

6. Innovative Group Ltd. is deemed to be interested in 41,860,472 shares by virtue of its corporate interests in PVP Limited.

Save as disclosed above, as at 31st March, 2004, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

SHARE OPTIONS SCHEME

(a) Pre-IPO Share Option Scheme

Details of the pre-IPO share options granted to Directors are set out in the sub-section headed "Interests in underlying shares" under the section headed "Directors' and chief executives' interests or short position in the shares and underlying shares". There is no outstanding pre-IPO share options granted to other executives and full time employees as at 31st March, 2004.

(b) Post-IPO Share Option Scheme

On 21st November, 2001, the shareholders of the Company adopted a share option scheme ("Share Option Scheme"), the principal terms of which were set out on pages 199 to 208 of the Prospectus. Under the terms of the 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 19th 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 to are as follows:

Type of grantees	Date granted	Exercise period	No. of shares eligible for subscription under the post-IPO share option	Exercise price per share
Directors	19th December, 2003	19th December, 2003 to 18th December, 2013	2,000,000	HK$0.14
Employees, advisers and consultants	19th December, 2003	19th December, 2003 to 18th December, 2013	61,000,000	HK$0.14
			63,000,000	

Up to 31st March, 2004, no options under the Share Option Scheme have been exercised.

Details of the post-IPO share options granted to Directors are set out in the sub-section headed "Interests in underlying shares" under the section headed "Directors' and chief executives' interests or short position in the shares and underlying shares".

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

During the year ended 31st March, 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPETING INTERESTS

During the year 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.

INTERESTS OF SPONSOR

First Shanghai Securities Limited ("FSSL") entered into a sponsor agreement ("Sponsor Agreement") on 30th November 2001 with the Company whereby, for a fee, FSSL would act as the Company's continuing sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the period from 11th December, 2001 to 31st March, 2004.

FSSL has undergone a business rationalization with a view to having a better demarcation of various business units, including the segregation of corporate finance and securities trading business originally operated by it. As part of the rationalization, the corporate finance business and relevant staff of FSSL had been transferred to another fellow subsidiary, First Shanghai Capital Limited ("FSCL"), with effect from 16th January, 2002.

On 16th January, 2002, the Company agreed to novate with FSCL the rights and obligations under the Sponsor Agreement. As a result, FSCL acted as the continuing sponsor of the Company until 31st March, 2004.

None of FSCL, its directors, employees or associates had any interests in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31st March, 2004.

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 since listed on GEM of the Stock Exchange.

AUDIT COMMITTEE

As required by Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee on 21st November, 2001 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 two independent non-executive Directors, namely Mr. Cheng Shu Wing and Mr. Wang Shi Yu. The Group's audited results have been reviewed by the two independent non-executive Directors of the Company.

As of the date of this announcement, the Board comprises the following directors:

Executive directors:
Ren Yi
Peng Wen Sheng
Yang Feng
Wu Meng Jie
Mak To Wai

Non-executive directors:
Ma Gary Ming Fai
Liu Jun

Independent non-executive directors:
Cheng Shu Wing
Wang Shi Yu

By order of the Board
Xteam Software International Limited
Ma Gary Ming Fai
Chairman

Hong Kong, 21st June, 2004

This announcement will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its publication and on the website of the Company at http://www.xteamlinux.com.cn.