Xteam Software International Limited
衡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 NINE MONTHS ENDED 31ST DECEMBER, 2004

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.

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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.

SUMMARY

– The Group is one of the top providers of Linux software and IT application services to government and enterprises in Mainland China, with particular strength in Beijing.

– The Company's financial year end date has been changed from 31st March to 31st December and these financial statements will cover a period of nine months instead of twelve months.

– Turnover for the nine months ended 31st December, 2004 amounted to approximately HK$51,739,000, representing an increase of 92.9% from last year (twelve months ended 31st March, 2004: approximately HK$26,823,000).

– Profit attributable to shareholders for the nine months ended 31st December, 2004 amounted to approximately HK$11,297,000 (twelve months ended 31st March, 2004: loss of approximately HK$33,722,000 (restated)).

– The Board does not recommend the payment of a final dividend for the period (twelve months ended 31st March, 2004: Nil).

FINAL RESULTS FOR NINE MONTHS ENDED 31ST DECEMBER, 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 nine months ended 31st December, 2004, together with the audited comparative figures for the twelve months ended 31st March, 2004, as follows:

	Notes	9 months ended 31st December, 2004 *HK$'000*	12 months ended 31st March, 2004 (restated) *HK$'000*
Turnover	*3*	51,739	26,823
Cost of sales and services		(22,645)	(23,176)
Gross profit		29,094	3,647
Other revenue		2,578	1,687
Operating expenses		(19,083)	(20,982)
Provision against inventories		–	(7,976)
Impairment loss in respect of intangible assets		–	(8,320)
Profit/(loss) from operating activities	*4*	12,589	(31,944)
Finance costs		(198)	(36)
Profit/(loss) before taxation		12,391	(31,980)
Taxation	*5*	97	(318)
Profit/(loss) for the period/year		12,488	(32,298)
Minority interests		(1,191)	(1,424)
Profit/(loss) attributable to shareholders		11,297	(33,722)
Earnings/(loss) per share	*6*		
– Basic (in cents)		0.51	(5.20)
– Diluted (in cents)		N/A	(5.19)
Dividend per share	*7*	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 nine months ended 31st December, 2004 are consistent with those adopted in the financial statements for the twelve months ended 31st March, 2004 except that the Group has early adopted certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants up to 31st December, 2004 pertinent to its operations. The applicable HKFRSs are set out below.

HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKFRS 3	Business Combinations

The early adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Prior to this, goodwill was:

– amortised on a straight-line basis over a period of not exceeding 20 years; and

– assessed for impairment at each balance sheet date.

In accordance with the provisions of HKFRS3:

– the Group ceased amortization of goodwill from 1st April, 2003;

– accumulated amortization as at 31st March, 2003 has been eliminated with corresponding decrease in the cost of goodwill;

– from the year ended 31st March, 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

The effect of early adopting HKAS36, HKAS38 and HKFRS3 on the consolidated profit and loss account is summarized as follows:

	9 months ended 31st December, 2004 *HK$'000*	**12 months ended 31st March, 2004** *HK$'000*
Increase/(decrease) in profit/(loss) attributable to shareholders	6,523	(1,125)
Increase/(decrease) in basic earnings/(loss) per share	0.29 cents	(0.18) cents
Increase/(decrease) in diluted earnings/(loss) per share	N/A	(0.17) cents

The effect of early adopting HKAS36, HKAS38 and HKFRS3 on the consolidated balance sheet is summarized as follows:

	At 31st December, 2004	At 31st March, 2004
	HK$'000	*HK$'000*
Increase in goodwill	7,648	1,125
Decrease in accumulated losses	7,648	1,125

2. Change of financial year end date

During the period, the Company's financial year end date has been changed from 31st March to 31st December and these financial statements will cover a period of nine months instead of twelve months.

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:

	9 months ended 31st December, 2004	12 months ended 31st March, 2004
	HK$'000	*HK$'000*
Sales of computer software	8,203	8,060
Provision of system integration and related services	32,973	18,763
Provision of software development and related services	10,563	–
	51,739	26,823

4. Profit/(loss) from operating activities

Profit/(loss) from operating activities is arrived at after charging:

	9 months ended 31st December, 2004	12 months ended 31st March, 2004
	HK$'000	*HK$'000*
Amortization of intangible assets	101	4,641
Auditors' remuneration	503	324
Bad and doubtful debts	–	1,217
Cost of inventories sold	22,645	17,666
Depreciation of fixed assets	1,113	808
Operating lease rentals in respect of land and buildings	1,649	1,760
Staff costs:		
Wages and salaries (including directors' emoluments)	9,254	10,496
Contributions to retirement/pension schemes and other benefits	578	683

5. Taxation

(i) No provision for Hong Kong 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. The tax expenses during the period represents tax charges on the assessable profits of certain subsidiaries operating in the PRC calculated at the applicable rates.

(iii) 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. Earnings/(loss) per share

The basic earnings per share is calculated based on the Group's profit attributable to shareholders of HK$11,297,000 (twelve months ended 31st March, 2004: loss of approximately HK$33,722,000 (restated)) and on the weighted average of 2,231,313,416 (twelve months ended 31st March, 2004: 648,122,801) ordinary shares in issue during the period.

Diluted earnings per share amount for the nine months ended 31st December, 2004 has not been disclosed as the outstanding options had an anti-dilutive effect on the basis earnings per share for the current period.

The comparative diluted earnings per share was based on 649,648,509 ordinary shares, which was the weighted average number of ordinary shares in issue during the prior year plus the weighted average of 1,525,708 ordinary shares deemed to be issued if all outstanding options had been exercised at the date they were granted.

7. Dividend

The Board does not recommend the payment of a final dividend for the period (twelve months ended 31st March, 2004: Nil).

8. Movements in reserves

	Share premium account *HK$'000*	Statutory reserve fund *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1st April, 2003	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 (as restated)	–	–	(33,722)	(33,722)
At 31st March, 2004 (as restated)	71,821	60	(50,562)	21,319
At 1st April, 2004:				
As previously reported	71,821	60	(51,687)	20,194
Prior year adjustment *(Note 1)*	–	–	1,125	1,125
As restated	71,821	60	(50,562)	21,319
Issue of new shares	263,630	–	–	263,630
Share issue expenses	(2,230)	–	–	(2,230)
Profit for the period	–	–	11,297	11,297
At 31st December, 2004	333,221	60	(39,265)	294,016

9. Related party transactions

	9 months ended 31st December, 2004 *HK$'000*	12 months ended 31st March, 2004 *HK$'000*
Sales to Beijing Enterprises Teletron Information Technology Co., Ltd.	2,964	–

The directors are of the opinion that the above transaction was conducted in the ordinary course of business of the Group.

10. Comparative amounts

Due to the early adoption of HKFRS3, HKSA36 and HKSA38 during the current period, a prior year adjustment has been made and certain comparative amounts have been restated to conform with the current period's presentation. In addition, as a result of the change of financial year end date from 31st March to 31st December, the comparative amounts for the consolidated profit and loss account, consolidated statement of changes in equity, consolidated cash flow statement and related notes may not be comparable.

CHAIRMAN'S STATEMENT

Introduction

The Group underwent an important transformation in 2004. The acquisitions of four software businesses including three from Beijing Development (Hong Kong) Limited ("Beijing Development"), with the latter becoming the Group's parent as a result, brought some very important benefits. These benefits include:

1. the fact that Xteam is now profitable;

2. membership of a powerful business group which is able to bring important opportunities;

3. ownership of businesses which have attractive future growth potential;

4. a strengthened management team with proven talents in developing information technology businesses in mainland China; and

5. an enhanced ability to fulfil the purpose for which Xteam was founded, developing a leading position in Chinese Linux.

Given the fundamental changes referred to above it is appropriate to summarise our views of the environment in which we operate and our strategy for developing Xteam in the years ahead.

The main business of the Xteam Group is the development and sale of computer software primarily for large scale applications and provision of related support services to government and major corporate customers in mainland China, with particular strength in Beijing. We also procure hardware on behalf of our customers but this activity offers less opportunity to add value for our customers and is declining in relative importance. We have gained a deep understanding of our government customers' needs, procedures and requirements – particularly in the areas of education, social security, employment, tax and administration – and have established a strong reputation for providing them with effective service and support. Our Chinese Linux kernel, expertise in the open source software and our presence in the Chinese Linux arena are attracting increasing interest from our customers and potential partners.

Prospects

We foresee a bright future for China's software industry. The drivers of future growth relevant to the sectors in which we have chosen to specialise include:

1. The Chinese Government's decision to spend massively on automation to improve the efficiency and quality of services it can deliver to the Chinese people. The Chinese Government is China. biggest IT customer.

2. The leading role in China's IT industry being played by the Beijing Municipal Government with increasing proportions of its growing IT budgets focused on software.

3. The Chinese Government's determination to foster a successful domestic software industry.

4. The generally low level of IT development in Chinese enterprises.

5. The drive to reduce the level of piracy while keeping software costs to reasonable levels. This clearly favours open source software and applications based thereon. This effectively means Linux.

Strategy

There are four main inter-related strands to our strategy:

1. Continue to focus on our major customers. Grow with them by building bigger and better systems and providing the outstanding service that meets their needs.

2. Develop nationally step-by-step. As China's IT showcase Beijing attracts attention from provinces all over the country. This brings us many opportunities to apply the solutions we have developed in Beijing all over China: we will do this selectively.

3. Build a strong base of recurrent income. Our customers are increasingly asking us to play an operational role in relation to the systems we build. This provides Xteam with opportunities for developing on-going businesses in partnership with our customers: this will take us beyond being purely a software "construction contractor".

4. Become a leading Chinese Linux player. The "lift off" point for Linux in China is approaching. With our Chinese Linux kernel, expertise and customer base, we are actively positioning Xteam to participate in this exciting market.

By developing Xteam around these four strategies we believe we can build a coherent business that will be a source of value to our customers and investors over the long term and will contribute to the attainment of a vital national objective.

Investor Communication

Xteam is, as yet, small and not well known by investors. We are however operating in one of the most important and exciting information technology markets in the world. We believe that, despite our size, Xteam is of potential interest to international investors. We are therefore increasing our efforts to communicate effectively and helpfully with the investment community.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group reported a consolidated turnover of approximately HK$51,739,000 for the nine months ended 31st December, 2004, up 92.9% compared with approximately HK$26,823,000 for the twelve months ended 31st March, 2004.

The profit attributable to shareholders for the nine months ended 31st December, 2004 was approximately HK$11,297,000 in comparison with the loss of approximately HK$33,722,000 (restated) for the twelve months ended 31st March, 2004.

The Group's gross profit margin also posted a sharp increase to 56.2% for the nine months ended 31st December, 2004, compared with the 13.6% for the twelve months ended 31st March, 2004. The increase was attributed to the greater proportion in the sales of software products which enjoyed a relatively higher profit margin than hardware products.

Successful integration of the software businesses the Group bought from Beijing Development was the main factor for this turnaround performance.

Liquidity, Financial Resources and Debt Ratio

As at 31st December, 2004, the Group had cash and bank balances of approximately HK$16,459,000 (as at 31st March, 2004: HK$9,184,000) and had no outstanding bank loans (as at 31st March, 2004: Nil).

The gearing ratio (defined as total liabilities over equity) of the Group as at 31st December, 2004 was approximately 5.7% (as at 31st March, 2004: approximately 32.7%).

The debt ratio (defined as total liabilities over total assets) of the Group as at 31st December, 2004 was approximately 5.4% (as at 31st March, 2004: approximately 22.9%).

Capital Structure, Exposure to Exchange Rates Fluctuation

As at 31st December, 2004, the number of issued share capital of the Company was 3,758,471,752 (as at 31st March, 2004: 693,007,938). During the period, a total of 3,065,463,814 new ordinary shares of the Company were issued for the acquisitions of certain subsidiaries. For details of the acquisitions, please refer to the following section headed "Material Acquisitions and Disposals During the Period and Future Plans for Material Investments".

As at 31st December, 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, are approximately at 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.

Material Acquisitions and Disposals During the Period and Future Plans for Material Investments

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

(a) Snow Fair Company Limited ("Snow Fair ") entered into a share purchase agreement to acquire 49 shares of Pantosoft International Limited ("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, Snow Fair 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 a total consideration of approximately HK$4,921,000, to be satisfied by the allotment of 33,938,000 new shares in 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 a 68% interest in Astoria, and 100 shares of Wisdom Elite Holdings Limited ("Wisdom"), representing a 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 2,926,103,814 new shares.

For details of the acquisitions, please refer to the announcement and circular of the Company dated 19th May, 2004 and 30th June, 2004 respectively.

The above acquisitions were duly approved by independent shareholders of the Company at an extraordinary general meeting ("EGM") held on 22nd July, 2004. For details of the results of the EGM, please refer to the announcement of the Company dated 22nd July, 2004.

The above acquisitions were completed on 16th August, 2004. For details, please refer to the announcement of the Company dated 16th August, 2004

Segmental Information

No analysis of the Group's turnover and its contribution to profit before taxation by principal activities for the period were presented as 100% (twelve months ended 31st March, 2004: 100%) of the Group's turnover and operating results arose from the sales of computer software, provision of system integration, software development and related services in the PRC.

Staff

As at 31st December, 2004, the Group employed approximately 350 employees, including directors of the Company, (as at 31st March, 2004: approximately 110) at market remuneration and benefits such as defined retirement/pension contributions, employee share options and medical insurance, etc. Total staff costs for the reported period were approximately HK$9,832,000 million (twelve months ended 31st March, 2004: approximately HK$11,179,000 million).

Charge of Assets

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

Contingent Liabilities

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

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

As at 31st December, 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 director	**Personal interests**	**Family interests**	**Corporate interests**	**Total**	**% of issued share capital**
Mr. Ma Gary Ming Fai	1,000,000	–	116,681,821 *(note)*	117,681,821	3.13%

Note: 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) 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 Director and employee is 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

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

(3) Interests in shares of associated corporations of the Company

Name of director	Name of associated corporation	Relationship with the Company	Number of ordinary shares held	Capacity and nature of interest	% 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	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

(4) Share Option Scheme

As at 31st December, 2004, the interests of a director of the Company in options to subscribe for shares of Beijing Enterprises Holdings Limited ("Beijing Enterprises"), the Company's holding company, under the share option scheme of Beijing Enterprises were as follows:

Name of director	Number of options held	
	Note (a)	*Note (b)*
Mr. E Meng	50,000	450,000

Notes:

(a) These options were granted on 3rd March, 1998 at an exercise price per share of HK$17.03. The options can be exercised at any time in the next 10 years commencing on 1st September, 1998. No such options were exercised during the period.

(b) These options were granted on 23rd June, 1998 at an exercise price per share of HK$17.03. The options can be exercised in nine equal portions. The first portion is exercisable at any time commencing on 1st January, 1999 and one additional portion becomes exercisable on 1 January in each of the following years. All of the options (to the extent not exercised) will become exercisable on 1st January, 2007 and, if not otherwise exercised, will lapse on 1st January, 2009. No such options were exercised during the period.

As at 31st December, 2004, the interests of directors of the Company in options to subscribe for shares of Beijing Development, the Company's holding company, under the share option scheme of Beijing Development were as follows:

	Number of options held	
Name of director	*Note (c)*	*Note (d)*
Mr. Li Kang Ying	–	2,700,000
Mr. Cao Wei	–	2,500,000
Mr. Ng Kong Fat, Brian	2,300,000	1,200,000
Mr. E Meng	1,600,000	1,200,000

Notes:

(c) These options were granted on 19th 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 1st January, 2002, and each further portion becomes exercisable on 1st January in each of the following years. All of the options, if not otherwise exercised, will lapse on 26th June, 2006. No such options were exercised during the period.

(d) These options were granted on 18th 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 18th January, 2002, and each further portion becomes exercisable on 1st January in each of the following years. All of the options, if not otherwise exercised, will lapse on 17th January, 2007. No such options were exercised during the period.

Save as disclosed above, as at 31st December, 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 period, 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 December, 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	**Nature of interests**	**Number of shares**	**Percentage of issued share capital**
Beijing Development	Interests of controlled corporation	2,115,513,445	56.29%
Beijing Enterprises	Interests of controlled corporation	2,115,513,445 *(note 1)*	56.29%
Beijing Enterprises Investments Limited	Interests of controlled corporation	2,115,513,445 *(note 2)*	56.29%
Beijing Holdings Limited	Interests of controlled corporation	2,115,513,445 *(note 3)*	56.29%
Chung Kwok Ho	Interests of controlled corporation	382,864,129 *(note 4)*	10.18%
Lee Man Yee	Interests of spouse	382,864,129 *(note 5)*	10.18%
Cosmos Vantage Limited	Beneficial interests	382,864,129 *(note 6)*	10.18%

Notes:

1. Beijing Enterprises was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Beijing Development.

2. 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.

3. 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.

4. Chung Kwok Ho held these shares through Cosmos Vantage Limited in which he is the sole beneficial owner.

5. These shares were held by Cosmos Vantage Limited, which is wholly owned by Chung Kwok Ho. Lee Man Yee is the spouse of Chung Kwok Ho and accordingly she was deemed to be interested in these shares.

6. Cosmos Vantage Limited is wholly owned by Chung Kwok Ho.

Save as disclosed above, as at 31st December, 2004, the Directors were not aware of any other person (other than the Directors and the 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". Details of outstanding pre-IPO share options granted to other executives and full time employees as at 31st December, 2004 are as follows:

Typer of grantee	Date granted	Exercise period	No. of shares eligible for subscription under the pre-IPO share option	Exercise price per share
Employee (resigned as director on 30th August, 2004)	14th November, 2001	11th June, 2002 to 13th November, 2011	30,000,000	HK$0.266

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

(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 of the Company. 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 shares.

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

Typer of grantee	Date granted	Exercise period	No. of shares eligible for subscription under the pre-IPO share option	Exercise price per share
Ex-directors (resigned on 14th December, 2004)	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 December, 2004, no options under the Share Option Scheme have been exercised.

Up to the date of this announcement, 2,000,000 outstanding post-IPO share options were lapsed due to the resignation of the directors.

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

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

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.

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 three independent non-executive Directors, namely Ms. Ma Yu Hua, Ms. Liang Ye Ping and Mr. Jiang Qi Ping. The Group's audited results have been reviewed by the three independent non-executive Directors of the Company.

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.

APPRECIATION

The Board would like to take this opportunity to express our sincere gratitude and appreciation to our shareholders and parties for their support, and our hardworking colleagues during the period.

By order of the Board
Xteam Software International Limited
Zhang Hong Hai
Chairman

Hong Kong, 23rd March, 2005

At the date of this announcement, The board of directors of Company comprises Mr. Zhang Hong Hai, Mr. Li Kang Ying, Mr. Ma Gary Ming Fai, Mr. Cao Wei, Mr. Ng Kong Fat, Brian, Mr. E Meng and Ms. Chen Zhi (who are executive directors of the Company), and Ms. Ma Yu Hua, Ms. Liang Ye Ping and Mr. Jiang Qi Ping (who are independent non-executive directors of the Company).

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.