



Xteam Software International Limited
衝浪平台軟件國際有限公司

(incorporated in the Cayman Islands with limited liability)

QUARTERLY RESULTS REPORT
FOR THE NINE MONTHS ENDED
31ST DECEMBER, 2001

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

This report, for which the directors (“Directors”) of Xteam Software International Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

SUMMARY

- The Group is principally engaged in the provision of the Chinese Linux operating system with kernel rewritten to cater for Chinese users and software based on the Linux operating platform for various hardware appliances including servers and personal computers in the PRC. It also provides technical support and after-sales services to its customers.
- Turnover for the quarter and the nine months ended 31st December, 2001 amounted to approximately HK\$5.93 million and HK\$19.27 million, respectively. Nine months turnover increased by approximately 61% compared with the corresponding period in the previous year.
- The Company was successfully listed on GEM on 11th December, 2001.
- As at 31st December, 2001, the Group has net current assets of approximately HK\$21 million. The Group has no outstanding bank loans.

THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 31ST DECEMBER, 2001

The board of Directors (the “Board”) of Xteam Software International Limited (the “Company”) announce the unaudited results of the Company and its subsidiaries (collectively, the “Group”) for the three and nine months ended 31st December, 2001, together with the unaudited comparative figures for the corresponding periods in 2000, as follows:

		Three months ended		Nine months ended	
		31st December,		31st December,	
		2001	2000	2001	2000
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	2	5,933	5,642	19,273	12,005
Cost of sales		(673)	(1,102)	(1,850)	(2,026)
Gross profit		5,260	4,540	17,423	9,979
Other income		—	23	40	82
Operating expenses		(4,382)	(4,623)	(13,602)	(18,561)
Profit/(loss) from operations		878	(60)	3,861	(8,500)
Finance income/(cost), net		(25)	121	(36)	142
Profit/(loss) before tax		853	61	3,825	(8,358)
Income tax expense	3	—	—	—	—
Profit/(loss) after tax		853	61	3,825	(8,358)
Earnings/(loss) per share					
-Basic (in cents)	4	0.18	0.01	0.84	(1.87)
-Diluted (in cents)		0.16	N/A	0.76	N/A
Dividend per share		Nil	Nil	Nil	Nil

1. Bases of presentation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 24th May, 2001 under the Companies Law (2001 Second Revision) of the Cayman Islands. Pursuant to a reorganization of the Group in November 2001 to rationalize the structure of the Group in preparation for the listing of the shares of the Company on GEM, the Company became the holding company of the subsidiaries now comprising the Group (the "Group Reorganization"). The Company was successfully listed on GEM on 11th December, 2001. Further details of the Group Reorganization are set out in the prospectus of the Company dated 30th November, 2001 (the "Prospectus").

The unaudited results of the Group are prepared in accordance with generally accepted accounting principles in Hong Kong.

The Group comprising the Company and its subsidiaries resulting from the Group Reorganization is regarded as a continuing entity for the financial periods presented as if the current Group structure has been in place since the beginning of the period under review (i.e. merger basis of accounting has been adopted in presenting the results of the period under review).

2. Turnover

Turnover represents the invoiced value of goods sold and services rendered, net of value added tax and business tax.

3. Taxation

- (i) No provision for profits tax in the Cayman Islands, the British Virgin Islands and Hong Kong has been made as the Group did not generate any assessable profits in those jurisdictions during the periods presented.
- (ii) Under the Income Tax Law of the PRC, pursuant to an approval document issued by the relevant PRC tax authorities, the Company's subsidiary in the PRC is subject to income tax at the rate of 15% for advanced-technology enterprises. The subsidiary in the PRC is exempted from income tax for the first two profitable years of operations and thereafter is entitled to a 50% relief from income tax for the following three years subject to a minimum overall tax rate of 10%. However, the subsidiary in China has not yet applied for the aforementioned preferential tax exemptions.
- (iii) No provision for deferred taxation has been made as the Group had overall deferred tax benefits which will be recognized when realization of such benefit is assured beyond reasonable doubt.

4. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the three months and nine months ended 31st December, 2001 is based on the Group's unaudited profits/(loss) after tax of approximately HK\$853,000 and HK\$3,825,000 (2000: HK\$61,000 and HK\$(8,358,000)), respectively, and the weighted average number of 473,880,510 shares and 456,734,259 shares (2000: 448,114,286 shares and 448,114,286 shares), respectively.

The calculation of diluted earnings per share for the three months and nine months ended 31st December, 2001 is based on the Group's unaudited profits after tax of approximately HK\$853,000 and HK\$3,825,000, respectively, and the weighted average number of 519,243,951 shares and 502,097,700 shares, respectively, taking into account the options granted to certain executive Directors of the Company and employees of the Group to subscribe for a total of 106,000,000 shares of the Company under the Pre-IPO Share Option Scheme. Diluted earnings per share figures for the comparative periods are not shown as no dilutive events had taken place in those periods.

5. Movements in reserves

	Share premium account <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance as at 1st October, 2001	10,867	(6,700)	4,167
Premium on issue of Shares	26,107	—	26,107
Capitalization issue	3,926	—	3,926
Premium on capitalization of convertible bond	5,684	—	5,684
Share issuance expenses	(7,854)	—	(7,854)
Profit for the three months ended 31st December, 2001	—	853	853
Balance as at 31st December, 2001	<u>38,730</u>	<u>(5,847)</u>	<u>32,883</u>
Balance as at 1st October, 2000	10,867	(8,419)	2,448
Profit for the three months ended 31st December, 2000	—	61	61
Balance as at 31st December, 2000	<u>10,867</u>	<u>(8,358)</u>	<u>2,509</u>
Balance as at 1st April, 2001	10,867	(9,672)	1,195
Premium on issue of Shares	26,107	—	26,107
Capitalization issue	3,926	—	3,926
Premium on capitalization of convertible bond	5,684	—	5,684
Share issuance expenses	(7,854)	—	(7,854)
Profit for the nine months ended 31st December, 2001	—	3,825	3,825
Balance as at 31st December, 2001	<u>38,730</u>	<u>(5,847)</u>	<u>32,883</u>
Issue of new shares	12,250	—	12,250
Share issuance expenses	(1,383)	—	(1,383)
Loss for the nine months ended 31st December, 2000	—	(8,358)	(8,358)
Balance as at 31st December, 2000	<u>10,867</u>	<u>(8,358)</u>	<u>2,509</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31st December, 2001 (2000: Nil).

BUSINESS REVIEW AND PROSPECTS

General

The Group is principally engaged in the provision of the Chinese Linux operating system with kernel rewritten to cater for Chinese users, and software based on the Linux operating platform for various hardware appliances including servers and personal computers in the PRC. It also provides technical support and after-sales services to its customers.

Financial

The Group reported an unaudited turnover of approximately HK\$5.93 million and HK\$19.27 million for the quarter and the nine months ended 31st December, 2001, respectively. The nine months turnover increased by approximately 61% compared with the corresponding period in the previous year. The increase in turnover was mainly attributable to increases in licensing sales of server products and the sales of embedded systems during this period.

The Group also reported an unaudited gross profit of approximately HK\$5.26 million and HK\$17.42 million for the quarter and the nine months ended 31st December, 2001, respectively, compared with a gross profit of approximately HK\$4.54 million and HK\$9.98 million for the corresponding period in the previous year, representing an increase of approximately 16% and 75%, respectively. The increase in gross profit was mainly attributable to the lower cost of sales as it is the Group's strategy of shifting its product mix towards licensing sales of server products.

Profit attributable to shareholders for the said quarter and the nine months ended 31st December, 2001 was approximately HK\$0.85 million and HK\$3.83 million, respectively.

As at 31st December, 2001, the Group has net current assets of approximately HK\$21 million and there are no outstanding bank loans.

Sales and marketing

During the periods under review, the Group has entered into strategic collaboration agreements with various software distributors, application software providers, Internet application software developers and application service providers to bundle its server products, and jointly developed Linux operating system for enterprise application service market.

In addition, the Directors believe that there is enormous market potential in the software market in the Internet computer environment. Therefore, the Group will continuously put more efforts in expanding XteamServer series and also will increase co-operation with both hardware and software vendors, and distributors, in order to provide more e-solutions.

Potential and outlook

The Group carries out research and development of products. Among the software products produced and launched by the Group are the XteamServer 3.0i-class and its various application features such as Xteam Log-Analyzer, ServerMonitor and Xteam WebMail that can support any personal computer (server). In addition, the Group also co-operates with an IBM's sales agent to bundle XteamServer 3.0i-class with IBM Small Business Suite product whereas such bundled product provides a competitive advantage and allows the Group to be a leader in the market.

The Group aims to increase its clientele in more sectors including Internet service providers, Internet data centers, e-commerce companies and government sectors. It intends to achieve this by endeavoring to develop and create new features as well as enhancement of service application software. As part of the strategy to expand geographical sales coverage and to promote its products, the Group intends to establish a foothold in Shanghai, the PRC.

The Directors are of the view that as it is becoming more common for people in China to view TV programmes and games through the web, Internet and video, the Group is co-operating with one of the IBM's distributors in China to develop the Linux market in China and make Linux more popular.

Foreseeing that business companies (corporate customers) will realize the importance of purchasing servers to support their personal computers, the Group will be targeting corporate clients in China.

We will also participate in the bidding to provide software and services to government departments as part of our efforts to expand support of Linux system in China.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31st December, 2001, the interests of the Directors and chief executives of the Company in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register maintained under Section 29 of the SDI Ordinance or as notified to the Company and the Stock Exchange were as follows:

Name of directors	Number of shares of the Company			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Ma Gary Ming Fai	81,481,507 <i>(note 3)</i>	—	116,371,349 <i>(note 1)</i>	—
	—	—	51,860,472 <i>(note 2)</i>	—
Mr. Ren Yi	—	—	81,481,507 <i>(note 3)</i>	—
Mr. Wu Meng Jie	6,219,962	—	—	—

Notes:

- 1 The 116,371,349 shares are held by Upwise Investments Ltd, a company incorporated in the British Virgin Islands (“BVI”), the issued capital of which is beneficially owned by Mr. Ma Gary Ming Fai.
- 2 The 51,860,472 shares are held by Princeton Venture Partners Limited, a company incorporated in the BVI, the issued capital of which is indirectly beneficially owned by Mr. Ma Gary Ming Fai and O2New Technology Limited (a company incorporated in Bermuda and whose shares are listed on the Main Board of the Stock Exchange) equally.
- 3 The 81,481,507 shares are held by One Focus Group Limited, a company incorporated in the BVI, the issued capital of which is beneficially owned by Mr. Ren Yi. However, pursuant to a loan agreement between Mr. Ma Gary Ming Fai and Mr. Ren Yi dated 20th May, 2001, the shares of One Focus Group Limited owned by Mr. Ren Yi have been deposited in the hands of Mr. Ma Gary Ming Fai and pledged to him such shares as collateral security for granting a loan to Mr. Ren Yi. Therefore, the interests of Mr. Ma Gary Ming Fai and Mr. Ren Yi of the 81,481,507 shares have been duplicated.

Save as disclosed herein, as at 31st December, 2001, none of the Directors or chief executives of the Company had any interests in the share capital of the Company or its associated corporations as recorded in the register maintained under Section 29 of the SDI Ordinance or as notified to the Company and the Stock Exchange.

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.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, the register of substantial shareholders maintained under Section 16 (1) of the SDI Ordinance showed that the following persons (other than a Director or chief executive of the Company) were interested in 10 per cent or more of the issued share capital of the Company:

Name	Number of shares	Percentage of issued share capital
Upwise Investments Ltd.	116,371,349 (<i>note 1</i>)	21.15%
One Focus Group Limited	81,481,507 (<i>note 2</i>)	14.81%

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. One Focus Group Limited is a company incorporated in the BVI with limited liability and is wholly and beneficially owned by Mr. Ren Yi, an executive Director of the Company. Pursuant to a loan agreement between Mr. Ma Gary Ming Fai and Mr. Ren Yi dated 20th May, 2001, the shares of One Focus Group Limited owned by Mr. Ren Yi have been deposited in the hands of Mr. Ma Gary Ming Fai and pledged to him such shares as collateral security for granting the loan to Mr. Ren Yi.

OUTSTANDING SHARE OPTIONS

(a) Pre-IPO Share Option Scheme

As at 31st December, 2001, options to subscribe for an aggregate of 106,000,000 shares were granted under the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") adopted by the Company on 30th May, 2001 to the following persons:

Name of grantee	Date granted	Exercise period	No. of shares eligible for subscription under the share option	Exercise price
<i>Executive Directors</i>				
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
<i>Employees</i>				
Mr. Sham Heung Sang	14th November, 2001	11th June, 2002 to 13th November, 2011	15,000,000	HK\$0.266
Mr. Szeto Wai Yau	14th November, 2001	11th June, 2002 to 13th November, 2011	11,000,000	HK\$0.266

Details of the Pre-IPO Share Option Scheme have been disclosed in the Prospectus.

None of the option granted under any of the Pre-IPO Share Option Scheme has been exercised, cancelled or lapsed during the period from the date of grant of such options to the date hereof.

(b) 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.

As at 31st December, 2001, no options have been granted under the Share Option Scheme.

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

The Company’s shares have been listed on the GEM of the Stock Exchange since 11th December, 2001 and up to 31st December, 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s 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.

ADVANCES TO ENTITIES

According to Rules 17.15, 17.17 and 17.22 of the GEM Listing Rules, a disclosure obligation has arisen where the relevant advance to an entity from the Group exceeds 25% of the Group’s net tangible assets. Trading balances under normal course of business due from the following independent third party exceeded 25% of the Group’s net tangible assets at the respective reporting dates are as follows:

	31st December,		31st December,	
	2001	2001	2000	2000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$’000</i>	<i>%</i>	<i>HK\$’000</i>	<i>%</i>
濰坊北大青島華光科技 股份有限公司	8,482	37.8	5,208	61.0

The above amount represents trade receivable which are unsecured, interest-free and have a remaining payment term of less than three months from 31st December, 2001.

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 will 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 have recently 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 have been transferred to another fellow subsidiary, First Shanghai Capital Limited (“FSCL”) with effect from 16th January, 2002.

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

None of FSSL, 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 December, 2001.

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 of the two independent non-executive Directors, namely Mr. Cheng Shu Wing and Mr. Wang Shi Yu. The Group’s unaudited results have been reviewed by the two independent non-executive Directors, the Qualified Accountant and auditors of the Company.

By order of the Board
Xteam Software International Limited
Mak To Wai
Director

Hong Kong, 7th February, 2002