

Xteam Software International Limited

衝浪平台軟件國際有限公司

*(Incorporated in the Cayman Islands with limited liability)*

Linux Xteam Linux

The logo for Xteam Software features a stylized red 'X' with a white arrow pointing upwards and to the right. To the right of the 'X' is the word 'team' in a bold, black, sans-serif font. Below 'team' is a black horizontal bar containing the word 'SOFTWARE' in white, all-caps, sans-serif font.

2002 Annual Report

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

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

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

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

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*This annual report, for which the directors of Xteam Software International Limited collectively and individually accept responsibilities, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief: - (1) the information contained in this annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded bases and assumptions that are fair and reasonable.*



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# Corporate Information

## EXECUTIVE DIRECTORS

Ma Gary Ming Fai (*Chairman*)  
Ren Yi  
Yang Feng  
Mak To Wai  
Wu Meng Jie

## NON-EXECUTIVE DIRECTORS

Tsao Kwang Yung, Peter  
Liu Jun

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Wang Shi Yu  
Cheng Shu Wing

## COMPANY SECRETARY

Mak To Wai, ACCA, AHKSA

## QUALIFIED ACCOUNTANT

Mak To Wai, ACCA, AHKSA

## COMPLIANCE OFFICER

Mak To Wai, ACCA, AHKSA

## AUTHORISED REPRESENTATIVES

Ma Gary Ming Fai  
Mak To Wai

## AUDIT COMMITTEE

Wang Shi Yu  
Cheng Shu Wing

## AUDITORS

Moore Stephens

## LEGAL ADVISORS

Sidley Austin Brown & Wood  
Conyers Dill & Pearman

## SPONSOR

First Shanghai Capital Limited

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking  
Corporation Limited  
The Hong Kong Chinese Bank Limited

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 1913, Asian House  
1 Hennessy Road  
Wanchai  
Hong Kong

## REGISTERED OFFICE

Century Yard, Cricket Square  
Hutchins Drive  
P.O. Box 2681, George Town  
Grand Cayman  
British West Indies

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.  
Butterfield House, Fort Street  
P.O. Box 705, George Town  
Grand Cayman  
Cayman Islands  
British West Indies

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## GEM STOCK CODE

8178

## WEB-SITE ADDRESS

[xteamlinux.com.cn](http://xteamlinux.com.cn)

# Chairman's Statement

On behalf of the board of Directors (the "Board") of Xteam Software International Limited (the "Company") and its subsidiaries (the "Group"), I am pleased to announce the audited consolidated results for the year ended 31 March 2002.

The year 2001/2002 was a remarkable one for the Group. We were listed on the Growth Enterprise Market (GEM) of the Stock Exchange of Hong Kong Limited on 11 December 2001. The listing strengthened our investor base and raised approximately HK\$18.96 million for further business development.

Due to the turnover increase of licensing sales of server products which carried profit margin and our cost control effort, the Group made a profit attributable to shareholders of approximately HK\$3.5 million and recorded profit per share of 0.72HK cent. The strong financial position allows us to pursue our business strategies progressively, which would result in stronger financial results for the years ahead.

## **Capitalising on the expanding Linux market**

Since 1991, the use of the Linux-based operating system has grown rapidly. The Linux-based operating system is now among the most commonly used for websites around the world.

In the PRC, according to the International Data Corporation forecast, the software market will total US\$65 billion in 2005 compared with US\$13 billion in 2000. As an early developer of Linux-based software in the PRC market, we have engineered what we believe to be the most technically advanced open source operating system. We offer a wide range of Linux-based server products, including the Linux operating system, a real-time monitoring system and a daily analysis system for the Internet and the Intranet environment.

## **Leading the server market**

The server market is the main target market for major Linux developers and its brand name is widely known and recognised in the market. The rapid development of the Internet and e-commerce is creating an increasing demand for servers. To capitalise on this enormous market potential, the Group will put more effort into developing and creating new features and into enhancing our server application software for Internet service providers, Internet data centers and e-commerce companies.

To strengthen our sales in the field, we will collaborate with hardware and software vendors and distributors through bundling our products. For the server OEM market, the Group bundles its products with those of local vendors. We have established solid relationships with leading technology companies, including IBM and Intel. A good example is the Group's cooperation with an IBM sales agent to bundle the XteamServer 3.0 i-class with the IBM Small Business Suite. This bundle provides a competitive advantage and makes the Group a market leader. By establishing and maintaining these strategic relationships, we are able to increase market awareness of open source software, gather industry support for our products and penetrate new markets.

## **A reliable technology partner**

Our edge also lies in our services. We offer a broad range of professional services relating to the development and use of open source products, including technical support and maintenance and consulting. We provide our customers and the open source community in the PRC with a reliable technology partner. We have focused on the server market and have become the leader in the Linux OS market. In June 2002, we received "The Best Linux Product Award" from the CCID under the Ministry of Information Industry. This is a recognition of our efforts in providing professional products and services to our customers.

We will continue to invest significant resources in the development of new open source technology, capitalising on our extensive experience of working within the open source model, especially for embedded systems and e-solutions. The expansion of our development team is ongoing. Since the server market is our main target market, we intend to put more effort into developing and creating new features and into the enhancement of our XteamServer series.

# Chairman's Statement

## Strategic expansion

Looking ahead, we see exciting growth opportunities from the PRC server software market because of its rapid Internet and e-business development. We plan to increase the Group's clientele in more sectors, including education, government, security and post office.

As part of the strategy to expand sales coverage and to promote its products, the Group will establish a foothold in Shanghai. We have already signed a letter of intent to take up a 60% equity interest in Snow Fair Co., Ltd. ("Snow Fair"). Snow Fair is the holding company of Shanghai Pantosoft Co., Ltd., a leading software vendor in the Shanghai education software market which has an existing clientele of about 100 education institutions, representing about 30% of the market share. This is a major step in the cost-effective expansion of our business from Beijing to Eastern China and is the starting point for Xteam's future development and diversification into the education market.

The development of digitalisation in Shanghai education is proceeding at a great pace. The opportunities are immense. The potential of over 700,000 schools in the region has so far not been fully realised. We believe we can become a prime mover in this field.

We believe that education is the key to popularisation of Linux in the PRC. Children are our future. Once they get used to Linux applications, they will be long-term, loyal customers. We also believe that the digitalisation implementation model in Shanghai will become the template used throughout the PRC. The potential for developing the education sector is huge. The acquisition of Snow Fair has opened the door to this market and we intend to enter it boldly and take advantage of being one of the first to do so.

We will keep on exploring the opportunity of expansion. Due to the close relation between education and government, we will ride on the development in education for further tapping the government sector.

In future, we intend to continue to pursue a selective acquisition strategy, as opportunities arise, to complement our product offerings, extend our service capabilities and expand the features of our on-line service support. We also intend to create strategic alliances where it is beneficial to our business model.

## Special thanks

In conclusion, I would like to take this opportunity to express my sincere thanks to the management and staff for their commitment and dedication to the business of the Company, and to the shareholders and strategic partners for supporting our development in the PRC.

**Ma Gary Ming Fai**

*Chairman*

21 June 2002

# Management Discussion and Analysis

## FINANCIAL RESULTS FOR THE YEAR ENDED 31 MARCH 2002

The Group reports a consolidated turnover of approximately HK\$21.8 million for the year ended 31 March 2002, representing an increase of approximately 10.7% over last period (2001: HK\$19.7 million).

The Group also recorded a net profit of approximately HK\$3.5 million for the year ended 31 March 2002 (2001: HK\$9.5 million net loss), representing a basic and diluted profit per share of 0.72 HK cent and 0.68 HK cent, respectively (2001: basic/diluted loss per share of 2.12 HK cents and N/A, respectively). The turning over from a net loss in the last period to a net profit for the year ended 31 March 2002 was mainly attributable to the lower cost of sales as the Group was shifting its products mix towards licensing sales of server products, and the tightened cost control measures exercised by the Group during the year.

## LIQUIDITY, FINANCIAL RESOURCES AND DEBT RATIO

As at 31 March 2002, the Group has no outstanding bank loans (2001: Nil).

The debt ratio (defined as total liabilities over total assets) of the Group as at 31 March 2002 was approximately 25.8% (2001: 50.3%). The significant improvement was due to the listing proceeds received from the initial public offer.

## CAPITAL STRUCTURE, EXPOSURE TO EXCHANGE RATES FLUCTUATION

As at 31 March 2002, 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 risk of the Group is considered minimal.

## FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash and cash equivalents, trade receivables and payables, and other receivables and payables approximate 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.



# Management Discussion and Analysis

## 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

Other than the investments in wholly owned subsidiaries, the Group did not have significant investments during and at the end of the reported year. The Group is now looking for the possible acquisition of a company, to be financed by placing of new shares.

## 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 more than 90% of the Group's turnover and operating results were arising from the sales of computer software and rendering of software development and related services in PRC.

## STAFF

As at 31 March 2002, the Group employed 55 employees (2001: 58), including directors of the Company, 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\$5.3 million (2001: approximately HK\$6.7 million). The decrease is mainly due to the introduction of a new salaries and benefits policy ("New Policy") in March 2001. Under the New Policy, various performance criteria were introduced in the calculation of staff salaries and benefits, including meeting objectives, teamwork, sales and efficiencies. The purpose of the New Policy is mainly to motivate the staff members to be efficient and sales driven and to provide value added service to the Group.

## CHARGE OF ASSETS

As at 31 March 2002, the Group did not have any charge on its assets (2001: Nil).

## CONTINGENT LIABILITIES

As at 31 March 2002, the Group did not have any material contingent liabilities (2001: Nil).



# Management Discussion and Analysis

## COMPARISON OF USE OF PROCEEDS

The net proceeds raised from the placing on 11 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 30 November 2001 and are detailed below:

|  | <b>Use of proceeds<br/>as stated in the<br/>prospectus</b><br>HK\$million | <b>Actual amount<br/>utilized up to<br/>31 March 2002</b><br>HK\$million |
|--|---|--|
| For product development or related investment through<br>among other things, acquisition, direct or indirect<br>investment in other Linux based product developers | 6.37  | 2.50   |
| For enhancement of the Group's distribution channels<br>through, among other things, acquisition, direct or<br>indirect investment in other distributors           | 2.00  | 0.00   |
| For setting up of a laboratory for e-solutions<br>project in Beijing, the PRC  | 2.50  | 0.05   |
| For setting up Linux training and certificate<br>programme in Beijing, the PRC   | 1.00  | 0.02   |
| For setting up the Group's Shanghai sales office   | 1.50  | 0.05   |
| For advertising and marketing activities of the Group<br>to promote the brand awareness and products of the Group  | 3.07  | 0.29   |
| General working capital  | 0.80  | 0.55   |
| Placed with banks  | 0.00  | 15.50  |

Unused net proceeds of approximately HK\$15.50 million were placed with licenced banks in Hong Kong and PRC, and would be used to achieve objectives as stated in the prospectus.

# Management Discussion and Analysis

## REVIEW OF BUSINESS OBJECTIVES

|                                       | <b>Objectives up to 31 March 2002<br/>as stated in the prospectus<br/>dated 30 November 2001</b>  | <b>Actual business progress up<br/>to 31 March 2002</b>   |
|---------------------------------------|---|---|
| Product launches, sales and marketing | <ul style="list-style-type: none"> <li>• Expand XteamServer series</li> <li>• Increase co-operation with hardware vendors and distributors to deploy more embedded systems</li> <li>• Increase the Group's co-operation with software vendors and distributors to provide e-solutions</li> <li>• Improve sales and distribution channels</li> <li>• Establish a sales office in Shanghai, the PRC to expand the Group's sales coverage</li> </ul> | <p>The Group continues to expand XteamServer series</p> <p>The Group is seeking co-operation opportunities with hardware vendors and distributors to deploy more embedded systems</p> <p>The Group is seeking co-operation opportunities with software vendors and distributors to provide e-solutions</p> <p>The Group improved sales and distribution channels</p> <p>In progress</p> |
| Business development                  | <ul style="list-style-type: none"> <li>• Set up Linux training and certificate programme and a laboratory for e-solutions project in Beijing, the PRC</li> <li>• Co-operate with more software vendors and distributors to provide solutions for clients in different sectors</li> <li>• Co-operate with more distributors to deploy more e-solutions</li> </ul>  | <p>In progress</p> <p>The Group entered into various co-operation with different software vendors and distributors to provide solutions for clients in different sectors</p> <p>The Group entered into various co-operation with different distributors to deploy more e-solutions</p>  |

# Management Discussion and Analysis

## REVIEW OF BUSINESS OBJECTIVES *(continued)*

|  | Objectives up to 31 March 2002<br>as stated in the prospectus<br>dated 30 November 2001  | Actual business progress up<br>to 31 March 2002   |
|--|--|---|
| Research and development                       | <ul style="list-style-type: none"> <li>Continue research and development for embedded system and e-solutions</li> <li>Upgrade XteamServer series</li> </ul>  | <p>In progress</p> <p>In progress</p>   |
| Human resources, operations and administration | <ul style="list-style-type: none"> <li>Recruit additional development engineers</li> <li>Recruit additional dedicated sales staff</li> <li>Recruit operational staff</li> </ul>  | <p>In progress</p> <p>In progress</p> <p>In progress</p>  |
| Strategic acquisitions and alliances           | <ul style="list-style-type: none"> <li>Explore opportunities to acquire or form alliances with companies providing synergies and technological support</li> <li>Explore opportunities to acquire suitable software distributors</li> </ul> | <p>The Group is exploring opportunities to acquire or form alliances with companies providing synergies and technological support</p> <p>The Group is exploring opportunities to acquire suitable software distributors</p> |

## MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases and sales for the year ended 31 March 2002 attributable to the Group's major suppliers and customers are as follows:

|                                   |  |     |
|-----------------------------------|--|-----|
| Purchases                         |  |     |
| — the largest supplier            |  | 93% |
| — five largest suppliers combined |  | 99% |

|                                   |  |     |
|-----------------------------------|--|-----|
| Sales                             |  |     |
| — the largest customer            |  | 54% |
| — five largest customers combined |  | 99% |

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers stated above.



# Biographical Information of Directors and Senior Management

## EXECUTIVE DIRECTORS

**MA Gary Ming Fai**, aged 38, is the Chairman of the Company. He is the founder or early investor in a number of technology projects both in the PRC and Hong Kong. Mr. Ma is a member of the Institute of Chartered Accountants of Ontario in Canada by training and has worked for several years with an international accounting firm. Mr. Ma received his Bachelor of Commerce degree from the University of Calgary, Canada in 1985. He joined the Group in December 1999.

**REN Yi**, aged 29, is the chief executive officer and chief technical officer of the Company. Mr. Ren has in-depth knowledge of software development. Mr. Ren graduated from the Department of Computer Science of the 北京工業大學 (Beijing Polytechnic University) in Beijing, the PRC in 1994. He joined the Group in January 2000.

**YANG Feng**, aged 30, is the chief operating officer of the Company. Prior to establishing Xteam Infotech Co., Ltd. in May 1999, Mr. Yang worked for the Policy Research Bureau of the People's Government of Beijing Municipality for several years. Mr. Yang graduated from the Business Administration Department of the Beijing Economic College in Beijing, the PRC in 1994 with a bachelor degree in Economics. He joined the Group in January 2000.

**MAK To Wai**, aged 35, the chief financial officer, qualified accountant, company secretary and compliance officer of the Company, joined the Company in August 2000. Prior to joining the Company, Mr. Mak was an audit manager with both the Hong Kong and Beijing offices of KPMG Peat Marwick. Mr. Mak is an associate member of the Association of Chartered Certified Accountants of the United Kingdom and the Hong Kong Society of Accountants. Mr. Mak graduated from Baptist University of Hong Kong in 1990 with a bachelor degree in Business Administration.

**WU Meng Jie**, aged 29, is the senior vice president of the Company. He joined the Company in June 2000 as a sales director. Mr. Wu has several years of experience in distributing computer products. Mr. Wu graduated from 中山大學化學系 (Chemistry Department of Guangzhou Chung Shan University) with a bachelor degree in Chemistry.

## NON-EXECUTIVE DIRECTORS

**TSAO Kwang Yung, Peter**, CBE, CPM, aged 68, was the former Secretary for Home Affairs of the Government of Hong Kong. In 1977, Mr. Tsao became the head of the former Trade and Industry and Customs Department. In 1988, he was appointed as a Secretary for Government Secretariat, a post from which he retired in February 1992. He is currently non-executive director of a number of listed companies in Hong Kong. He joined the Group in May 2000.

**LIU Jun**, aged 36, has extensive experience in the investment industry in the PRC. He joined the Group in April 2002.

# Biographical Information of Directors and Senior Management

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**WANG Shi Yu**, aged 44, has extensive experience in the investment banking and financial industry in the PRC. He joined the Group in November 2001.

**CHENG Shu Wing**, aged 52, has extensive experience in the banking and securities industries in Hong Kong and has been active in financing, investment advisory and fund management activities. Mr. Cheng is a director of an investment bank in Hong Kong. Mr. Cheng holds a bachelor degree in Business Administration from The Chinese University of Hong Kong. He joined the Group in November 2001.

## SENIOR MANAGEMENT

**YANG Jun**, aged 31, finance and accounting manager of the Company, joined the Group in April 2002. Prior to joining the Group, Mr. Yang worked for the Beijing office of KPMG Peat Marwick. Mr. Yang is a member of the Chinese Institute of Certified Tax Agent ("CICTA") and graduated from the Department of Accounting of 中央財經大學 (Central Institute of Finance & Banking) with a bachelor degree in Economics.

**LI Ye**, aged 28, assistant general manager, joined the Group in October 2000. Prior to joining the Group, Ms. Li was the manager of the translation department of a technological development company in Beijing. Ms Li graduated from Computer and Application Department of 河北大學 (Hebei University). She also obtained a master degree in Automation from the Industrial University of Beijing.

**HAN Xu**, aged 27, research and development engineer, joined the Group in February 2000. Prior to joining the Group, Mr. Han has worked for two IT companies in the PRC as research development engineer. Mr. Han graduated from the Department of Electronic Technologies of University of the National Defence Technology with a bachelor degree in Engineering in 1996.

**DI Ning**, aged 25, research and development engineer, joined the Group in January 2000. Mr. Di was responsible for the research and development of the XteamLinux series including XteamServer 3.0 i-class, Xteam LogAnalyzer, Xteam Monitor, and Xteam WebMail. Mr. Di graduated from the Department of Electronic Engineering (Cable TV direction) of Beijing Broadcasting Institute in 1999.

# Report of the Directors

The Directors are pleased to submit the first annual report together with the audited consolidated financial statements for the year ended 31 March 2002.

## REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 24 May 2001 under the Companies Law (2001 Second Revision) of the Cayman Islands. Pursuant to a reorganisation 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 "Reorganisation"). The Company was successfully listed on GEM on 11 December 2001. Further details of the Reorganisation are set out in the prospectus of the Company dated 30 November 2001 (the "Prospectus").

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company is investment holding. The activities of the subsidiaries are set out in note 15 to the financial statements. 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 provided technical support and after-sales services to its customers.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2002 are set out on pages 23 to 46.

The Board does not recommend the payment of a final dividend for the year ended 31 March 2002 (2001: Nil).

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the financial statements.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 March 2002, determined in accordance with Section 34 of the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to approximately HK\$24,225,000. The payment of a dividend and distribution out of the share premium account is however subject to a solvency test of the Company and the provisions of the Articles of Association of the Company.

## DONATIONS

No charitable and other donations were made by the Group during the year.



# Report of the Directors

## FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 14 to the financial statements.

## SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 15 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company are set out in note 20 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provision of pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 March 2002, 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 director | Number of shares of the Company |                  |                         |                 |
|------------------|---------------------------------|------------------|-------------------------|-----------------|
|                  | Personal interests              | Family interests | Corporate interests     | Other interests |
| Ma Gary Ming Fai | 81,481,507<br>(note 3)          | —                | 116,371,349<br>(note 1) | —               |
|                  | —                               | —                | 51,860,472<br>(note 2)  | —               |
| Ren Yi           | —                               | —                | 81,481,507<br>(note 3)  | —               |
| 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 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 Ma Gary Ming Fai and Omnitech Group Limited (formerly known as O2New Technology Limited), a company incorporated in Bermuda and which shares are listed on the Main Board of the Stock Exchange, equally.

# Report of the Directors

- 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 Ren Yi. Pursuant to a loan agreement between Ma Gary Ming Fai and Ren Yi dated 20 May 2001, the shares of One Focus Group Limited owned by Ren Yi have been deposited in the hands of Ma Gary Ming Fai and pledged to him such shares as collateral security for granting a loan to Ren Yi. Therefore, the interests of Ma Gary Ming Fai and Ren Yi of the 81,481,507 shares have been duplicated.

Save as disclosed herein, as at 31 March 2002 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 Reorganisation 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 31 March 2002, 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 (note 1) | 21.15%                             |
| One Focus Group Limited | 81,481,507 (note 2)  | 14.81%                             |

### Notes:

1. The entire issued share capital of Upwise Investments Ltd. is beneficially owned by 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 Ren Yi, an executive Director of the Company. Pursuant to a loan agreement between Ma Gary Ming Fai and Ren Yi dated 20 May 2001, the shares of One Focus Group Limited owned by Ren Yi have been deposited in the hands of Ma Gary Ming Fai and pledged to him such shares as collateral security for granting the loan to Ren Yi.

## OUTSTANDING SHARE OPTIONS

### (a) Pre-IPO Share Option Scheme

As at 31 March 2002, 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 30 May 2001 to the following persons:

| Name of grantee            | Date granted     | Exercise period                     | No. of shares eligible for subscription under the Pre-IPO Share Option Scheme | Exercise price |
|----------------------------|------------------|-------------------------------------|---|----------------|
| <i>Executive Directors</i> |                  |                                     |   |                |
| Ma Gary Ming Fai           | 14 November 2001 | 11 June 2002 to<br>13 November 2011 | 50,000,000  | HK\$0.266      |
| Mak To Wai                 | 14 November 2001 | 11 June 2002 to<br>13 November 2011 | 30,000,000  | HK\$0.266      |
| <i>Employees</i>           |                  |                                     |   |                |
| Sham Heung Sang            | 14 November 2001 | 11 June 2002 to<br>13 November 2011 | 15,000,000  | HK\$0.266      |
| Szeto Wai Yau              | 14 November 2001 | 11 June 2002 to<br>13 November 2011 | 11,000,000  | HK\$0.266      |

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

None of the option granted under 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 21 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 employee of the Group, including any executive/non-executive director, and any adviser, consultant of or to any member of the Group to take up options to subscribe for shares in the Company.

As at 31 March 2002, 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 11 December 2001 and up to 31 March 2002 neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's 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.

## **ADVANCES TO AN ENTITY**

As at 31 March 2002, 中國北方設備工程公司, an independent customer, owed to the Group approximately HK\$6,500,000 in the normal course of the Group's business. The amount due from the customer, which was unsecured and interest-free, was settled by the customer after the balance sheet date.

## **INTERESTS OF SPONSOR**

First Shanghai Securities Limited ("FSSL") entered into a sponsor agreement ("Sponsor Agreement") on 30 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 11 December 2001 to 31 March 2004.

In early 2002, 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 were transferred to another fellow subsidiary, First Shanghai Capital Limited ("FSCL"), with effect from 16 January 2002.

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

# Report of the Directors

## DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

### *Executive Directors*

|                  |                                 |
|------------------|---------------------------------|
| Ma Gary Ming Fai | (appointed on 28 May 2001)      |
| Ren Yi           | (appointed on 16 November 2001) |
| Yang Feng        | (appointed on 16 November 2001) |
| Mak To Wai       | (appointed on 28 May 2001)      |
| Wu Meng Jie      | (appointed on 16 November 2001) |

### *Non-Executive Directors*

|                        |                                 |
|------------------------|---------------------------------|
| Tsao Kwang Yung, Peter | (appointed on 16 November 2001) |
| Liu Jun                | (appointed on 10 April 2002)    |

### *Independent Non-Executive Directors*

|                |                                 |
|----------------|---------------------------------|
| Wang Shi Yu    | (appointed on 16 November 2001) |
| Cheng Shu Wing | (appointed on 16 November 2001) |

In accordance with Article 86(3) of the Company's Articles of Association, all directors (except the Chairman) retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of 3 years from 21 November 2001 which may be terminated by either party thereto giving to the other not less than six calendar months' prior notice in writing, which notice period shall not expire until after the first year.

Each of the Non-Executive Directors and Independent Non-Executive Directors was appointed for a period of two years commencing from their respective appointment dates.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

There are no contracts of significance in relation to the Group's business to which the Company was a party and in which a director of the Company or a controlling shareholder or any of its subsidiaries, had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

# Report of the Directors

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## BOARD PRACTICES AND PROCEDURES

The Company has complied with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since listed on the GEM on the Stock Exchange.

## AUDIT COMMITTEE

As required by Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee on 21 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 system of the Group, and the provision of advice and comments to the Board.

During the year and up to the date of this report, the committee has held two meetings to review the financial statements, quarterly report and annual report of the Group.

## SUBSEQUENT EVENTS

Details of the significant events subsequent to the balance sheet date are set out in note 24 to the financial statements.

## AUDITORS

The financial statements have been audited by Moore Stephens who retire, and being eligible, offer themselves for re-appointment.

On behalf of the Board

**Ma Gary Ming Fai**

*Chairman*

Hong Kong, 21 June 2002



# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the 2002 Annual General Meeting of the Company will be held at Mont Blanc Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Friday, 26 July 2002 at 10:00 a.m. for the following purposes:

1. To consider and adopt the audited consolidated financial statements and the reports of the directors and auditors for the year ended 31 March 2002;
2. To re-elect retiring directors and to authorise the Directors to fix their remuneration;
3. To re-appoint auditors and to authorise the Directors to fix their remuneration;
4. As Special Business, to consider and, if thought fit, pass the following resolutions with or without amendments as Ordinary Resolutions:

**A. "THAT**

- (a) subject to paragraph (c) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or options, warrants, or similar rights to subscribe for any shares or convertible securities and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal value of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise), issued or dealt with by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as defined in paragraph (d) of this Resolution), (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company, (iii) the exercise of any options granted under any option scheme or similar arrangement for the time being adopted for the grant or issue to eligible persons of options to subscribe for, or rights to acquire, shares of the Company or, (iv) any scrip dividend or similar arrangement providing for the allotment of shares in the capital of the Company in lieu of the whole or part of the cash payment for any dividend on shares of the Company pursuant to the Articles of Association of the Company from time to time, shall not in aggregate exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval shall be limited accordingly; and

# Notice of Annual General Meeting

(d) for the purpose of this Resolution:-

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:-

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law of the Cayman Islands to be held; or
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in a general meeting; and

“Rights Issue” means the allotment, issue or grant of shares in the capital of the Company pursuant to an offer of shares open for a period fixed by the Directors made to holders of shares of the Company or any class thereof whose names appear on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in or in any territory applicable to the Company).”

## B. “THAT

(a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to repurchase its own issued shares in the capital of the Company in accordance with laws and requirements and regulations of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchanges on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange or rules of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution:-

“Relevant Period ” means the period from the passing of this Resolution until whichever is the earliest of:-

- (i) the conclusion of the next annual general meeting of the Company;

## Notice of Annual General Meeting

- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law of the Cayman Islands to be held; or
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in a general meeting.”

**C.** “**THAT** subject to the passing of the Ordinary Resolution Nos. 4A and 4B, the general mandate granted to the Directors to allot, issue and deal with additional securities pursuant to Resolution No. 4A be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to Resolution No. 4B, provided that such amount of shares so repurchased shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing this Resolution.”

By Order of the Board

**Ma Gary Ming Fai**

*Chairman*

Hong Kong, 28 June 2002

**Head office and principal place of business:**

Suite 1913, Asian House  
1 Hennessy Road  
Wanchai  
Hong Kong

**Notes:**

1. Any member of the Company entitled to attend and vote at the Meeting shall be entitled to appoint another person (who must be an individual) as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the Meeting. A proxy need not be a member of the Company.
2. To be valid, a form of the proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be delivered at the Company’s branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than forty-eight hours before the appointed time for holding the Meeting.
3. An Explanatory Statement containing further details regarding Ordinary Resolution No. 4 above as required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange will be dispatched to members of the Company together with the 2002 Annual Report.

# Auditors' Report

## **Auditors' Report to the Shareholders of Xteam Software International Limited**

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 23 to 46 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## **Moore Stephens**

*Certified Public Accountants*

Hong Kong, 21 June 2002



# Consolidated Profit and Loss Account

For the year ended 31 March 2002

|   | <i>Notes</i> | <b>Year<br/>ended<br/>31.3.2002<br/>HK\$'000</b> | 23.11.1999<br>to<br>31.3.2001<br>HK\$'000 |
|---|--------------|--|---|
| Turnover  | 4            | <b>21,835</b>                                    | 19,671                                    |
| Cost of sales and services  |              | <b>(2,734)</b>                                   | (2,566)                                   |
| Gross profit  |              | <b>19,101</b>                                    | 17,105                                    |
| Other revenue   | 4            | <b>159</b>                                       | 432                                       |
| Selling and marketing expenses                                    |              | <b>(1,978)</b>                                   | (12,973)                                  |
| General and administrative expenses                               |              | <b>(7,468)</b>                                   | (6,920)                                   |
| Research and development costs                                    |              | <b>(6,100)</b>                                   | (6,976)                                   |
| Profit/(loss) from operating activities                           | 6            | <b>3,714</b>                                     | (9,332)                                   |
| Finance costs   | 9            | <b>(236)</b>                                     | (166)                                     |
| Profit/(loss) before taxation                                     |              | <b>3,478</b>                                     | (9,498)                                   |
| Taxation  | 10           | —  | —   |
| Profit/(loss) for the year/period<br>attributable to shareholders | 11           | <b>3,478</b>                                     | (9,498)                                   |
| Earnings/(loss) per share   | 13           |  |   |
| — Basic   |              | <b>0.72 cent</b>                                 | (2.12 cents)                              |
| — Diluted   |              | <b>0.68 cent</b>                                 | N/A                                       |

# Consolidated Statement of Recognised Gains and Losses

For the year ended 31 March 2002

|   | <i>Note</i> | <b>Year<br/>ended<br/>31.3.2002<br/>HK\$'000</b> | 23.11.1999<br>to<br>31.3.2001<br>HK\$'000 |
|---|-------------|--|---|
| Profit/(loss) for the year/period             | 21          | <b>3,478</b>                                     | (9,498)                                   |
| Exchange adjustments arising on consolidation | 21          | <b>3</b>   | (174)                                     |
| Total recognised gains/(losses)               |             | <b>3,481</b>                                     | (9,672)                                   |

# Consolidated Balance Sheet

31 March 2002

|   | <i>Notes</i> | <b>2002</b><br>HK\$'000 | 2001<br>HK\$'000 |
|---|--------------|-------------------------|------------------|
| Fixed assets                                | 14           | <b>1,509</b>            | 2,025            |
| Intangible assets                           | 16           | <b>18,963</b>           | 5,606            |
| Current assets                              |              |                         |                  |
| Inventories                                 | 17           | <b>205</b>              | 138              |
| Accounts receivable                         | 18           | <b>8,172</b>            | 4,688            |
| Prepayments, deposits and other receivables |              | <b>907</b>              | 549              |
| Value added tax refundable                  |              | <b>1,514</b>            | —                |
| Cash and bank balances                      |              | <b>16,670</b>           | 6,318            |
|   |              | <b>27,468</b>           | 11,693           |
| Current liabilities                         |              |                         |                  |
| Accounts payable                            | 19           | <b>150</b>              | 4,585            |
| Other payables and accrued expenses         |              | <b>12,230</b>           | 4,435            |
| Value added tax payable                     |              | <b>—</b>                | 701              |
|   |              | <b>12,380</b>           | 9,721            |
| Net current assets                          |              | <b>15,088</b>           | 1,972            |
| Net assets                                  |              | <b>35,560</b>           | 9,603            |
| Share capital                               | 20           | <b>5,503</b>            | 8,408            |
| Reserves                                    | 21           | <b>30,057</b>           | 1,195            |
| Shareholders' funds                         |              | <b>35,560</b>           | 9,603            |

**Ma Gary Ming Fai**

*Director*

**Mak To Wai**

*Director*

# Consolidated Cash Flow Statement

For the year ended 31 March 2002

|   | <i>Note</i> | <b>Year<br/>ended<br/>31.3.2002<br/>HK\$'000</b> | 23.11.1999<br>to<br>31.3.2001<br>HK\$'000 |
|---|-------------|--|---|
| Net cash inflow/(outflow) from operating activities                     | 22(a)       | <b>3,917</b>                                     | (4,705)                                   |
| Returns on investments and servicing of finance                         |             |  |   |
| Interest received   |             | <b>119</b>                                       | 304                                       |
| Interest expenses   |             | —  | (124)                                     |
| Net cash inflow from returns on<br>investments and servicing of finance |             | <b>119</b>                                       | 180                                       |
| Investing activities  |             |  |   |
| Purchase of fixed assets  |             | <b>(104)</b>                                     | (2,411)                                   |
| Purchase of intangible assets   |             | <b>(16,059)</b>                                  | (5,847)                                   |
| Net cash outflow from investing activities                              |             | <b>(16,163)</b>                                  | (8,258)                                   |
| Net cash outflow before financing                                       |             | <b>(12,127)</b>                                  | (12,783)                                  |
| Financing activities  |             |  |   |
| Issue of new shares   | 22(b)       | <b>32,813</b>                                    | 20,658                                    |
| Share issue expenses  |             | <b>(10,337)</b>                                  | (1,383)                                   |
| Net cash inflow from financing  |             | <b>22,476</b>                                    | 19,275                                    |
| Increase in cash and cash equivalents                                   |             | <b>10,349</b>                                    | 6,492                                     |
| Effect of change of foreign exchange rate                               |             | <b>3</b>   | (174)                                     |
| Cash and cash equivalents at 1 April 2001                               |             | <b>6,318</b>                                     | —   |
| Cash and cash equivalents at 31 March 2002                              |             | <b>16,670</b>                                    | 6,318                                     |
| Analysis of the balances of cash and cash equivalents                   |             |  |   |
| Cash and bank balances  |             | <b>16,670</b>                                    | 6,318                                     |

# Balance Sheet

31 March 2002

|   | <i>Notes</i> | <b>2002<br/>HK\$'000</b> |
|---|--------------|--------------------------|
| Interests in subsidiaries                   | 15           | <b>26,350</b>            |
| Current assets                              |              |                          |
| Prepayments, deposits and other receivables |              | <b>320</b>               |
| Cash and bank balances                      |              | <b>7,030</b>             |
|   |              | <b>7,350</b>             |
| Current liabilities                         |              |                          |
| Other payables and accrued expenses         |              | <b>3,972</b>             |
| Net current assets                          |              | <b>3,378</b>             |
| Net assets                                  |              | <b>29,728</b>            |
| Share capital                               | 20           | <b>5,503</b>             |
| Reserves                                    | 21           | <b>24,225</b>            |
| Shareholders' funds                         |              | <b>29,728</b>            |

**Ma Gary Ming Fai**  
*Director*

**Mak To Wai**  
*Director*



# Notes to the Financial Statements

31 March 2002

## 1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 24 May 2001 as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands. The shares of the Company have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange") since 11 December 2001.

Pursuant to a group re-organisation (the "Reorganistaion") in preparation for the listing of the Group on GEM, the Company became the ultimate holding company of the subsidiaries now comprising the Group. Details of the Reorganisation and corporate structure were set out in the prospectus of the Company dated 30 November 2001 ("Prospectus").

During the year, the Group was 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 provided technical support and after-sales services to its customers.

## 2. BASIS OF PREPARATION

The Reorganisation is accounted for using merger accounting under Statement of Standard Accounting Practice 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants ("HKSA").

The consolidated financial statements for the year ended 31 March 2002 and for the period from 23 November 1999 (the date of incorporation of Surfing Platform Software International Limited and also the date on which the planned business of the Group commenced) to 31 March 2001 have been prepared on a basis as if the Group had been combined from the beginning of the earlier period presented.

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies which have been adopted in preparing these financial statements and which conform with the Statements of Standard Accounting Practice ("SSAPs") issued by HKSA and accounting principles generally accepted in Hong Kong are as follows:

### (a) Adoption of statements of standard accounting practice

During the current year, the Group has adopted the following SSAPs issued by HKSA which are effective for accounting periods commencing on or after 1 January 2001:

|                   |  |
|-------------------|--|
| SSAP 9 (revised)  | Events after the balance sheet date  |
| SSAP 14 (revised) | Leases   |
| SSAP 26           | Segment reporting  |
| SSAP 27           | Accounting for group reconstructions   |
| SSAP 28           | Provisions, contingent liabilities and contingent assets                         |
| SSAP 29           | Intangible assets  |
| SSAP 30           | Business combinations  |
| SSAP 31           | Impairment of assets   |
| SSAP 32           | Consolidated financial statements and accounting for investments in subsidiaries |

# Notes to the Financial Statements

31 March 2002

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

The adoption of the above standards has had no material effect on the amounts reported in the current and prior years, and has not resulted in any significant changes in the Group's accounting policies.

### (b) Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March. Apart from the subsidiaries acquired as part of the Reorganisation, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from their effective date of acquisition to 31 March, or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

### (c) Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (d) Fixed assets

Fixed assets are stated at cost, less provisions for depreciation. Details are set out in note 14. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

The gain or loss on retirement or disposal of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds on disposal or retirement and the carrying amount of the relevant asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset, less its estimated residual value, which is estimated at 10% of the cost over its estimated economic useful life. The effective annual rates used for this purpose are as follows:

|                        |             |
|------------------------|-------------|
| Leasehold improvements | 18% - 22.5% |
| Computer equipment     | 18% - 20%   |
| Furniture and fixtures | 18% - 25%   |
| Office equipment       | 18% - 33.3% |
| Motor vehicles         | 18% - 20%   |

# Notes to the Financial Statements

31 March 2002

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (e) Intangible assets

Intangible assets represent the costs of acquiring Internet platform, trademarks and computer software. They are stated at cost less accumulated amortisation unless, in the opinion of the directors, there has been an impairment loss and in which case they will be written down to a value determined by the directors.

Amortisation is calculated on the straight-line basis over the estimated economic life of the individual intangible assets as follows:

|                   |                              |
|-------------------|------------------------------|
| Internet platform | 33 $\frac{1}{3}$ % per annum |
| Trademarks        | 5% per annum                 |
| Computer software | 20% per annum                |

### (f) Impairment of assets

Fixed assets and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised as an expense for items of fixed assets and intangible assets carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. Such reversal of impairment loss is recognised as income. The reversal is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

### (g) Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible, and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Development costs recognised as assets are amortised using the straight-line basis over a period of not exceeding five years from the commencement of the commercial phase of the project. The unamortised balance of development costs is reviewed at the end of each year and is written off to the extent that the unamortised balance, taken together with further development and directly related costs, is no longer likely to be recovered.

# Notes to the Financial Statements

31 March 2002

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (h) Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

Assets held under capitalised finance leases are included in fixed assets and depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leased items where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

### (i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, subcontracting charges and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

### (j) Accounts receivable

Accounts receivable are stated at face value, after provision for doubtful debts, if any.

### (k) Cash and cash equivalents

Cash and cash equivalents are short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

### (l) Foreign currency translation

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rate of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

The financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to exchange reserve. All other translation differences are taken to the profit and loss account.

# Notes to the Financial Statements

31 March 2002

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (m) Deferred taxation

Deferred taxation is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

### (n) Revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) on the rendering of services, when the relevant services have been rendered; and
- (iii) interest income, on a time proportion basis taking into account the principal amounts outstanding and the effective interest rates applicable.

### (o) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### (p) Contributions to pension and retirement schemes

Contributions to pension and retirement schemes are charged to the profit and loss account in the year to which they relate.

### (q) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.



# Notes to the Financial Statements

31 March 2002

## 3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (r) Provisions

A provision is recognised when, and only when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. When the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

### (s) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

## 4. TURNOVER AND REVENUE

The Group's 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.

Revenue recognised during the year/period are as follows:

|  | Year<br>ended<br>31.3.2002<br>HK\$'000 | 23.11.1999<br>to<br>31.3.2001<br>HK\$'000 |
|--|--|---|
| Turnover   |  |   |
| Sales of computer software   | 21,605                                 | 16,309                                    |
| Income from provision of software development and related services | 230                                    | 3,362                                     |
|  | 21,835                                 | 19,671                                    |
| Other revenue  |  |   |
| Bank interest income   | 119                                    | 304                                       |
| Sundry income  | 40                                     | 128                                       |
|  | 159                                    | 432                                       |
| Total revenue recognised   | 21,994                                 | 20,103                                    |

# Notes to the Financial Statements

31 March 2002

## 5. SEGMENTAL INFORMATION

No analysis of the Group's turnover and its contribution to profit before taxation by principal activities for the year/period ended 31 March 2002 and 2001 are presented as more than 90% of the Group's turnover and operating results arose from the sale of computer software and rendering of software development and related services in the PRC.

## 6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

|  | <b>Year<br/>ended<br/>31.3.2002<br/>HK\$'000</b> | 23.11.1999<br>to<br>31.3.2001<br>HK\$'000 |
|--|--|---|
| Amortisation of intangible assets                              | <b>2,702</b>                                     | 241                                       |
| Auditors' remuneration   | <b>335</b>                                       | 75  |
| Bad and doubtful debts (recovery)                              | <b>(1,126)</b>                                   | 2,862                                     |
| Depreciation of fixed assets                                   | <b>452</b>                                       | 386                                       |
| Loss on disposal of fixed assets                               | <b>168</b>                                       | —   |
| Operating lease rentals in respect of land and buildings       | <b>1,508</b>                                     | 1,230                                     |
| Staff costs:   |  |   |
| Wages and salaries (including directors' emoluments)           | <b>4,690</b>                                     | 6,097                                     |
| Contributions to retirement/pension schemes and other benefits | <b>578</b>                                       | 565                                       |

# Notes to the Financial Statements

31 March 2002

## 7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

Details of the emoluments paid to the directors during the year/period are as follows:

|                                  | Year<br>ended<br>31.3.2002<br>HK\$'000 | 23.11.1999<br>to<br>31.3.2001<br>HK\$'000 |
|----------------------------------|--|---|
| Fees                             | 253                                    | 70  |
| Salaries and allowances          | 832                                    | 1,064                                     |
| Retirement/pension contributions | 59                                     | 163                                       |
| Bonuses                          | 79                                     | 47  |
|                                  | <b>1,223</b>                           | <b>1,344</b>                              |

Emoluments of the directors fell within the following band:

|                   | Year<br>ended<br>31.3.2002<br>No. of<br>directors | 23.11.1999<br>to<br>31.3.2001<br>No. of<br>directors |
|-------------------|---|--|
| Nil-HK\$1,000,000 | 8   | 3  |

All the above was paid to five executive directors and three non-executive directors. The five executive directors received and/or were to receive individual emoluments of approximately HK\$572,000, HK\$199,000, HK\$199,000, HK\$40,000 and HK\$1, respectively (2001: HK\$Nil, HK\$596,000, HK\$Nil, HK\$Nil and HK\$678,000, respectively) and the non-executive directors received and/or were to receive fees of approximately HK\$160,000, HK\$33,000 and HK\$20,000, respectively for the year ended 31 March 2002 (2001: HK\$70,000, HK\$Nil and HK\$Nil, respectively).

There was no arrangement under which a director waived or agreed to waiver any emoluments during the year/period.

# Notes to the Financial Statements

31 March 2002

## 7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

### (b) Five highest paid employees

The five highest paid individuals included three executive directors and one non-executive director whose emoluments are detailed above (2001: two executive directors and no non-executive director). The emoluments of the remaining highest paid individual (2001: three individuals) for the year/period ended 31 March 2002 and 2001 are analysed as follows:

|                                  | Year ended<br>31.3.2002<br>HK\$'000 | 23.11.1999<br>to<br>31.3.2001<br>HK\$'000 |
|----------------------------------|-------------------------------------|---|
| Salaries and allowances          | 229                                 | 1,118                                     |
| Retirement/pension contributions | 5                                   | 55  |
| Bonuses                          | 27                                  | 69  |
|                                  | <b>261</b>                          | <b>1,242</b>                              |

Emoluments of the above individuals, who were not directors of the Company, fell within the following band:

|                   | Year ended<br>31.3.2002<br>No. of<br>individuals | 23.11.1999<br>to<br>31.3.2001<br>No. of<br>individuals |
|-------------------|--|--|
| Nil-HK\$1,000,000 | 1  | 3  |

During the year/period, no emoluments were paid by the Group to the directors or the highest paid employees as an inducement to join the Group, or as compensation for loss of office.

## 8. RETIREMENT AND PENSION BENEFITS

The Group did not provide any retirement benefits to its employees in Hong Kong prior to 1 December 2000. With effect from 1 December 2000, the Group has implemented a Mandatory Provident Fund Scheme ("MPF Scheme") in accordance with the Mandatory Provident Fund Scheme Ordinance in Hong Kong for its employees in Hong Kong. Under the MPF Scheme, the Group makes a mandatory contribution of 5% of the relevant employee's income each month, subject to the statutory maximum of HK\$1,000 per person.

For employees in the PRC, according to the relevant PRC regulations, the Group is required to participate in the employee pension scheme operated by the relevant local government bureau in the PRC (the "Pension Scheme") and to make contributions for its eligible employees. The contribution to be borne by the Group is calculated at a certain percentage of the salaries and wages for those eligible employees.

The retirement and pension benefit costs charged to the profit and loss account during the year amounted to HK\$238,000 (2001: HK\$409,000).

# Notes to the Financial Statements

31 March 2002

## 9. FINANCE COSTS

|  | Year<br>ended<br>31.3.2002<br>HK\$'000 | 23.11.1999<br>to<br>31.3.2001<br>HK\$'000 |
|--|--|---|
| Bank charges                                       | 7                                      | 7   |
| Foreign exchange loss                              | 229                                    | 35  |
| Interest on bank loans repayable within five years | —                                      | 124                                       |
|  | <b>236</b>                             | 166                                       |

## 10. TAXATION

No provision for taxation in the Cayman Islands, the British Virgin Islands and Hong Kong has been made as the Group had no income assessable to tax for the year/period in those jurisdictions.

Under the Income Tax Law of the PRC, pursuant to an approval document issued by the relevant PRC tax authorities, Xteam Software (China) Co. Ltd. ("Xteam China") is subject to income tax at the rate of 15% as an advanced-technology enterprise. Xteam China 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%. Xteam China has submitted an application for the aforementioned preferential tax exemptions.

No provision for deferred tax has been made as the Group had overall deferred tax benefits which will be recognised when realisation of such benefit is assured beyond reasonable doubt. Details of full potential deferred tax (assets)/liabilities are as follows:

|  | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
|--|------------------|------------------|
| Excess of capital allowances over depreciation | 13               | 14               |
| Tax losses                                     | (590)            | (297)            |
|  | <b>(577)</b>     | (283)            |

## 11. PROFIT/(LOSS) FOR THE YEAR/PERIOD ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company amounted to HK\$1,156,000 (2001: Nil).

## 12. DIVIDENDS

No dividend has been paid or declared by the Company in respect of the current year (2001: Nil).



# Notes to the Financial Statements

31 March 2002

## 13. EARNINGS/(LOSS) PER SHARE

The basic earnings/(loss) per share is calculated based on the Group's profit attributable to shareholders of HK\$3,478,000 (2001: loss of HK\$9,498,000) and on the weighted average of 481,335,823 (2001: 448,114,286) ordinary shares in issue during the year/period. In determining the weighted average number of shares in issue, a total of 1,080,667 shares issued in connection with the Reorganisation together with the capitalisation issue of 447,033,618 shares were deemed to be in issue since 1 April 2000.

The diluted earnings per share is based on 481,335,823 (2001: 448,114,286) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighed average of 28,561,411 (2001: Nil) ordinary shares deemed to be issued if all outstanding share options had been exercised at the date they were granted.

## 14. FIXED ASSETS

|                      | Leasehold<br>improvements<br>HK\$'000 | Computer<br>equipment<br>HK\$'000 | Furniture<br>and<br>fixtures<br>HK\$'000 | Office<br>equipment<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Total<br>HK\$'000 |
|----------------------|---------------------------------------|-----------------------------------|--|---------------------------------|-------------------------------|-------------------|
| <b>Group</b>         |                                       |                                   |  |                                 |                               |                   |
| Cost                 |                                       |                                   |  |                                 |                               |                   |
| 1 April 2001         | 49                                    | 1,623                             | 18                                       | 330                             | 391                           | 2,411             |
| Additions            | —                                     | 73                                | —  | 31                              | —                             | 104               |
| Disposals            | —                                     | (254)                             | —  | (24)                            | —                             | (278)             |
| 31 March 2002        | 49                                    | 1,442                             | 18                                       | 337                             | 391                           | 2,237             |
| Depreciation         |                                       |                                   |  |                                 |                               |                   |
| 1 April 2001         | 8                                     | 247                               | 3  | 64                              | 64                            | 386               |
| Charges for the year | 11                                    | 295                               | 4  | 72                              | 70                            | 452               |
| Disposals            | —                                     | (102)                             | —  | (8)                             | —                             | (110)             |
| 31 March 2002        | 19                                    | 440                               | 7  | 128                             | 134                           | 728               |
| Net book value       |                                       |                                   |  |                                 |                               |                   |
| 31 March 2002        | 30                                    | 1,002                             | 11                                       | 209                             | 257                           | 1,509             |
| 31 March 2001        | 41                                    | 1,376                             | 15                                       | 266                             | 327                           | 2,025             |

# Notes to the Financial Statements

31 March 2002

## 15. INTERESTS IN SUBSIDIARIES

|   | Company<br>HK\$'000 |
|---|---------------------|
| Unlisted shares/registered capital, at cost | 8,408               |
| Amount due from a subsidiary                | 19,671              |
| Amounts due to subsidiaries                 | (1,729)             |
|   | 26,350              |

The amounts due from/(to) subsidiaries are unsecured, interest-free and there are no fixed terms for repayment.

| Name  | Place of<br>incorporation/<br>registration | Issued and<br>fully paid-up<br>capital/<br>registered<br>capital | Attributable<br>equity<br>interest | Principal activities   |
|---|--|--|------------------------------------|--|
| <i>Directly held</i>  |  |  |                                    |  |
| Surfing Platform Software<br>International Limited<br>(formerly known as<br>Sandyshore Holdings<br>Limited) | British Virgin<br>Islands                  | 1,080,668<br>ordinary<br>shares of<br>US\$1<br>each              | 100%                               | Investment holding   |
| <i>Indirectly held</i>  |  |  |                                    |  |
| Xteam Software (China) Co.<br>Limited   | People's Republic<br>of China              | US\$2,000,000  | 100%                               | Sale of computer<br>software and<br>provision of<br>related services |
| Xteam Software<br>(Hong Kong) Limited<br>(formerly known as Xteam<br>Software (Asia) Limited)               | Hong Kong                                  | 100<br>ordinary<br>shares of<br>HK\$1<br>each                    | 100%                               | Software distributor   |

The subsidiaries operate in their respective places of incorporation/ registration except for Surfing Platform Software International Limited which operates in Hong Kong.

# Notes to the Financial Statements

31 March 2002

## 16. INTANGIBLE ASSETS

|                      | Internet<br>platform<br>HK\$'000 | Trademarks<br>HK\$'000 | Computer<br>software<br>HK\$'000 | Total<br>HK\$'000 |
|----------------------|----------------------------------|------------------------|----------------------------------|-------------------|
| <b>Group</b>         |                                  |                        |                                  |                   |
| Cost                 |                                  |                        |                                  |                   |
| 1 April 2001         | —                                | 2,323                  | 3,524                            | 5,847             |
| Additions            | 2,782                            | 43                     | 13,234                           | 16,059            |
| 31 March 2002        | 2,782                            | 2,366                  | 16,758                           | 21,906            |
| Amortisation         |                                  |                        |                                  |                   |
| 1 April 2001         | —                                | 124                    | 117                              | 241               |
| Charges for the year | —                                | 117                    | 2,585                            | 2,702             |
| 31 March 2002        | —                                | 241                    | 2,702                            | 2,943             |
| Net book value       |                                  |                        |                                  |                   |
| 31 March 2002        | 2,782                            | 2,125                  | 14,056                           | 18,963            |
| 31 March 2001        | —                                | 2,199                  | 3,407                            | 5,606             |

As at 31 March 2002, the formal registration of certain trademarks had yet to be issued by the relevant government authorities in the PRC.

## 17. INVENTORIES

|   | Group            |                  |
|---|------------------|------------------|
|   | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
| Raw materials and low value consumables – at cost | 97               | 1                |
| Finished goods – at net realisable value          | 108              | 137              |
|   | <b>205</b>       | <b>138</b>       |

# Notes to the Financial Statements

31 March 2002

## 18. ACCOUNTS RECEIVABLE

An ageing analysis of accounts receivable is set out as follows:

|              | Group            |                  |
|--------------|------------------|------------------|
|              | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
| 0-30 days    | 72               | 2,898            |
| 31-60 days   | 2,279            | 1,614            |
| 61-90 days   | 4,232            | 25               |
| Over 90 days | 1,589            | 151              |
|              | <b>8,172</b>     | <b>4,688</b>     |

Generally, the Group grants credit terms to its customers, which range from 30 to 90 days.

## 19. ACCOUNTS PAYABLE

An ageing analysis of accounts payable is set out as follows:

|              | Group            |                  |
|--------------|------------------|------------------|
|              | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
| 0-30 days    | 4                | 54               |
| 31-60 days   | —                | 4,156            |
| 61-90 days   | —                | 126              |
| Over 90 days | 146              | 249              |
|              | <b>150</b>       | <b>4,585</b>     |

# Notes to the Financial Statements

31 March 2002

## 20. SHARE CAPITAL AND SHARE OPTIONS

### (i) Share capital

|  | Number of<br>shares  | Nominal<br>value<br>HK\$ |
|--|----------------------|--------------------------|
| Authorised share capital (HK\$0.01 each):                              |                      |                          |
| Upon incorporation on 24 May 2001                                      | 38,000,000           | 380,000                  |
| Subsequent increase on 21 November 2001                                | 962,000,000          | 9,620,000                |
|  | <u>1,000,000,000</u> | <u>10,000,000</u>        |
| Issued and fully paid (HK\$0.01 each)                                  |                      |                          |
| Issue of share upon incorporation<br>on 24 May 2001                    | 1                    | 0.01                     |
| Issue of shares on the Reorganisation<br>on 21 November 2001           | 1,080,667            | 10,807                   |
| Issue of shares pursuant to the<br>conversion issue on 5 December 2001 | 31,578,947           | 315,789                  |
| Issue of shares pursuant to the<br>placing on 5 December 2001          | 57,600,000           | 576,000                  |
| Capitalisation issue an 5 December 2001                                | 447,033,618          | 4,470,336                |
| Issue of shares pursuant to the<br>over-allotment on 28 December 2001  | 12,960,000           | 129,600                  |
|  | <u>550,253,233</u>   | <u>5,502,532</u>         |

The following changes in the Company's authorised and issued share capital have taken place during the period from 24 May 2001 (date of incorporation) to 31 March 2002:-

- (a) On incorporation of the Company, its authorised share capital was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each, and one share of HK\$0.01 was issued at par to provide for the initial share capital of the Company;
- (b) On 21 November 2001, the authorised share capital of the Company was increased from HK\$380,000 to HK\$10,000,000 by the creation of an additional 962,000,000 shares of HK\$0.01 each ranking pari passu with the existing shares;
- (c) On 21 November 2001, 1,080,667 shares were allotted and issued on the Reorganisation;
- (d) On 5 December 2001, 31,578,947 shares were issued on the conversion of a convertible bond of HK\$6,000,000;
- (e) On 5 December 2001, 57,600,000 shares were issued at HK\$0.38 per share upon the listing of the Company's shares on the GEM;
- (f) On 5 December 2001, 447,033,618 shares were issued by capitalising HK\$4,470,336.18 from the share premium account; and
- (g) On 28 December 2001, 12,960,000 shares were issued at HK\$0.38 per share under the over-allotment option as stated in the Prospectus.



# Notes to the Financial Statements

31 March 2002

## 20. SHARE CAPITAL AND SHARE OPTIONS (continued)

### (ii) Share options

#### (a) Pre-IPO Share Option Scheme

As at 31 March 2002, 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 30 May 2001 to the following persons:

| Name of grantee            | Date granted     | Exercise period                     | No. of shares eligible for subscription under the Pre-IPO Share Option Scheme | Exercise price |
|----------------------------|------------------|-------------------------------------|---|----------------|
| <i>Executive Directors</i> |                  |                                     |   |                |
| Ma Gary Ming Fai           | 14 November 2001 | 11 June 2002 to<br>13 November 2011 | 50,000,000  | HK\$0.266      |
| Mak To Wai                 | 14 November 2001 | 11 June 2002 to<br>13 November 2011 | 30,000,000  | HK\$0.266      |
| <i>Employees</i>           |                  |                                     |   |                |
| Sham Heung Sang            | 14 November 2001 | 11 June 2002 to<br>13 November 2011 | 15,000,000  | HK\$0.266      |
| Szeto Wai Yau              | 14 November 2001 | 11 June 2002 to<br>13 November 2011 | 11,000,000  | HK\$0.266      |

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

None of the options granted under 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 21 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 employee of the Group, including any executive/non-executive director, and any adviser, consultant of or to any member of the Group to take up options to subscribe for shares in the Company.

As at 31 March 2002, no options have been granted under the Share Option Scheme.

# Notes to the Financial Statements

31 March 2002

## 21. RESERVES

|  | Share premium<br>account<br>HK\$'000 | Exchange<br>reserve<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|--|--------------------------------------|---------------------------------|-----------------------------------|-------------------|
| <b>Group</b>                                     |                                      |                                 |                                   |                   |
| Issue of new shares                              | 12,250                               | —                               | —                                 | 12,250            |
| Share issue expenses                             | (1,383)                              | —                               | —                                 | (1,383)           |
| Exchange adjustments<br>arising on consolidation | —                                    | (174)                           | —                                 | (174)             |
| Transfer to profit and loss<br>account           | —                                    | 174                             | (174)                             | —                 |
| Loss for the period                              | —                                    | —                               | (9,498)                           | (9,498)           |
| 31 March 2001                                    | 10,867                               | —                               | (9,672)                           | 1,195             |
| 1 April 2001                                     | 10,867                               | —                               | (9,672)                           | 1,195             |
| Shares issued on the Reorganisation              | 8,397                                | —                               | —                                 | 8,397             |
| Issue of new shares                              | 31,791                               | —                               | —                                 | 31,791            |
| Share issue expenses                             | (10,337)                             | —                               | —                                 | (10,337)          |
| Capitalisation issue                             | (4,470)                              | —                               | —                                 | (4,470)           |
| Exchange adjustments<br>arising on consolidation | —                                    | 3                               | —                                 | 3                 |
| Transfer to profit and loss<br>account           | —                                    | (3)                             | 3                                 | —                 |
| Profit for the year                              | —                                    | —                               | 3,478                             | 3,478             |
| 31 March 2002                                    | 36,248                               | —                               | (6,191)                           | 30,057            |
|  | Share premium<br>account<br>HK\$'000 | Exchange<br>reserve<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
| <b>Company</b>                                   |                                      |                                 |                                   |                   |
| Shares issued on the Reorganisation              | 8,397                                | —                               | —                                 | 8,397             |
| Issue of new shares                              | 31,791                               | —                               | —                                 | 31,791            |
| Share issue expenses                             | (10,337)                             | —                               | —                                 | (10,337)          |
| Capitalisation issue                             | (4,470)                              | —                               | —                                 | (4,470)           |
| Loss for the period                              | —                                    | —                               | (1,156)                           | (1,156)           |
| 31 March 2002                                    | 25,381                               | —                               | (1,156)                           | 24,225            |

Distributable reserves of the Company at 31 March 2002, determined in accordance with section 34 of the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to approximately HK\$24.2 million (2001: HK\$ Nil).

# Notes to the Financial Statements

31 March 2002

## 22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit/(loss) before taxation to net cash inflow/(outflow) from operating activities

|   | Year<br>ended<br>31.3.2002<br>HK\$'000 | 23.11.1999<br>to<br>31.3.2001<br>HK\$'000 |
|---|--|---|
| Profit/(loss) before taxation                             | 3,478                                  | (9,498)                                   |
| Interest received   | (119)                                  | (304)                                     |
| Interest expense  | —                                      | 124                                       |
| Amortisation of intangible assets                         | 2,702                                  | 241                                       |
| Depreciation  | 452                                    | 386                                       |
| Loss on disposal of fixed assets                          | 168                                    | —   |
| Increase in inventories                                   | (67)                                   | (138)                                     |
| Increase in accounts receivable                           | (3,484)                                | (4,688)                                   |
| Increase in prepayments, deposits and other receivables   | (358)                                  | (549)                                     |
| Increase/(decrease) in value added tax refundable/payable | (2,215)                                | 701                                       |
| (Decrease)/increase in accounts payable                   | (4,435)                                | 4,585                                     |
| Increase in other payables and accrued expenses           | 7,795                                  | 4,435                                     |
| Net cash inflow/(outflow) from operating activities       | <b>3,917</b>                           | (4,705)                                   |

### (b) Analysis of changes in financing during the year

|                                       | Share capital<br>including share premium<br>HK\$'000 |
|---------------------------------------|--|
| Issue of new shares and 31 March 2001 | 20,658   |
| 1 April 2001                          | 20,658   |
| Issue of new shares                   | 32,813   |
| 31 March 2002                         | <b>53,471</b>  |

# Notes to the Financial Statements

31 March 2002

## 23. COMMITMENTS

- (i) Commitments under operating leases

As at 31 March 2002, the Group had outstanding minimum commitments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

|   | Group            |                  |
|---|------------------|------------------|
|   | 2002<br>HK\$'000 | 2001<br>HK\$'000 |
| Expiring:                               |                  |                  |
| Within one year                         | 1,340            | 890              |
| In the second to fifth years, inclusive | 430              | 310              |
|   | <b>1,770</b>     | 1,200            |

- (ii) As at 31 March 2002, the Group did not have any significant capital commitments.

## 24. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, on 12 June 2002, the Company agreed to place 32,408,705 new shares to be issued by the Company at HK\$0.68 per share, with HK\$6 million to be used as part of the considerations for the purchase of a 60% equity interest in a company and the remaining balance, after deducting the placing expenses, will be used for possible future acquisitions and as additional working capital for the Company.

## 25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 June 2002.