

# Annual Report 2003



**Xteam Software International Limited**  
*(Incorporated in the Cayman Islands with limited liability)*

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

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

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

**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.*



## Corporate Information

2

### EXECUTIVE DIRECTORS

Ren Yi  
Mak To Wai  
Wu Meng Jie  
Yang Feng

### NON-EXECUTIVE DIRECTORS

Ma Gary Ming Fai (*Chairman*)  
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

### 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 BANKER

The Hongkong and Shanghai Banking Corporation  
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 GT, 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

## STRIVING FOR A STRONGER XTEAM

The past year has seen a slowdown in information technology spending in the People's Republic of China (the "PRC") market, as a result of conservative spending by both the corporate sector and individuals. Despite slower short-term growth in IT spending in the PRC, Xteam Software International Limited (the "Company") and its subsidiaries (the "Group") see great potential in the PRC market in the years to come. Apart from taking measures to restructure inefficient and loss-making operations of the Group, we will continue to draw on our strengths and achieve long-term business growth despite unfavorable market conditions. The Group's turnover for the year ending 31 March 2003 was HK\$26,694,000, an increase of 22.2% compared with a year ago. But the cost of sales and services for hardware products and products targeting the infrastructure market also increased. As a result, the Group recorded a net loss of HK\$10,589,000, compared with a profit of HK\$3,478,000 in 2002. The net assets of the Group as of 31 March 2003 has increased significantly to HK\$48,504,000, compared with HK\$35,560,000 and HK\$9,603,000 for the year/period ending 31 March 2002 and 31 March 2001 respectively.

The Group understands that it is involved in a highly competitive market. During the past year, the Group continued to commit financial and technical resources in its horizontal expansion and to further increase its market share.

## 2002/2003 – RIDING THE STORM

### BUSINESS REVIEW

The 2002/2003 year was an exciting yet challenging one for the Group. It was not a smooth road to prosperity. We lost one of our major customers as a result of its internal management reshuffle. To make up for the loss in sales, we have lowered our gross margins on products to attract new customers. As a result, despite an increase in total turnover, gross profit margins dropped significantly from 87.5% to 33.6% during the year. The substantial decrease was also attributed to lower gross profit margins in the distribution of third parties' software and the sale of the hardware products bundled with software.

### STRATEGIC POSITIONING

During the past year, the Group completed the acquisition of 69% of the issued share capital of Snow Fair Co., Ltd. ("Snow Fair"). Snow Fair is the holding company that has a controlling interest in Shanghai Pantosoft Co., Ltd. ("Shanghai Pantosoft"), the leading vendor in Shanghai's educational software market. Shanghai Pantosoft was established in Shanghai with products and services targeting the education sector. The PRC government is committed to digitalizing all of its 700,000 schools, and the Group will play a major role in meeting the needs of software growth in education. The strategic acquisition of Shanghai Pantosoft enables us not only to have a presence in a strategic location; more importantly, it allows the Group to expand vertically into the education sector and establish a strong foothold in the Shanghai market.

## Chairman's Statement

4

To take full advantage of our expansion into eastern China, the Group will consolidate our position in the server application software market in Shanghai. There will be a negative short-term impact, because it will take time for the Group to reap extra benefits from the acquisition of Shanghai Pantosoft. These include synergies of the Group's research and development efforts, and the rationalization of distribution networks and resources. In short, the acquisition represents a promising long-term investment that will further strengthen our position in the Chinese Linux market in the PRC.

### TECHNOLOGY AND PRODUCT BRIEFING

The Group has also identified the potential in the small and medium enterprises ("SMEs") market. The PRC's accession to the World Trade Organization ("WTO") has accelerated the conversion of Chinese companies into electronic-driven enterprises, as well as their readiness for globalization. The strong demand for software and server solutions, especially from the SME market, goes hand-in-hand with the Group's strength in providing flexible and customized solutions.

### PRODUCT INNOVATION

Our creativity and the ability to develop new products tailored to the demands of SMEs are reasons behind the Group's strong position in the Linux open source market. The software XteamServer 4.0 d-class, a new product that illustrates the Group's key strength in server applications, was launched at the end of 2002. This new server application product targeting SMEs has acquired a significant market share and received the "Editor's Choice" Award in January 2003 from China Information World, one of the leading IT publications in the PRC. The award was jointly run by the Ministry of Information Industry and China Center of Information Industry Development ("CCID"), recognizing the Group's outstanding IT products and software specifically developed for the PRC market.

The Group's Chinese Linux products have continued to gain strong brand recognition in the market. Besides, during the period under review, the Group received "The Best Linux Product Award" from CCID under the Ministry of Information Industry, in recognition of its efforts to provide professional products and services to customers.

To continue to strengthen our leadership position in the PRC Linux market, the Group has developed a wide array of Linux-based e-government applications. They have been well received and adopted by government divisions in several cities in the PRC. In recognition of its leading role in promoting e-government applications in the PRC market, the Group was selected as one of the "Top 100 E-government IT Enterprises in China" (中國電子政務100強) by China Internet Weekly in October 2002.

In our continuous strive for product excellence, China Computer Journal also voted us the 'Best Computer Software Product' for the year 2002.

# Chairman's Statement

## **EMPHASIS ON QUALITY**

The Group takes pride in its commitment to the quality of our products. We believe our quality exceeds our customers' expectations, which will help lead to future business growth. In 2002, our Shanghai office was awarded the ISO 9001 certification recognizing our efforts in delivering quality products.

## **SALES AND SUPPORT SERVICES**

### **WORRY-FREE SERVICES**

We realize the importance of the trust that is placed behind each sales order. To cherish the trust that our customers have been giving us, we have established two sales and support offices. In addition to our full offices in Beijing and Shanghai, we now include Guangzhou and Qingdao to provide our customers with the best attention and services.

## **FOSTERING NEW CUSTOMER RELATIONSHIPS**

In the past year, the Group has enhanced its business ties with the government sector as well as with various industry leaders. These include the Beijing Municipal Government, The China Construction Bank, China Ocean Shipping (Group) Company ("COSCO") and IBM. Cementing close business relationships and establishing brand loyalty are by far more important than the face value of the contracts.

## **LOOKING AHEAD**

The Group has the vision to provide innovative solutions, superior service, and customer satisfaction. This is through the Group's technical expertise in Linux, its vertical and horizontal expansion in the PRC's software market, and its commitment in realizing the potential of the vast PRC market.

Businesses on the mainland have been severely affected by the outbreak of Severe Acute Respiratory Syndrome ("SARS") in several cities. SARS will have a negative impact on the Group's operations and financial position, because its major operations are in Beijing. The day-to-day running of the Group, such as business meetings and operations, has been affected. But the Group is so far unable to quantify the impact of SARS on its operations and financial performance. We anticipate it will be reflected in the results in the next quarter.

Looking ahead, the Group will seek to accelerate its rate of growth and expansion by capitalizing on the opportunities in the Chinese Linux market. According to the forecast by the International Data Corporation, server sales worldwide will grow by an average of 3% annually, and the market will be worth US\$63.4 billion in 2006. Linux-based server operating systems are expected to be major market drivers, and sales are projected to reach US\$6.5 billion in 2006.

The education sector in PRC, which accounted for 13.3% of the mainland PC market in the first half of 2002, will see a surge in PC demand because the PRC government is committed to digitalizing education. Shanghai will be leading the way and it will be crucial to the popularity of Linux in the country, according to CCID reports. The Group will penetrate the market through the presence of Shanghai Pantosoft.

## Chairman's Statement

6

### **WORD OF APPRECIATION**

Last but not least, I would like to take this opportunity to thank our staff and fellow directors for their hard work in the past year. We are all striving for a common goal: to make our company a leading Linux player in the PRC.

**Ma Gary Ming Fai**

*Chairman*

Hong Kong, 26 June 2003



# Management Discussion and Analysis

## FINANCIAL RESULTS FOR THE YEAR ENDED 31 MARCH 2003

The Group report a consolidated turnover of approximately HK\$26.7 million for the year ended 31 March 2003, representing an increase of approximately 22.5% over last year (2002: HK\$21.8 million). The increase in turnover mainly resulted from sales of reduced gross margin products to attract new customers.

The loss attributable to shareholders for year ended 31 March 2003 was approximately HK\$10.6 million (2002: profit of HK\$3.5 million). The turning over from a net profit in the last year to a net loss for the year ended 31 March 2003 was mainly attributable to the increase of cost of sales and services amounting to approximately HK\$17.7 million and the increase in general and administrative expenses in particular due to a provision of approximately HK\$3 million over estimated value added tax refundable. The increase in cost of sales and services is mainly caused by the increase by in volume of sales of thin margin products.

## LIQUIDITY, FINANCIAL RESOURCES AND DEBT RATIO

As at 31 March 2003, the Group has an unsecured outstanding bank loan of approximately HK\$1,415,000 (2002: Nil).

The gearing ratio (defined as total liabilities over equity) of the Group as at 31 March 2003 was approximately 39.1% (2002: 34.8%).

The debt ratio (defined as total liabilities over total assets) of the Group as at 31 March 2003 was approximately 28.1% (2002: 25.8%).

## CAPITAL STRUCTURE, EXPOSURE TO EXCHANGE RATES FLUCTUATION

As at 31 March 2003, the Group held cash and cash equivalents denominated in Hong Kong dollars and Renminbi.

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

## FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash and cash equivalents, trade and 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

8

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

During the year, the Group acquired a 69% interest in Snow Fair Co., Ltd. ("Snow Fair") for a consideration of approximately HK\$15.5 million (approximately HK\$13.7 million in cash and approximately HK\$1.8 million fair value of the ordinary shares of the Company). Snow Fair is an investment holding company whose sole asset comprises a 51% shareholding in Pantosoft International Limited, which in turn holds the entire equity of Shanghai Pantosoft. Shanghai Pantosoft is a company established in the PRC which is principally engaged in the development of educational software as well as a digital campus in the PRC.

### **SEGMENTAL INFORMATION**

No analysis of the Group's turnover and its contribution to profit before taxation by principal activities for the year have been presented as all the Group's turnover and operating results arose from the sales of computer software and rendering of software development and related services in PRC.

### **STAFF**

As at 31 March 2003, the Group employed 112 employees (2002: 55), 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\$7.1 million (2002: approximately HK\$5.3 million). The increase was mainly due to the acquisition of a subsidiary during the year.

### **CHARGE OF ASSETS**

As at 31 March 2003, the Group did not have any charge on its assets (2002: Nil).

### **CONTINGENT LIABILITIES**

As at 31 March 2003, the Group did not have any material contingent liabilities (2002: Nil).

### **DIVIDEND**

The directors do not recommend the payment of a final dividend for the year ended 31 March 2003 (2002: 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 as stated in the prospectus</b> <i>HK\$' million</i>	<b>Actual amount utilized up to 31 March 2003</b> <i>HK\$' million</i>
For product development or related investment through, among other things, acquisition, direct or indirect investment in other Linux based product developers	6.37	5.37
For enhancement of the Group's distribution channels through, among other things, acquisition, direct or indirect investment in other distributors	2.00	2.00
For setting up of a laboratory for e-solution project in Beijing, the PRC	2.50	2.50
For setting up Linux Training and Certificate Programme in Beijing, the PRC	1.00	1.00
For setting up the Group's Shanghai sales office	1.50	1.50
For advertising and marketing activities of the Group to promote the brand awareness and products of the Group	3.07	2.87
General working capital	0.80	0.60
Placed with banks	0.00	3.12

Unused net proceeds of approximately HK\$3.12 million have been placed with licensed banks in Hong Kong and PRC, and will be used to achieve the objectives as stated in the prospectus.

# Management Discussion and Analysis

10

## REVIEW OF BUSINESS OBJECTIVES

	<b>Objectives up to 31 March 2003 as stated in the prospectus dated 30 November 2001</b>	<b>Actual business progress up to 31 March 2003</b>
Product launches, sales and marketing	<ul style="list-style-type: none"> <li>• Continue to launch additional series of XteamServer and solutions to cover more sectors</li> <li>• Continue to co-operate with the hardware vendors and distributors to deploy more embedded systems</li> <li>• Improve e-solution through strengthening its collaboration with software vendors and distributors</li> <li>• Expand its sales and distribution channels</li> <li>• Establish a second subsidiary to promote the Group's sales</li> <li>• Launch upgraded XteamServer series</li> </ul>	<p>The Group continues to expand XteamServer series</p> <p>The Group is working with hardware vendors and distributors to deploy more embedded systems</p> <p>The Group is working with software vendors and distributors to provide e-solutions</p> <p>The Group had improved sales and distribution channels</p> <p>The Group has successfully acquired a software company in Shanghai which can also assist to promote the Group's sales</p> <p>In progress</p>

# Management Discussion and Analysis

	<b>Objectives up to 31 March 2003 as stated in the prospectus dated 30 November 2001</b>	<b>Actual business progress up to 31 March 2003</b>
Business development	<ul style="list-style-type: none"> <li>• Develop a program for applications development and marketing</li> <li>• Explore opportunities to set up consulting business</li> <li>• Improve support services and explore opportunities to provide enterprise consulting services</li> <li>• Establish Xteam Companion which is based on Internet sales and service consultancy business to provide tailor-made all-round support to sales network and end-users</li> </ul>	<p>In progress</p> <p>In progress</p> <p>In progress</p> <p>In progress</p>
Research and development	<ul style="list-style-type: none"> <li>• Continue research and development for embedded system and e-solution</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>• Strengthen the Group's support services and start to provide enterprise consulting services</li> </ul>	<p>The Group will access the Group's development strategy from time to time in order to meet the human resources requirement</p> <p>The Group will access the Group's development strategy from time to time in order to meet the human resources requirement</p>

# Management Discussion and Analysis

12

**Objectives up to 31 March 2003  
as stated in the prospectus  
dated 30 November 2001**

**Actual business progress  
up to 31 March 2003**

Strategic acquisitions and alliances

- Explore opportunities to acquire or form alliances with companies providing synergies and technological support

The Group has successfully acquired a software company in Shanghai which can also provide certain technological support. In addition, the Group is still continuing to explore opportunities to acquire or form alliances with companies providing synergies and technological support

- Explore opportunities to acquire suitable software distributors

The Group has successfully acquired a software company in Shanghai which can also assist to distribute the Group's products. In addition, the Group is still continuing to explore opportunities to acquire suitable software distributors

## MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases and sales for the year ended 31 March 2003 attributable to the Group's major suppliers and customers are as follows:

**Purchases**

- the largest supplier 39.4%
- five largest suppliers combined 87.6%

**Sales**

- the largest customer 31.1%
- five largest customers combined 81.3%

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

### EXECUTIVES DIRECTORS AND SENIOR MANAGEMENT

**REN Yi**, aged 30, 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.

**MAK To Wai**, aged 36, 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 30, is the senior vice president of the Company. He joined the Company in June 2000 as the 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.

**YANG Feng**, aged 31, a director 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.

### NON-EXECUTIVE DIRECTORS

**MA Gary Ming Fai**, aged 39, 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 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.

**LIU Jun**, aged 37, has extensive experience in the investment industry in the PRC. Mr. Liu graduated from the Department of Management of 北京理工大學. He is also the chairman of an investment management company in Beijing. He joined the Group in April 2002.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**WANG Shi Yu**, aged 45, has extensive experience in the investment banking and financial industry in the PRC. Mr. Wang is also a general manager of Youlian Strategic Company (友聯戰略管理公司), one of largest domestic company in the PRC. He joined the Group in November 2001.

**CHENG Shu Wing**, aged 53, 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.

# Report of the Directors

14

The Directors are pleased to submit their annual report and the audited financial statements for the year ended 31 March 2003.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 14 to the financial statements. The Group is principally engaged in software development and provision of the Chinese Linux operating system with kernel rewritten to cater for Chinese users, and software based on the Linux operating platform for various hardware appliances including servers and personal computers in the PRC. It also provides technical support and after-sales services to its customers.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2003 are set out on page 26-56.

The Board does not recommend the payment of a final dividend for the year ended 31 March 2003 (2002: 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 2003, determined in accordance with Section 34 of the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to approximately HK\$44.7 million (2002: HK\$24.2 million). The payment of a dividend and distribution out of the share premium account is however subject to a solvency test on 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.

## FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 13 to the financial statements.

## SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 14 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

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



## Report of the Directors

**PRE-EMPTIVE RIGHTS**

There are no provisions 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 2003 the interests of the Directors and chief executives of the Company in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") as recorded in the register maintained under Section 29 of the SDI Ordinance or as notified to the Company and the Stock Exchange were as follows:

Name of directors	Number of shares of the Company				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Ma Gary Ming Fai	81,481,507 <i>(note 3)</i>	–	74,821,349 <i>(note 1)</i>	–	–
	–	–	51,860,472 <i>(note 2)</i>	–	208,163,328
Mr. Ren Yi	–	–	81,481,507 <i>(note 3)</i>	–	81,481,507
Mr. Wu Meng Jie	6,219,962	–	–	–	6,219,962

*Notes:*

- The 74,821,349 shares are held by Upwise Investments Ltd, a company incorporated in the British Virgin Islands ("BVI"), the issued capital of which is beneficially owned by Mr. Ma Gary Ming Fai.
- The 51,860,472 shares are held by Princeton Venture Partners Limited, a company incorporated in the BVI, the issued capital of which is indirectly beneficially owned by Mr. Ma Gary Ming Fai and Omnicorp Limited (formerly known as Omnitech Group Limited), a company incorporated in Bermuda and which shares are listed on the Main Board of the Stock Exchange, equally.
- The 81,481,507 shares are held by One Focus Group Limited, a company incorporated in the BVI, the issued capital of which is beneficially owned by Mr. Ren Yi. However, pursuant to a loan agreement between Mr. Ma Gary Ming Fai and Mr. Ren Yi dated 20 May 2001, the shares of One Focus Group Limited owned by Mr. Ren Yi have been deposited in the hands of Mr. Ma Gary Ming Fai and such shares have been pledged to him as collateral for granting a loan to Mr. Ren Yi. Therefore, the interests of Mr. Ma Gary Ming Fai and Mr. Ren Yi of the 81,481,507 shares have been duplicated.

Save as disclosed herein, as at 31 March 2003 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.

# Report of the Directors

16

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

Save as disclosed herein, and other than in connection with the Reorganization prior to the listing of the Company's shares on GEM, as at the date hereof, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and/or the chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executives or their respective spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003 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.	74,821,349 ( <i>note 1</i> )	12.72%
One Focus Group Limited	81,481,507 ( <i>note 2</i> )	13.85%

*Notes:*

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

## Report of the Directors

**OUTSTANDING SHARE OPTIONS****(a) Pre-IPO Share Option Scheme**

As at 31 March 2003, there were 91,000,000 (2002: 106,000,000) outstanding share options granted under the Pre-IPO Share Option Scheme adopted by the Company on 30 May 2001. During the year, 15,000,000 outstanding share options lapsed due to the resignation of an employee. Details of the outstanding share options granted under the Pre-IPO Share Option Scheme as at 31 March 2003 are summarised as follows:

<b>Name of grantee</b>	<b>Date granted</b>	<b>Exercise period</b>	<b>No. of shares eligible for subscription under share options</b>	<b>Exercise price</b>
Directors				
Mr. Ma Gary Ming Fai	14 November 2001	11 June 2002 to 13 November 2011	50,000,000	HK\$0.266
Mr. Mak To Wai	14 November 2001	11 June 2002 to 13 November 2011	30,000,000	HK\$0.266
Employees				
Mr. Szeto Wai Yau	14 November 2001	11 June 2002 to 13 November 2011	11,000,000	HK\$0.266

**(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, at their discretion, invite any full-time employee of the Group, including any executive and 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 2003 no options have been granted under the Share Option Scheme.

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

# Report of the Directors

18

## COMPETING INTERESTS

During the year under review, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group.

## INTERESTS OF SPONSOR

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

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

On 16 January 2002, the Company had agreed to novate to FSCL the rights and obligations under the Sponsor Agreement. As a result, FSCL will 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 2003.

## DIRECTORS

The Directors of the Company during the year were:

### *Executive Directors*

Ren Yi

Mak To Wai

Wu Meng Jie

Yang Feng

Ma Gary Ming Fai

(changed to non-executive director on 7 August 2002)

### *Non-Executive Directors*

Ma Gary Ming Fai

(changed from executive director on 7 August 2002)

Liu Jun

(appointed on 10 April 2002)

Tsao Kwang Yung, Peter

(resigned on 1 December 2002)

*Independent Non-Executive Directors*

Wang Shi Yu

Cheng Shu Wing

In accordance with Article 87(1) & (2) of the Company's Articles of Association, Messrs. Mak To Wai and Wu Meng Jie will retire by rotation, 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 month's 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 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' INTEREST IN CONTRACTS AND CONTROLLING SHAREHOLDER'S INTEREST 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.

**CONNECTED TRANSACTIONS**

During the year, there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

# Report of the Directors

20

## 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 provide advice and comments to the board of Directors.

The following sets out the members of the Group's audit committee:

<b>Name</b>	<b>Position in the audit committee</b>	<b>Position in the Board of Directors</b>
Wang Shi Yu		Independent Non-executive Director
Cheng Shu Wing	Chairman	Independent Non-executive Director

Four meetings were held during the financial year under review.

## SUBSEQUENT EVENT

There were no significant subsequent events which occurred since the balance sheet date to the date of these financial statements which have had or may have a material effect on the financial position of the Group at 31 March 2003 or the Group's results for the year then ended.

## 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, 26 June 2003

## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the 2003 Annual General Meeting of the Company will be held at the Boardroom, Basement II, The Wharney Hotel Hong Kong, 57-73 Lockhart Road, Wanchai, Hong Kong on Friday, 25 July 2003 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 2003;
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

## Notice of Annual General Meeting

22

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 as at the date of passing this Resolution and the said approval shall be limited accordingly; and

(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).”



## Notice of Annual General Meeting

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 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;
- (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.”

## Notice of Annual General Meeting

24

- 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 passing this Resolution.”

By Order of the Board

**Mak To Wai**

*Company Secretary*

Hong Kong, 26 June 2003

**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 share 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 2003 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 26 to 56 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 the Group as at 31 March 2003 and of the loss 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

26 June 2003

# Consolidated Profit and Loss Account

26

For the year ended 31 March 2003

	<i>Note</i>	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
<b>Turnover</b>	(3)	<b>26,694</b>	21,835
<b>Cost of sales and services</b>		<b>(17,730)</b>	(2,734)
<b>Gross profit</b>		<b>8,964</b>	19,101
Other revenue	(3)	<b>542</b>	159
Selling and marketing expenses		<b>(4,035)</b>	(1,978)
General and administrative expenses		<b>(10,371)</b>	(7,468)
Research and development costs		<b>(5,227)</b>	(6,100)
<b>(Loss)/profit from operating activities</b>	(5)	<b>(10,127)</b>	3,714
Finance costs	(8)	<b>(200)</b>	(236)
<b>(Loss)/profit before taxation</b>		<b>(10,327)</b>	3,478
Taxation	(9)	<b>(117)</b>	–
<b>(Loss)/profit for the year</b>		<b>(10,444)</b>	3,478
<b>Minority interests</b>		<b>(145)</b>	–
<b>(Loss)/profit attributable to shareholders</b>	(10)	<b>(10,589)</b>	3,478
<b>(Loss)/earnings per share</b>	(12)		
– Basic		<b><u>(1.84 cents)</u></b>	<u>0.72 cents</u>
– Diluted		<b><u>(1.75 cents)</u></b>	<u>0.68 cents</u>

## Consolidated Balance Sheet

31 March 2003

27

	Note	2003 HK\$'000	2002 HK\$'000
<b>Fixed assets</b>	(13)	<b>2,063</b>	1,509
<b>Goodwill</b>	(15)	<b>14,813</b>	–
<b>Intangible assets</b>	(16)	<b>14,881</b>	18,963
<b>Current assets</b>			
Inventories	(17)	<b>9,036</b>	205
Accounts receivable	(18)	<b>1,635</b>	8,172
Prepayments, deposits and other receivables		<b>11,746</b>	907
Value added tax refundable		<b>1,343</b>	1,514
Cash and bank balances		<b>11,931</b>	16,670
		<b>35,691</b>	27,468
<b>Current liabilities</b>			
Accounts payable	(19)	<b>1,936</b>	150
Short-term bank loan (unsecured)		<b>1,415</b>	–
Other payables and accrued expenses		<b>14,216</b>	12,230
		<b>17,567</b>	12,380
<b>Net current assets</b>		<b>18,124</b>	15,088
<b>Non-current liabilities</b>			
Minority interests		<b>1,377</b>	–
		<b>48,504</b>	35,560
<b>Capital and reserves</b>			
<b>Share capital</b>	(20)	<b>5,883</b>	5,503
<b>Reserves</b>	(21)	<b>42,621</b>	30,057
		<b>48,504</b>	35,560

Ma Gary Ming Fai  
Director

Mak To Wai  
Director

## Consolidated Statement of Changes in Equity

For the year ended 31 March 2003

	Note	Share capital HK\$'000	Share premium account HK\$'000	Exchange Reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2001		–	10,867	–	(9,672)	1,195
Share issued on the Reorganisation	(21)	–	8,397	–	–	8,397
Issue of new shares	(20) & (21)	5,503	31,791	–	–	37,294
Share issue expenses	(21)	–	(10,337)	–	–	(10,337)
Capitalisation issue	(21)	–	(4,470)	–	–	(4,470)
Exchange adjustments arising on consolidation		–	–	3	–	3
Transfer to profit and loss account		–	–	(3)	3	–
Profit for the year		–	–	–	3,478	3,478
At 31 March 2002		5,503	36,248	–	(6,191)	35,560
At 1 April 2002		5,503	36,248	–	(6,191)	35,560
Issue of new shares	(20) & (21)	380	23,499	–	–	23,879
Adjustment of over-accrued share issue expenses in prior year	(20) & (21)	–	1,058	–	–	1,058
Share issue expenses	(21)	–	(1,404)	–	–	(1,404)
Loss for the year		–	–	–	(10,589)	(10,589)
<b>At 31 March 2003</b>		<b>5,883</b>	<b>59,401</b>	<b>–</b>	<b>(16,780)</b>	<b>48,504</b>

## Consolidated Cash Flow Statement

For the year ended 31 March 2003

29

	Note	2003 HK\$'000	2002 HK\$'000
<b>Operating activities</b>			
(Loss)/profit from operations		(10,327)	3,478
Adjustment for:			
Interest income		(138)	(119)
Amortisation of goodwill		375	-
Amortisation of intangible assets		4,625	2,702
Depreciation		485	452
Loss on disposal of fixed assets		-	168
Increase in prepayments, deposits and other receivables		(9,610)	(358)
Decrease/(increase) in value added tax refundable/payable		169	(2,215)
(Decrease)/increase in other payable and accrued expenses		(3,448)	7,795
Operating cash flows before working capital changes		(17,869)	11,735
Increase in inventories		(6,145)	(67)
Decrease/(increase) in accounts receivable		7,676	(3,484)
Decrease in accounts payable		(280)	(4,435)
Cash (used in)/generated from operations		(16,618)	3,349
Income tax paid		(117)	-
<b>Net cash (used in)/generated from operating activities</b>		<b>(16,735)</b>	<b>3,917</b>
<b>Investing activities</b>			
Interest received		138	119
Purchase of fixed assets		(326)	(104)
Purchase of intangible assets		(476)	(16,059)
Acquisition of a subsidiary (net of cash acquired)	(23)	(7,974)	-
<b>Net cash outflow used in investing activities</b>		<b>(8,638)</b>	<b>(16,044)</b>
<b>Financing activities</b>			
Issue of new shares		22,038	32,813
Share issue expenses		(1,404)	(10,337)
<b>Net cash inflow generated from financing</b>		<b>20,634</b>	<b>22,476</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(4,739)</b>	<b>10,349</b>
<b>Effect of change of foreign exchange rate</b>		<b>-</b>	<b>3</b>
<b>Cash and cash equivalents at 1 April 2002</b>		<b>16,670</b>	<b>6,318</b>
<b>Cash and cash equivalents at 31 March 2003, Representing cash and bank balances</b>		<b>11,931</b>	<b>16,670</b>

## Balance Sheet

30

31 March 2003

	<i>Note</i>	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
<b>Non-current assets</b>			
Interests in subsidiaries	(14)	<b>53,447</b>	26,350
<b>Current assets</b>			
Prepayments, deposits and other receivables		<b>324</b>	320
Cash and bank balances		<b>10</b>	7,030
		<b>334</b>	7,350
<b>Current liabilities</b>			
Other payables and accrued expenses		<b>3,190</b>	3,972
<b>Net current (liabilities)/assets</b>		<b>(2,856)</b>	3,378
		<b>50,591</b>	29,728
<b>Capital and reserves</b>			
<b>Share capital</b>	(20)	<b>5,883</b>	5,503
<b>Reserves</b>	(21)	<b>44,708</b>	24,225
		<b>50,591</b>	29,728

**Ma Gary Ming Fai**  
*Director*

**Mak To Wai**  
*Director*



# Notes to the Financial Statements

31 March 2003

31

## 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.

During the year, the Group acquired a 69% interest in Snow Fair for a consideration of approximately HK\$15.5 million (approximately HK\$13.7 million in cash and approximately HK\$1.8 million fair value of the ordinary shares of the Company). Snow Fair is an investment holding company whose sole asset comprises a 51% shareholding in Pantosoft International Limited, which in turn holds the entire equity of Shanghai Pantosoft. Shanghai Pantosoft is a company established in the PRC which is principally engaged in the development of educational software as well as a digital campus in the PRC.

During the year, the Group was principally engaged in software development and 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. 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 the Hong Kong Society of Accountants ("HKSA") and accounting principles generally accepted in Hong Kong are set out below. The accounting policies and methods of computation used in the preparation of these financial statements are consistent with those adopted in the financial statements for the year ended 31 March 2002 except for the changes, if any, as explained below.

### 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 2002:

SSAP 1 (revised)	Presentation of financial statements
SSAP 11 (revised)	Foreign currency translation
SSAP 15 (revised)	Cash flow statements
SSAP 34	Employee benefits

The main revision to SSAP 1 is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The statement of changes in equity for the current year and the comparative balances have been presented in accordance with this revised SSAP.

# Notes to the Financial Statements

## 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

SSAP 11 (revised) prescribes the basis for the translation of foreign currency transactions and financial statements. This revised SSAP has had no major impact on these financial statements.

The main revision to SSAP 15 is to classify cash flows during the year into operating, investing and financing activities. The cash flow statement for the current year and the comparative balances have been presented in accordance with the revised SSAP.

SSAP 34 prescribes the accounting treatment and disclosure requirements for employee benefits. This SSAP has had no major impact on these financial statements.

### b) **Consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March. 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 interests in subsidiaries are stated at cost less impairment loss if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### d) **Goodwill**

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. Goodwill is recognised as an asset and amortised on a straight-line basis over its estimated useful life of 13.5 years.

On disposal of a subsidiary, any attributable amount of purchased goodwill not previously amortised is included in the calculation of the profit and loss on disposal.

## Notes to the Financial Statements

31 March 2003

33

**2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES** (Continued)**e) Fixed assets**

Fixed assets are stated at cost, less provisions for depreciation and any impairment losses. Details are set out in note 14 to the financial statements. 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 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 assets, 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%

**f) Intangible assets**

Intangible assets represent the costs of acquiring the Internet platform, trademarks and computer software. They are stated at cost less accumulated amortisation and any impairment losses.

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

Internet platform	33 <sup>1</sup> / <sub>3</sub> % per annum
Trademarks	5% per annum
Computer software	20% per annum

# Notes to the Financial Statements

## 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### g) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### h) 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 2003

35

## 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### i) **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.

### j) **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.

### k) **Accounts receivable**

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

### l) **Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash equivalents represent cash at bank and in hand, demand deposited with banks and other financial institutions, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value having been within three months of maturity when acquired.

# Notes to the Financial Statements

## 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### m) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. All foreign currency translations during the year are converted at the exchange rates existing on the respective transaction dates. All exchange differences are credited or charged, respectively, to the consolidated profit and loss account.

The exchange differences arising from the translation of the balance sheets of foreign subsidiaries using the closing rates of exchange prevailing on the balance sheet date are taken directly to reserve. Profit and loss accounts of foreign subsidiaries accounted for under the net investment method is translated into Hong Kong dollars using average rate for the year. The differences between the profit and loss account translated at average rate and at closing rate are taken directly to the reserve.

### n) 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 until its realisation is assured beyond reasonable doubt.

### o) 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.

# Notes to the Financial Statements

31 March 2003

37

## 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### p) **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.

### q) **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.

### r) **Contingencies**

Contingent liabilities are not recognised in the accompanying financial information. 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.

### s) **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.

### t) **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.

## Notes to the Financial Statements

31 March 2003

**3. REVENUE AND TURNOVER**

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 is as follows:–

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Turnover		
Sales of computer software	<b>21,596</b>	21,605
Income from provision of system integration and related services	<b>4,500</b>	–
Income from provision of software development and related services	<b>598</b>	230
	<hr/> <b>26,694</b> <hr/>	<hr/> 21,835 <hr/>
Other revenue		
Bank interest income	<b>138</b>	119
Sundry income	<b>404</b>	40
	<hr/> <b>542</b> <hr/>	<hr/> 159 <hr/>
Total revenue recognised	<hr/> <b>27,236</b> <hr/>	<hr/> 21,994 <hr/>

**4. SEGMENTAL INFORMATION**

No analysis of the Group's turnover and its contribution to profit before taxation by principal activities for the year ended 31 March 2003 are presented as 100% (2002: 90%) of the Group's turnover and operating results arose from the sales of computer software and rendering of software development, system development and related services in PRC.



## Notes to the Financial Statements

31 March 2003

39

**5. (LOSS)/PROFIT FROM OPERATING ACTIVITIES**

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

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Amortisation of goodwill	<b>375</b>	–
Amortisation of intangible assets	<b>4,625</b>	2,702
Auditors' remuneration		
– current year	<b>420</b>	335
– overprovision in prior year	<b>(109)</b>	–
Bad and doubtful debts (recovery)	<b>41</b>	(1,126)
Depreciation of fixed assets	<b>485</b>	452
Loss on disposal of fixed assets	<b>–</b>	168
Operating lease rentals in respect of land and buildings	<b>1,202</b>	1,508
Staff costs:		
Wages and salaries (including directors' emoluments)	<b>6,789</b>	4,690
Contributions to retirement/pension schemes and other benefits	<b>309</b>	578
	<b><u>          </u></b>	<b><u>          </u></b>

**6. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS****(a) Directors' emoluments**

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

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Fees	<b>540</b>	253
Salaries and allowances	<b>1,672</b>	832
Retirement/pension contributions	<b>53</b>	59
Bonuses	<b>101</b>	79
	<b><u>          </u></b>	<b><u>          </u></b>
	<b><u>2,366</u></b>	<b><u>1,223</u></b>

Emoluments of the directors fell within the following band:

	<b>2003</b> <b>No. of directors</b>	2002 No. of directors
Nil – HK\$1,000,000	<b><u>          </u></b>	<b><u>          </u></b>
	<b>9</b>	8

## Notes to the Financial Statements

31 March 2003

**6. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** *(Continued)***(a) Directors' emoluments** *(Continued)*

All the above were paid to four (2002: five) executive directors and five (2002: three) non-executive directors. The four executive directors received and/or were to receive individual emoluments of approximately HK\$717,000, HK\$463,000, HK\$349,000, and HK\$297,000, respectively (2002: HK\$572,000, HK\$1, HK\$199,000, and HK\$199,000, respectively) and the non-executive directors received and/or were to receive fees of approximately HK\$260,000, HK\$120,000, HK\$100,000, HK\$60,000 and HK\$Nil, respectively for the year ended 31 March 2003 (2002: HK\$160,000, HK\$40,000, HK\$33,000, HK\$20,000, and HK\$Nil, respectively).

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

**(b) Five highest paid employees**

The five highest paid individuals included four executive directors whose emoluments are detailed above. The emoluments of the remaining highest paid individuals for 2002 and 2003 is analysed as follows:—

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Salaries and allowances	<b>251</b>	229
Retirement/pension contributions	<b>14</b>	5
Bonuses	<b>74</b>	27
	<b>339</b>	261

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

	<b>2003</b> <b>No. of</b> <b>individuals</b>	2002 No. of individuals
Nil – HK\$1,000,000	<b>1</b>	1

## Notes to the Financial Statements

31 March 2003

41

**7. RETIREMENT AND PENSION BENEFITS**

The Group did not provide any retirement benefit to its employees in Hong Kong prior to 1 December 2000. With effect from 1 December 2000, the Group has implemented the 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 make a mandatory contribution of 5% of the relevant employee's 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 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\$309,000 (2002: HK\$238,000).

**8. FINANCE COSTS**

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Bank charges and interest	<b>22</b>	7
Foreign exchange loss	<b>178</b>	229
	<b>200</b>	236

**9. TAXATION**

The amount of taxation in the consolidation income statement represents:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Hong Kong profits tax ( <i>Note (a)</i> )	–	–
Overseas taxation ( <i>Note (b)</i> )	<b>117</b>	–
	<b>117</b>	–

# Notes to the Financial Statements

## 9. TAXATION *(Continued)*

- (a) No provision for profits tax has been made as no income was earned or derived from Hong Kong during the year.
- (b) No provision for profits tax has been provided in respect of the Cayman Islands or the British Virgin Islands as there were no assessable profits for the year in those jurisdictions. Overseas taxation represents tax charges on the assessable profits of certain subsidiaries operating in the PRC calculated at the applicable rates.
- (c) No provision for deferred tax has been made as the Group and overall deferred tax benefits which will be recognised when realisation of such benefit is assured beyond reasonable doubt.

## 10. LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company amounted to HK\$2,670,000 (2002: loss of HK\$1,156,000).

## 11. DIVIDENDS

No dividends has been paid or declared by the Company in respect of the current year (2002: Nil)

## 12. (LOSS)/EARNINGS PER SHARE

The basic (loss)/earnings per share is calculated based on the Group's (loss)/earnings attributable to shareholders of HK\$10,589,000 (2002: profit of HK\$3,478,000) and on the weighted average of 574,075,967 (2002: 481,335,823) ordinary shares in issue during the year.

The diluted (loss)/earnings per share is based on 604,696,820 (2002: 481,335,823) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighed average of 30,620,853 (2002: 28,561,411) ordinary shares deemed to be issued if all outstanding options had been exercised at the date they were granted.

## Notes to the Financial Statements

31 March 2003

43

## 13. FIXED ASSETS

	Leasehold improvements <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Group</b>						
<b>Cost</b>						
1 April 2002	49	1,442	18	337	391	2,237
Additions through acquisition of subsidiaries	–	644	16	190	273	1,123
Additions	37	244	14	31	–	326
<b>31 March 2003</b>	<b>86</b>	<b>2,330</b>	<b>48</b>	<b>558</b>	<b>664</b>	<b>3,686</b>
<b>Depreciation</b>						
1 April 2002	19	440	7	128	134	728
Additions through acquisition of subsidiaries	–	260	7	94	49	410
Charge for the year	9	314	4	72	86	485
<b>31 March 2003</b>	<b>28</b>	<b>1,014</b>	<b>18</b>	<b>294</b>	<b>269</b>	<b>1,623</b>
<b>Net book value</b>						
<b>31 March 2003</b>	<b>58</b>	<b>1,316</b>	<b>30</b>	<b>264</b>	<b>395</b>	<b>2,063</b>
31 March 2002	30	1,002	11	209	257	1,509

## Notes to the Financial Statements

31 March 2003

## 14. INTERESTS IN SUBSIDIARIES – COMPANY

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Unlisted shares/registered capital, at cost	<b>24,263</b>	8,408
Amounts due from subsidiaries	<b>31,098</b>	19,671
Amounts due to subsidiaries	<b>(1,914)</b>	(1,729)
	<b>53,447</b>	26,350

The amounts due from/to subsidiaries are unsecured, interest-free and they are not repayable within next 12 months.

Name	Place of incorporation/ registration	Issued and fully paid-up capital/ registered capital	Effective equity interest	Principal activities
<i>Directly held</i>				
Surfing Platform Software International Limited	British Virgin Islands	1,080,668 Ordinary shares of US\$1 each	100%	Investment holding
Snow Fair Company Limited*	British Virgin Islands	100 Ordinary shares of US\$1 each	69%	Investment holding
<i>Indirectly held</i>				
Xteam Software (China) Co. Limited	People's Republic of China	US\$2,000,000	100%	Sale of computer software and provision of related services

## Notes to the Financial Statements

31 March 2003

45

## 14. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

Name	Place of incorporation/ registration	Issued and fully paid-up capital/ registered capital	Effective equity interest	Principal activities
<i>Indirectly held (Continued)</i>				
Xteam Software (Hong Kong) Limited	Hong Kong	100 Ordinary share of HK\$1 each	100%	Software distributor
Pantosoft International Limited (formerly known as Winning Combination Investment Limited)*	British Virgin Islands	100 Ordinary share of US\$1 each	35.19%	Investment holding
Shanghai Pantosoft Company Limited*	People's Republic of China	HK\$10,000,000	35.19%	Sale of computer software and provision of related services

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

\* acquired during the year – details in Note 24.

## Notes to the Financial Statements

46

31 March 2003

## 15. GOODWILL

<b>Group</b>	<b>HK\$'000</b>
<b>Cost</b>	
1 April 2002	–
Additions	15,188
	<u>15,188</u>
<b>31 March 2003</b>	<b><u>15,188</u></b>
<b>Amortisation</b>	
1 April 2002	–
Charge for the year	375
	<u>375</u>
<b>31 March 2003</b>	<b><u>375</u></b>
<b>Net book value</b>	
<b>31 March 2003</b>	<b><u>14,813</u></b>
31 March 2002	<u>–</u>



## Notes to the Financial Statements

31 March 2003

47

## 16. INTANGIBLE ASSETS

Group	Internet platform HK\$'000	Trademarks HK\$'000	Computer software HK\$'000	Total HK\$'000
<b>Cost</b>				
1 April 2002	2,782	2,366	16,758	<b>21,906</b>
Additions through acquisition of a subsidiary	–	2	65	67
Additions	473	3	–	476
<b>31 March 2003</b>	<b><u>3,255</u></b>	<b><u>2,371</u></b>	<b><u>16,823</u></b>	<b><u>22,449</u></b>
<b>Amortisation</b>				
1 April 2002	–	241	2,702	<b>2,943</b>
Charge for the year	1,085	121	3,419	<b>4,625</b>
<b>31 March 2003</b>	<b><u>1,085</u></b>	<b><u>362</u></b>	<b><u>6,121</u></b>	<b><u>7,568</u></b>
<b>Net book value</b>				
<b>31 March 2003</b>	<b><u>2,170</u></b>	<b><u>2,009</u></b>	<b><u>10,702</u></b>	<b><u>14,881</u></b>
31 March 2002	<u>2,782</u>	<u>2,125</u>	<u>14,056</u>	<u>18,963</u>

As at 31 March 2003, the formal registration of certain trademarks had yet to be confirmed by the relevant government authorities in the PRC.

## 17. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials and low value consumables – at cost	<b>12,826</b>	97
Work in progress	<b>243</b>	–
Finished goods-at net realisable value	<b>234</b>	108
	<b>13,303</b>	205
Less: Provisions	<b>(4,267)</b>	–
	<b><u>9,036</u></b>	<u>205</u>

## Notes to the Financial Statements

48

31 March 2003

**18. ACCOUNTS RECEIVABLE**

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

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
0 – 30 days	<b>315</b>	72
31 – 60 days	<b>135</b>	2,279
61 – 90 days	<b>36</b>	4,232
Over 90 days	<b>1,149</b>	1,589
	<hr/> <b>1,635</b> <hr/>	<hr/> 8,172 <hr/>
	<b><u>1,635</u></b>	<b><u>8,172</u></b>

Generally, the Group has granted credit terms to its customers, with range from 30 to 90 days.

**19. ACCOUNTS PAYABLE**

An aging analysis of accounts payable is set out as follows:–

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
0 – 30 days	<b>210</b>	4
31 – 60 days	<b>–</b>	–
61 – 90 days	<b>24</b>	–
Over 90 days	<b>1,702</b>	146
	<hr/> <b>1,936</b> <hr/>	<hr/> 150 <hr/>
	<b><u>1,936</u></b>	<b><u>150</u></b>

## Notes to the Financial Statements

31 March 2003

49

## 20. SHARE CAPITAL AND SHARE OPTIONS

## (i) Share capital

	Number of shares	Nominal value HK\$
Authorised share capital (HK\$0.01 each):		
31 March 2002 and 2003	<u>1,000,000,000</u>	<u>10,000,000</u>
Issued and fully paid (HK\$0.01 each)		
1 April 2002	550,253,233	5,502,532
Issue of new shares during the year	32,408,705	324,087
Issue of new shares for acquisition	<u>5,666,000</u>	<u>56,660</u>
<b>31 March 2003</b>	<b><u>588,327,938</u></b>	<b><u>5,883,279</u></b>

The following changes in the Company's authorised and issued share capital have taken place during the period from 24 May 2002 to 31 March 2003.

- (a) On 26 July 2002, 30,408,705 and 2,000,000 new ordinary shares of HK\$0.01 each in the capital of the Company were issued to Webberton Investments Limited ("Webberton") and Angel Ventures II Limited ("Angel Ventures"), respectively, at HK\$0.68 each pursuant to a subscription agreement entered into between Webberton, Angel Ventures and the Company on 12 June 2002. These shares were issued upon the completion of the placing of 32,408,705 existing ordinary shares of the Company registered in the name of Webberton (as to 30,408,705 ordinary shares) and Angel Ventures (as to 2,000,000 ordinary shares) to not fewer than six independent placees pursuant to a placing agreement entered into between Christfund Securities Limited as the placing agent, Webberton and Angel Ventures on 12 June 2002.
- (b) On 15 November 2002, 5,666,000 new ordinary shares were issued as part of the total consideration for the acquisition of Snow Fair Company Limited.

## Notes to the Financial Statements

50

31 March 2003

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

## (ii) Share options

## (a) Pre-IPO Share Option Scheme

As at 31 March 2003, there were 91,000,000 (2002: 106,000,000) outstanding share options granted under the Pre-IPO Share Option Scheme, adopted by the Company on 30 May 2001. During the year, 15,000,000 outstanding share options lapsed due to the resignation of an employee. Details of the outstanding share options granted under the Pre-IPO Share Option Scheme as at 31 March 2003 are summarised as follows:

Name of grantee	Dated granted	Exercise period	No. of shares eligible for subscription under the share option	Exercise price
<i>Directors</i>				
Mr. Ma Gary Ming Fai	14 November 2001	11 June 2002 to 13 November 2011	50,000,000	HK\$0.266
Mr. Mak To Wai	14 November 2001	11 June 2002 to 13 November 2011	30,000,000	HK\$0.266
<i>Employees</i>				
Mr. Szeto Wai Yau	14 November 2001	11 June 2002 to 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 any of the Pre-IPO Share Option Scheme has been exercised or cancelled during the year.

## Notes to the Financial Statements

31 March 2003

51

**20. SHARE CAPITAL AND SHARE OPTIONS** *(Continued)***(ii) Share options** *(Continued)**(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, at their discretion, invite any full-time employee of the Group, including any executive and 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 2003, no options have been granted under the Share Option Scheme.

## Notes to the Financial Statements

31 March 2003

## 21. RESERVES

	Share premium account <i>HK\$'000</i>	Exchange reserves <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Group</b>				
1 April 2001	10,867	–	(9,672)	1,195
Shares issued on				
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				
arising on consolidation	–	3	–	3
Transfer to profit and loss				
account	–	(3)	3	–
Profit for the year	–	–	3,478	3,478
	<hr/>	<hr/>	<hr/>	<hr/>
31 March 2002	36,248	–	(6,191)	30,057
	<hr/>	<hr/>	<hr/>	<hr/>
1 April 2002	36,248	–	(6,191)	30,057
Issue of new shares	23,499	–	–	23,499
Adjustment of over-accrued				
share issue expenses				
in prior year	1,058	–	–	1,058
Share issue expenses	(1,404)	–	–	(1,404)
Loss for the year	–	–	(10,589)	(10,589)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>31 March 2003</b>	<b>59,401</b>	<b>–</b>	<b>(16,780)</b>	<b>42,621</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Notes to the Financial Statements

31 March 2003

53

## 21. RESERVES (Continued)

	Share premium account <i>HK\$'000</i>	Exchange reserves <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Company</b>				
Issue of new shares	31,791	–	–	31,791
Share swap	3,927	–	–	3,927
Share issue expenses	(10,337)	–	–	(10,337)
Loss for the year	–	–	(1,156)	(1,156)
	<hr/>	<hr/>	<hr/>	<hr/>
31 March 2002	25,381	–	(1,156)	24,225
	<hr/>	<hr/>	<hr/>	<hr/>
1 April 2002	25,381	–	(1,156)	24,225
Issue of new shares	23,499	–	–	23,499
Adjustment of over accrued share issue expenses in prior year	1,058	–	–	1,058
Share issue expenses	(1,404)	–	–	(1,404)
Loss for the year	–	–	(2,670)	(2,670)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>31 March 2003</b>	<b><u>48,534</u></b>	<b><u>–</u></b>	<b><u>(3,826)</u></b>	<b><u>44,708</u></b>

Distributable reserves of the Company at 31 March 2003, determined in accordance with section 34 of the Companies law (2001 Second Revision) of the Cayman Islands, amounted to approximately HK\$44.7 million (2002: HK\$24.2 million)

## Notes to the Financial Statements

54

31 March 2003

**22. COMMITMENTS****(i) Commitments under operating leases**

As of 31 March 2003, the Group had outstanding minimum commitments under non-cancellable operating leases in respect of land and buildings which fall due as follows:-

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Expiring:-		
Within one year	<b>1,148</b>	1,340
In the second to fifth years, inclusive	<b>904</b>	430
	<b>2,052</b>	1,770

**(ii)** As of 31 March 2003, the Group did not have any significant capital commitments.



## Notes to the Financial Statements

31 March 2003

55

**23. ACQUISITION OF A SUBSIDIARY**

During the year, the Group acquired a 69% interest in Snow Fair for a consideration of approximately HK\$15.5 million (approximately HK\$13.7 million in cash and approximately HK\$1.8 million fair value of the ordinary shares of the Company). Snow Fair is an investment holding company whose sole asset comprises a 51% shareholding in Pantosoftware International Limited, which in turn holds the entire equity of Shanghai Pantosoftware. Shanghai Pantosoftware is a company established in the PRC which is principally engaged in the development of educational software as well as a digital campus in the PRC. This acquisition has been accounted for using the acquisition method of accounting and the effective date of the acquisition for accounting purposes is 1 December 2002.

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Net assets acquired:		
Fixed assets	<b>713</b>	–
Intangible assets	<b>67</b>	–
Accounts receivables	<b>1,139</b>	–
Prepayments, deposits and other receivables	<b>1,229</b>	–
Inventories	<b>2,686</b>	–
Bank balances and cash	<b>5,717</b>	–
Accounts payable	<b>(2,066)</b>	–
Short-term bank loan (unsecured)	<b>(1,415)</b>	–
Other payables and accrued expenses	<b>(6,171)</b>	–
Minority interest	<b>(933)</b>	–
	<hr/>	<hr/>
Net assets	<b>966</b>	–
	<hr/> <hr/>	<hr/> <hr/>

Analysis of net outflow of cash and cash equivalents in connection with the acquisition of a subsidiary:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Cash consideration paid	<b>13,691</b>	–
Bank balances and cash acquired	<b>(5,717)</b>	–
	<hr/>	<hr/>
Net outflow of cash and cash equivalents	<b>(7,974)</b>	–
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the Financial Statements

### **23. ACQUISITION OF A SUBSIDIARY** *(Continued)*

This subsidiary acquired during the year contributed approximately HK\$4.5 million to the Group's turnover and profit of approximately HK\$79,000 to the Group's loss from operations.

### **24. SUBSEQUENT EVENT**

There were no significant subsequent events which occurred since the balance sheet date to the date of these financial statements which have had or may have a material effect on the financial position of the Group at 31 March 2003 or the Group's results for the year then ended.

### **25. APPROVAL OF THE AUDITED FINANCIAL STATEMENTS**

The audited financial statements were approved and authorised for issue by the board of directors on 26 June 2003.