



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

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

**FIRST QUARTERLY RESULTS REPORT**  
**FOR THE THREE MONTHS ENDED**  
**30TH JUNE, 2003**

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

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

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

## **SUMMARY**

- The Group is one of the early movers in the development of the Chinese Linux operating system with kernel rewritten to specifically cater for Chinese users in the People's Republic of China ("PRC") and software based on the Linux operating platform for various hardware appliances. While its products support personal computer applications, the Group is most widely recognized for its efficient operating system and its diversified software applications that leads the server, Internet, Intranet and mobile markets. The Group also provides technical support and after-sales services to its customers.
- Turnover for the three months ended 30th June, 2003 amounted to approximately HK\$2,913,000 (2002: approximately HK\$7,634,000).
- Loss attributable to shareholders amounted to approximately HK\$4,229,000 for the three months ended 30th June, 2003 (2002: profit of approximately HK\$2,566,000).
- The Board does not recommend the payment of an interim dividend for the three months ended 30th June, 2003 (2002: Nil).

## FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30TH JUNE, 2003

The board of Directors (the “Board”) of the Company announces the unaudited results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 30th June, 2003, together with the unaudited comparative figures for the corresponding period in 2002, as follows:

	<i>Note</i>	<b>Three months ended</b>	
		<b>30th June,</b>	
		<b>2003</b>	<b>2002</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	2	2,913	7,634
Cost of sales		(2,515)	(831)
Gross profit		398	6,803
Other income		143	-
Operating expenses		(4,603)	(4,207)
(Loss)/profit from operations		(4,062)	2,596
Finance income/(cost), net		6	(30)
(Loss)/profit before tax		(4,056)	2,566
Income tax expense	3	(37)	-
(Loss)/profit after tax		(4,093)	2,566
Minority interests		(136)	-
(Loss)/profit attributable to shareholders		<u>(4,229)</u>	<u>2,566</u>
(Loss)/earnings per share	4		
- Basic (in cents)		<u>(0.72)</u>	<u>0.47</u>
- Diluted (in cents)		<u>(0.72)</u>	<u>0.41</u>
Dividend per share		Nil	Nil

Notes:

## 1. Basis of presentation

The principal accounting policies adopted in preparing the unaudited consolidated results conform with all applicable Statements of Standard Accounting Practice (“SSAPs”) and Interpretations issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong. The 2003/2004 first quarterly report also complies with the disclosure provisions of the GEM Listing Rules.

The Company is an investment holding company. 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.

## 2. Turnover and revenue

Turnover represents the invoiced value of goods sold and services rendered, net of value added tax and business tax in the PRC, and after allowances for goods returned and trade discounts.

## 3. Taxation

- (i) No provision for profits tax has been made as no income was earned or derived from Hong Kong during the period.
- (ii) No provision for profits tax has been provided in respect of the Cayman Islands or the British Virgin Islands as there were no assessable tax for the year in those jurisdictions. The tax expenses during the period represents tax charges on the assessable profits of certain subsidiaries operating in the PRC calculated at the applicable rates.
- (iii) No provision for deferred tax has been made as the Group had overall deferred tax benefits which will be recognized when realization of such benefits is assured beyond reasonable doubt.

## 4. (Loss)/earnings per share

The calculation of basic loss per share for the three months ended 30th June, 2003 is based on the Group’s unaudited loss after tax of approximately HK\$4,229,000 (2002: profit of approximately HK\$2,566,000), and on the weighted average number of 588,327,938 shares in issue during the period (2002: 550,253,233).

The calculation of diluted loss per share for the three months ended 30th June, 2003 is based on the Group’s unaudited loss after tax of approximately HK\$4,229,000 (2002: profit of approximately HK\$2,566,000), and the weighted average number of 588,327,938 shares (2002: 622,282,149 shares), taking into account the options granted to certain executive directors of the Company and employees of the Group to subscribe for a total of 91,000,000 shares of the Company under the Pre-IPO Share Option Scheme of the Company.

## 5. Movements in reserves

	<b>Share premium account <i>HK\$'000</i></b>	<b>Accumulated losses <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
Consolidated (unaudited)			
At 1st April, 2002	36,248	(6,191)	30,057
Profit for the period	-	2,566	2,566
	<u>36,248</u>	<u>(3,625)</u>	<u>32,623</u>
At 30th June, 2002			
At 1st April, 2003	59,401	(16,780)	42,621
Loss for the period	-	(4,229)	(4,229)
	<u>59,401</u>	<u>(21,009)</u>	<u>38,392</u>
At 30th June, 2003			

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the period (2002: Nil).

## BUSINESS REVIEW AND PROSPECTS

### General

The Group is one of the early movers in the development of the Chinese Linux operating system with kernel rewritten to specifically cater for Chinese users in the PRC and software based on the Linux operating platform for various hardware appliances. While its products support personal computer applications, the Group is most widely recognized for its efficient operating system and its diversified software applications that leads the server, Internet, Intranet and mobile markets. The Group also provides technical support and after-sales services to its customers.

### Financial

During the quarter under review, the outbreak of Severe Acute Respiratory Syndrome ("SARS") was detrimental to the Group's overall performance. The delay in finalizing the Group's contracts and product promotion has also put pressure on its performance. And despite undergoing a business reshuffle to diversify its client base and explore new client source, the Group still faced strong competition from software companies.

The Group recorded a turnover of approximately HK\$2,913,000 for the quarter ended 30th June, 2003, compared with a turnover of approximately HK\$7,634,000 in the same period last year. Losses attributable to shareholders for the quarter amounted to approximately HK\$4,229,000, compared to a profit of approximately HK\$2,566,000 in the same period last year.

## **Business Review**

### *Diversifying Resources*

The Group takes concerted efforts to diversify its resources. To pave the way for future expansion in the PRC, its Shanghai office will become a base where its marketing team is to extend the sales network to cover more mainland cities. And the Beijing office will focus on product development, to complement the Group's solid research and development base in the capital. The Group is dedicated to developing value-added features and applications to software, to expand the Group's income source.

### *Clientele Expansion*

The Group further strengthened its sales network in the education sector and has been aggressively increasing its market share throughout the PRC. New contracts were signed in 13 cities and provinces signifying the Group's geographical expansion. With its established brand among schools in major cities, the Group has resourcefully strived to extend its product reach in second and third-tier cities. The Group not only provides its customers with quality products, but has also extended vertically thanks to a growing demand for its after-sales service support.

### *Product Innovation*

The Beijing Torch Project, which has been approved by the State Council of the PRC, is one of the Key Technologies Research and Development Programs designed to concentrate domestic resources on technologies for industry upgrading and sustainable social development. The Group's Java Virtual Machine ("JVM"), which has developed on the Linux platform, was included as one of the projects under the Beijing Torch Project in June. This illustrated the capability and potential of the Group's JVM's. This also allows the Group to own JVM products, and use Java to further develop Linux solutions and expand into the embedded service markets.

## **Looking Ahead**

The Group continues its marketing efforts in the Greater China region targeting the server market. It believes that the software can extend to cover the mobile communication segments, which will then allow the Group to explore recurrent income sources. These products with proprietary and value-added features increase the competitiveness of the Group's software products. In addition, according to IDC forecast, the global mobile market is growing at an average annual rate of 59%, reaching US\$3.04 billion in 2006. In particular, the SMS market is expected to be the fastest growing segment. The Group is planning to launch its value-added software in August, and has been exploring partnership opportunities with local and international vendors to tap into the vast market.

In August, the Group will also participate in LinuxWorld China 2003. The exhibition, which is to be held in Beijing, offers the opportunity for Linux players to promote their latest products and services. The exhibition will also attract Linux platform users including multinationals, and small and medium size corporations from different parts of the PRC. The Group considers this a huge business opportunity, and is prepared to introduce its new email system PostalServer 6 and other new products.

The Group has already established a foothold in Beijing, Shanghai, Guangzhou and Qingdao, and is looking to open several more offices in the second half of the year to further expand its network base and reach more markets that have potential. The Group's server application software is renowned among internet service providers, internet data centres and eCommerce companies, it is the Group's future strategy to expand into embedded service and application products in the wireless communication sector.

Backed by the resumption of sales in the PRC and the Group's continued efforts in software development, the Group is optimistic that it will consolidate its strong foothold in the Linux market in the PRC.

## **SUBSEQUENT EVENTS**

On 21st July, 2003, the Company entered into a placing agreement with Christfund Securities Limited to place 51,680,000 new ordinary shares of HK\$0.01 each in the share capital of the Company (the "Placing Shares"). On 31st July, 2003, approval from the GEM Listing Committee for the listing of, and permission to deal in, the Placing Shares was obtained and the placing of the Placing Shares was completed on 4th August, 2003.

The details of the above placing have been disclosed in the announcements of the Company dated 21st July, 25th July and 4th August, 2003 on the GEM website.



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

As at 30th June, 2003, the interests or short positions of the Directors is chief executives of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### (1) Interests in shares

Name of directors	Number of shares of the Company			Total	% of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. Ma Gary Ming Fai (note 1)	-	-	116,681,821	116,681,821	19.84%
Mr. Ren Yi (note 2)	-	-	1,481,507	1,481,507	0.25%
Mr. Wu Meng Jie	6,219,962	-	-	6,219,962	1.06%

#### Notes:

- These shares are held by Upwise Investment Ltd. and Princeton Venture Partners Limited. 74,821,349 shares are held by Upwise Investment Ltd. and the entire issued share capital of Upwise Investment Ltd. is beneficially owned by Mr. Ma Gary Ming Fai. 41,860,472 shares are held by Princeton Venture Partners Limited, the shares of which are beneficially owned as to 50% by Mr. Ma Gary Ming Fai and as to 50% by Omnicorp Limited (formerly Omnitech Group Limited), a company incorporated in Bermuda with limited liability and the securities of which are listed on the Main Board of the Stock Exchange. Therefore, Mr. Ma Gary Ming Fai is deemed to be interested in these shares.
- The 1,481,507 shares are held by One Focus Group Limited, a company incorporated in the British Virgin Islands, the issued capital of which is beneficially owned by Mr. Ren Yi.

### (2) Interests in underlying shares

#### (a) Pre-IPO share options

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company adopted on 30th May, 2001, the Directors and employees of the Group may be granted share options to subscribe for shares of the Company at an exercise price of HK\$0.266 each. All options have a duration of 10 years from the date of grant of the options and exercisable after three months from the date of listing of the Company on GEM on 11th December, 2001.

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

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

Up to 30th June, 2003, no options under the Pre-IPO Share Option Scheme have been exercised.

*(b) Post-IPO share options*

On 21st November, 2001, the shareholders of the Company adopted a share option scheme (“Share Option Scheme”), the principal terms of which were set out on pages 199 to 208 of the Prospectus. Under the terms of the Share Option Scheme, the Board may, at their discretion, invite any full-time employees of the Group, including any executive and non-executive directors, and any advisers, consultants of or to any member of the Group to take up options to subscribe for shares in the Company.

As at 30th June, 2003, no options have been granted under the Share Option Scheme.

Save as disclosed above, as at 30th June, 2003, none of the Directors, chief executive of the Company and their associates had any personal, family, corporate or other interest or short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange. During the reporting period, there were no debt securities issued by the Group.

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

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

## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2003, the following persons (other than the Director and chief executive of the Company) had interests or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Name	Number of shares	Percentage of issued share capital
Upwise Investments Ltd.	74,821,349 ( <i>note 1</i> )	12.72%
Princeton Venture Partners Limited	41,860,472 ( <i>note 2</i> )	7.12%
Positivism Securities Limited	33,173,133	5.64%

### 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. The shares of Princeton Venture Partners Limited are beneficially owned as to 50% by Mr. Ma Gary Ming Fai and as to 50% by Omnicorp Limited (formerly Omnitech Group Limited), a company incorporated in Bermuda with limited liability and the securities of which are listed on the Main Board of the Stock Exchange.

Save as disclosed above, as at 30th June, 2003, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

## SHARE OPTIONS SCHEME

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

Details of the pre-IPO share options granted to Directors are set out in the sub-section headed “Interests in underlying shares” under the section headed “Directors’ and chief executives’ interests or short position in the shares and underlying shares”. Details of the pre-IPO share options granted to other executives and full time employees as at 30th June, 2003 are as follows:

Category of participant	Date granted	Exercise period	No. of shares eligible for subscription under the share option	Exercise price
Employee	14th November, 2001	11th June, 2002 to 13th November, 2011	11,000,000	HK\$0.266

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

No pre-IPO share options were exercised under the Pre-IPO Share Option Scheme since its adoption.

### (b) Post-IPO Share Option Scheme

On 21st November, 2001, the shareholders of the Company adopted a share option scheme (“Share Option Scheme”), the principal terms of which were set out on pages 199 to 208 of the Prospectus. Under the terms of the Share Option Scheme, the Board may, at their discretion, invite any full-time employees of the Group, including any executive and non-executive directors, and any advisers, consultants of or to any member of the Group to take up options to subscribe for shares in the Company.

As at 30th June, 2003, no options have been granted under the Share Option Scheme.

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

During the three months ended 30th June, 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

## COMPETING INTERESTS

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

## **INTERESTS OF SPONSOR**

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

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

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

None of FSCL, its directors, employees or associates had any interests in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 30th June, 2003.

## **AUDIT COMMITTEE**

As required by Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee on 21st November, 2001 with written terms of reference which deal clearly with its authority and duties. The audit committee’s principal duties are the review and supervision of the Company’s financial reporting process and internal control systems. The audit committee comprises two independent non-executive Directors, namely Mr. Cheng Shu Wing and Mr. Wang Shi Yu. The Group’s unaudited results have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standard.

## **BOARD PRACTICES AND PROCEDURES**

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

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

Hong Kong, 11th August, 2003