



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, 2004

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

This report, for which the directors (“Directors”) of Xteam Software International Limited (the “Company”) collectively and individually accept 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, 2004 amounted to approximately HK\$2,556,000 (2003: approximately HK\$2,913,000).
- Loss attributable to shareholders amounted to approximately HK\$2,873,000 for the three months ended 30th June, 2004 (2003: loss of approximately HK\$4,229,000).
- The Board does not recommend the payment of an interim dividend for the three months ended 30th June, 2004 (2003: Nil).

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30TH JUNE, 2004

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, 2004, together with the unaudited comparative figures for the corresponding period in 2003, as follows:

	<i>Note</i>	Three months ended 30th June,	
		2004	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	2	2,556	2,913
Cost of sales		(1,383)	(2,515)
Gross profit		1,173	398
Other income		260	143
Operating expenses		(4,262)	(4,603)
Loss from operations		(2,829)	(4,062)
Finance income, net		4	6
Loss before tax		(2,825)	(4,056)
Income tax expense	3	(2)	(37)
Loss after tax		(2,827)	(4,093)
Minority interests		(46)	(136)
Loss attributable to shareholders		<u>(2,873)</u>	<u>(4,229)</u>
Loss per share	4		
- Basic (in cents)		<u>(0.41)</u>	<u>(0.72)</u>
- Diluted (in cents)		<u>(0.41)</u>	<u>(0.72)</u>
Dividend per share		<u>Nil</u>	<u>Nil</u>

Notes:

1. Basis of presentation

The unaudited financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice issued by the Hong Kong Society of Accountants and Chapter 18 of Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

The principal accounting policies and methods of computation used in the preparation of the unaudited financial statements are consistent with those adopted in the latest annual financial statements of the Group.

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 period in those jurisdictions. The tax expenses during the period represents tax charges on the assessable profits of certain subsidiaries operating in the PRC calculated at the applicable rates.
- (iii) No deferred tax asset has been recognized due to the unpredictability of future profit streams.

4. Loss per share

The calculation of basic loss per share for the three months ended 30th June, 2004 is based on the Group's unaudited loss attributable to shareholders of approximately HK\$2,873,000 (2003: loss of approximately HK\$4,229,000), and on the weighted average number of 693,007,938 (2003: 588,327,938) ordinary shares in issue during the period.

The calculation of diluted loss per share for the three months ended 30th June, 2004 is based on 700,831,210 (2003: 588,327,938) ordinary share which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 7,823,272 (2003: Nil) ordinary shares deemed to be issued if all outstanding options had been exercised at the date they were granted.

5. Movements in reserves

	Share premium account <i>HK\$'000</i>	Statutory reserve fund <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Consolidated (unaudited)				
At 1st April, 2003	59,401	-	(16,780)	42,621
Loss for the period	-	-	(4,229)	(4,229)
At 30th June, 2003	<u>59,401</u>	<u>-</u>	<u>(21,009)</u>	<u>38,392</u>
At 1st April, 2004	71,821	60	(51,687)	20,194
Loss for the period	-	-	(2,873)	(2,873)
At 30th June, 2004	<u>71,821</u>	<u>60</u>	<u>(54,560)</u>	<u>17,321</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the period (2003: 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

The Group reported an unaudited turnover of approximately HK\$2,556,000 for the three months ended 30th June, 2004 (2003: approximately HK\$2,913,000). The loss attributable to shareholders for the three months ended 30th June 2004 was approximately HK\$2,873,000 (2003: approximately HK\$4,229,000).

The Group's gross profit margin was increased to 45.9% compared with 13.7% in the same period last year. The increase was mainly due to drop in amortization charges.

The Group's operating expenses stood steadily at approximately HK\$4,262,000 (2003: approximately HK\$4,603,000) to maintain its sales and marketing activities to capture a larger market share.

Business Review

The Group entered into a new phase in 2004. In February 2004, the Group signed a conditional agreement with Beijing Development (Hong Kong) Limited (“Beijing Development”) to acquire its Software Businesses. The Group has also announced to enter the conditional agreements to increase its stake in Snow Fair Company Limited (“Snow Fair”) and Pantosoft International Limited (“Pantosoft”) to 100%. Upon the completion of the acquisitions, Beijing Development will become the largest shareholder of the Group. The Software Business of Beijing Development is the pre-eminent player in Beijing in provision of software and information systems to various government departments in the PRC. Together with the Group’s leading-edge Chinese Linux technology, the Group is determined to becoming the largest open source platform and service centre in the PRC to embrace the enormous potential in the PRC software market.

During the quarter under review, the Group was in progress to integrate Beijing Development’s Software Businesses into its Linux business. The Group is set to provide Linux operating systems and software solutions to government authorities in four key sectors: social security, labour security, e-government and e-education. Beijing Development has already established a strong clientele from the Beijing Government. The provision of IT services and solutions are expected to continue and provide the Group with a reliable and solid revenue base from the Government.

Prospects

Looking ahead, the injection of Beijing Development’s Software Business, Astoria Innovations Limited and Wisdom Elite Limited, will help enhance the Group’s financial position and the benefits are expected to be realized in the coming quarters. This will help facilitate the Group’s future R&D initiatives and expansion across the PRC. The Group is on course to amalgamate the Beijing headquarters with Beijing Development’s office to expand the Group’s sales and R&D forces. In addition to the four key sectors in Beijing, the Group will also leverage on Beijing Development’s closer ties with various government departments to expand the client base in government departments in Beijing and the rest of the PRC. The Group already enjoys a nationwide sales network thanks to Pantosoft’s extensive sales offices throughout the PRC. The Group targets to establish some additional representative offices across the PRC to cope with growing demand of the Group’s Linux solutions.

The Group will also continue its marketing efforts to enhance its brand awareness in the PRC software market. In August 2004, the Group will participate in LinuxWorld 2004 in Beijing. With the participation of exhibitors from world’s leading Linux players, the exhibition is one of the landmark events to promote latest Linux products and services. The exhibition will attract a lot of existing and prospective Linux platform users, including multinational corporations and small-to-medium-sized enterprises in the PRC. Backed by the solid foothold of Beijing Development and Xteam’s leading-edge Linux technology, the Group sees huge business opportunities to introduce its latest products and reinforce its branding after the acquisition.

The acquisition heralds a new era for the Group to thrive. New software businesses and management team from Beijing Development will favourably position the Group to capitalize on the opportunities available in the PRC software market. The well-established clientele from Beijing Development and Xteam's top-notch Linux technology will provide a critical mass for the Group to replicate the successful business models in other provinces and expand into other sectors of the Government and enterprise markets.

SUBSEQUENT EVENTS

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

- (a) Snow Fair entered into share purchases agreement to acquire 49 shares of Pantosoft from its minority shareholder, Fortune Leo Investment Limited ("Fortune Leo") at a consideration of approximately HK\$16,000,000, to be satisfied partly by cash of HK\$312,000 and partly by the Company issuing 105,422,000 new shares to Fortune Leo ("Pantosoft Acquisition"). After the completion of this transaction, the Company will own 100% of Pantosoft and its subsidiary, Shanghai Pantosoft Company Limited.
- (b) The Company entered into two share purchase agreements to acquire a total of 31 shares of Snow Fair from its minority shareholders, MC Capital B.V. and Cosmo Town Limited for total considerations of approximately HK\$4,921,000, to be satisfied by the allotment of 33,938,000 new shares of the Company ("Snow Fair Acquisition"). After the completion of this transaction, the Company will own 100% of Snow Fair.
- (c) A deed was entered into by the Company and Beijing Development pursuant to which the Company has agreed to purchase 680 shares of Astoria Innovations Limited ("Astoria"), representing 68% interest in Astoria, and 100 shares of Wisdom Elite Limited ("Wisdom"), representing 100% interest in Wisdom. Astoria and Wisdom are subsidiaries of Beijing Development and are engaged in the software business. The considerations will be satisfied by the Company issuing new shares to Beijing Development.

For details of the acquisitions, please refer to the report and circular of the Company dated 19th May, 2004 and 28th June, 2004 respectively.

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

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

As at 30th June, 2004, the interests or short positions of the Directors and chief executives of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(1) Interests in shares

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	16.84%
Mr. Ren Yi (note 2)	-	-	1,481,507	1,481,507	0.21%
Mr. Wu Meng Jie	6,219,962	-	-	6,219,962	0.90%

Notes:

- These shares are held by Upwise Investments Ltd. and Princeton Venture Partners Limited. 74,821,349 shares are held by Upwise Investments Ltd. and the entire issued share capital of Upwise Investments Ltd. is beneficially owned by Mr. Ma Gary Ming Fai. 41,860,472 shares are held by Princeton Venture Partners Limited. Princeton Venture Partners Limited is wholly owned by PVP Limited. PVP Limited is in turn owned as to 43.56% by Innovative Group Ltd. Innovative Group Ltd. is in turn wholly owned by Mr. Ma Gary Ming Fai. Mr. Ma Gary Ming Fai is taken to be interested in 74,821,349 shares and 41,860,472 shares by virtue of his corporate interests in Upwise Investments Ltd. and Innovative Group Ltd. respectively.
- 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
			<hr/>	
			<u>80,000,000</u>	

Up to 30th June, 2004, 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.

On 19th December, 2003, 63,000,000 post-IPO share options were granted and accepted at an exercise price of HK\$0.14 per shares.

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

Name of Director	Date granted	Exercise period	No. of shares eligible for subscription under the post-IPO share option	Exercise price per share
Mr. Cheng Shu Wing	19th December, 2003	19th December, 2003 to 18th December, 2013	1,000,000	HK\$0.14
Mr. Wang Shi Yu	19th December, 2003	19th December, 2003 to 18th December, 2013	1,000,000	HK\$0.14
			2,000,000	

Up to 30th June, 2004, no options under the Share Option Scheme have been exercised.

Details of the 61,000,000 outstanding post-IPO share options granted to individuals other than Directors were set out in the sub-section headed “Post-IPO Share Option Scheme” under the section headed “Share Option Scheme”.

Save as disclosed above, as at 30th June, 2004, none of the Directors, chief executive of the Company and their associates had any personal, family, corporate or other interest or short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange. During the reporting year, 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, 2004, the following persons (other than the Directors and chief executive of the Company) had interests or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Name	Nature of interests	Number of shares	Percentage of issued share capital
Hung Fung King Margaret	Interests of spouse	116,681,821 (<i>note 1</i>)	16.84%
	Interests of spouse	50,000,000 (<i>note 2</i>)	7.21%
Upwise Investments Ltd.	Beneficial interests	74,821,349 (<i>note 3</i>)	10.80%
Princeton Venture Partners Limited	Interests of controlled corporation	41,860,472 (<i>note 4</i>)	6.04%
PVP Limited	Interests of controlled corporation	41,860,472 (<i>note 5</i>)	6.04%
Olympic Glory Limited	Interests of controlled corporation	41,860,472 (<i>note 6</i>)	6.04%
Omicorp Limited	Interests of controlled corporation	42,340,472 (<i>note 7</i>)	6.11%
Innovative Group Ltd.	Interests of controlled corporation	41,860,472 (<i>note 8</i>)	6.04%

Name	Nature of interests	Number of shares	Percentage of issued share capital
Beijing Development	Interests of controlled corporation	2,115,513,445 (note 9)	56.29%
Beijing Enterprises Holdings Limited	Interests of controlled corporation	2,115,513,445 (note 10)	56.29%
Beijing Enterprises Investments Limited	Interests of controlled corporation	2,115,513,445 (note 11)	56.29%
Beijing Holdings Limited	Interests of controlled corporation	2,115,513,445 (note 12)	56.29%
Chung Kwok Ho	Interests of controlled corporation	527,096,129 (note 13)	14.02%
Lee Man Yee	Interests of spouse	527,096,129 (note 14)	14.02%
Cosmos Vantage Limited	Beneficial interests	527,096,129 (note 15)	14.02%

Notes:

1. These shares were held by Upwise Investments Ltd. and Princeton Venture Partners Limited. 74,821,349 shares were held by Upwise Investments Ltd. and the entire issued capital of Upwise Investments Ltd. is beneficially owned by Mr. Ma Gary Ming Fai. 41,860,472 shares were held by Princeton Venture Partners Limited. Princeton Venture Partners Limited is wholly owned by PVP Limited. PVP Limited is in turn owned as to 43.56% voting equity interests by Innovative Group Ltd. Innovative Group Ltd. is in turn wholly owned by Mr. Ma Gary Ming Fai. Mr. Ma Gary Ming Fai was taken to be interested in 74,821,349 shares and 41,860,472 shares by virtue of his interests in Upwise Investments Ltd. and Innovative Group Ltd. respectively. Ms. Hung Fung King Margaret is the spouse of Mr. Ma Gary Ming Fai and accordingly she was deemed to be interested in these shares.
2. These shares represent the number of shares to be allotted and issued to Mr. Ma Gary Ming Fai upon the exercise in full of the share options granted to him on 14th November, 2001 pursuant to the Pre-IPO Share Option Scheme. These share options are exercisable from 11th June, 2002 to 13th November, 2011 at the exercise price of HK\$0.266 per share. Ms. Hung Fung King Margaret is the spouse of Mr. Ma Gary Ming Fai and accordingly she was deemed to be interested in these shares.
3. The entire issued share capital of Upwise Investments Ltd. is beneficially owned by Mr. Ma Gary Ming Fai.

4. Princeton Venture Partners Limited is wholly owned by PVP Limited. PVP Limited is in turn owned as to 43.56% voting equity interests by Innovative Group Ltd. and as to 37.22% voting equity interests by Olympic Glory Limited. Olympic Glory Limited is wholly owned 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 Exchange.
5. PVP Limited is deemed to be interested in 41,860,472 shares by virtue of its corporate interests in Princeton Venture Partners Limited.
6. Olympic Glory Limited is deemed to be interested in 41,860,472 shares by virtue of its corporate interests in PVP Limited.
7. Omnicorp Limited is deemed to be interested in 41,860,472 shares by virtue of its corporate interests in Olympic Glory Limited. 480,000 shares are held by Clever United Holdings Limited, which is wholly owned by Omnicorp Limited. Omnicorp Limited is deemed to be interested in 480,000 shares by virtue of its corporate interests in Clever United Holdings Limited.
8. Innovative Group Ltd. is deemed to be interested in 41,860,472 shares by virtue of its corporate interests in PVP Limited.
9. This shareholding percentage figure is based on the assumptions that (i) the Snow Fair Acquisition and the Pantosoft Acquisition will be completed and that (ii) prior to the allotment and issue of the consideration shares, none of the 143,000,000 outstanding share options of the Company will be exercised and the Company will comply with its undertaking not to issue and allot any further new shares or securities carrying rights to subscribe for or convert into new shares.
10. Beijing Enterprises Holdings Limited was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Beijing Development. (Please also refer to note 9)
11. Beijing Enterprises Investments Limited was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Beijing Enterprises Holdings Limited. (Please also refer to note 9)
12. Beijing Holdings Limited was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Beijing Enterprises Investments Limited. (Please also refer to note 9)
13. Chung Kwok Ho held these shares through Cosmos Vantage Limited in which he is the sole beneficial owner. (Please also refer to note 9)
14. These shares were held by Cosmos Vantage Limited, which is wholly owned by Chung Kwok Ho. Lee Man Yee is the spouse of Chung Kwok Ho and accordingly she was deemed to be interested in these shares. (Please also refer to note 9)
15. Cosmos Vantage Limited is wholly owned by Chung Kwok Ho. (Please also refer to note 9)

Save as disclosed above, as at 30th June, 2004, 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”. There is no outstanding pre-IPO share options granted to other executives and full time employees as at 30th June, 2004.

(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.

On 19th December, 2003, 63,000,000 post-IPO share options were granted and accepted at an exercise price of HK\$0.14 per shares.

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

Type of grantees	Date granted	Exercise period	No. of shares eligible for subscription under the post-IPO share option	Exercise price per share
Directors	19th December, 2003	19th December, 2003 to 18th December, 2013	2,000,000	HK\$0.14
Employees, advisers and consultants	19th December, 2003	19th December, 2003 to 18th December, 2013	61,000,000	HK\$0.14
			63,000,000	

Up to 30th June, 2004, no options under the Share Option Scheme have been exercised.

Details of the post-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”.

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

During the three months ended 30th June, 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

COMPETING INTERESTS

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

AUDIT COMMITTEE

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

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules since listed on GEM of the Stock Exchange.

At the date of this report, The board of directors of Company comprises Mr. Ren Yi, Mr. Yang Feng, Mr. Peng Wen Sheng, Mr. Mak To Wai and Mr. Wu Meng Jie (who are executive directors of the Company), Mr. Ma Gary Ming Fai and Mr. Liu Jun (who are non-executive directors of the Company), and Mr. Cheng Shu Wing and Mr. Wang Shi Yu (who are independent non-executive directors of the Company).

By order of the Board
Xteam Software International Limited
Ma Gary Ming Fai
Director

Hong Kong, 9th August, 2004