Annual Report

2004

Xteam SOFTWARE

Xteam Software International Limited

(Incorporated in the Cayman Islands with limited liability)

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

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EXECUTIVE DIRECTORS

Mr. Zhang Hong Hai *(Chairman)*
Mr. Li Kang Ying *(Vice Chairman)*
Mr. Ma Gary Ming Fai *(Vice Chairman)*
Mr. Cao Wei *(President)*
Mr. E Meng
Mr. Ng Kong Fat, Brian
Ms. Chen Zhi

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Ma Yu Hua
Ms. Liang Ye Ping
Mr. Jiang Qi Ping

COMPANY SECRETARY

Mr. Mak To Wai, *CPA, FCCA*

QUALIFIED ACCOUNTANT

Mr. Mak To Wai, *CPA, FCCA*

COMPLIANCE OFFICER

Mr. Ng Kong Fat, Brian

AUTHORISED REPRESENTATIVES

Mr. Ma Gary Ming Fai
Mr. Mak To Wai

AUDIT COMMITTEE

Ms. Ma Yu Hua
Ms. Liang Ye Ping
Mr. Jiang Qi Ping

AUDITORS

Moore Stephens

LEGAL ADVISORS

Baker & Mckenzie
Conyers Dill & Pearman

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

M/F., Yardley Commercial Building
No. 3 Connaught Road West
Sheung Wan
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

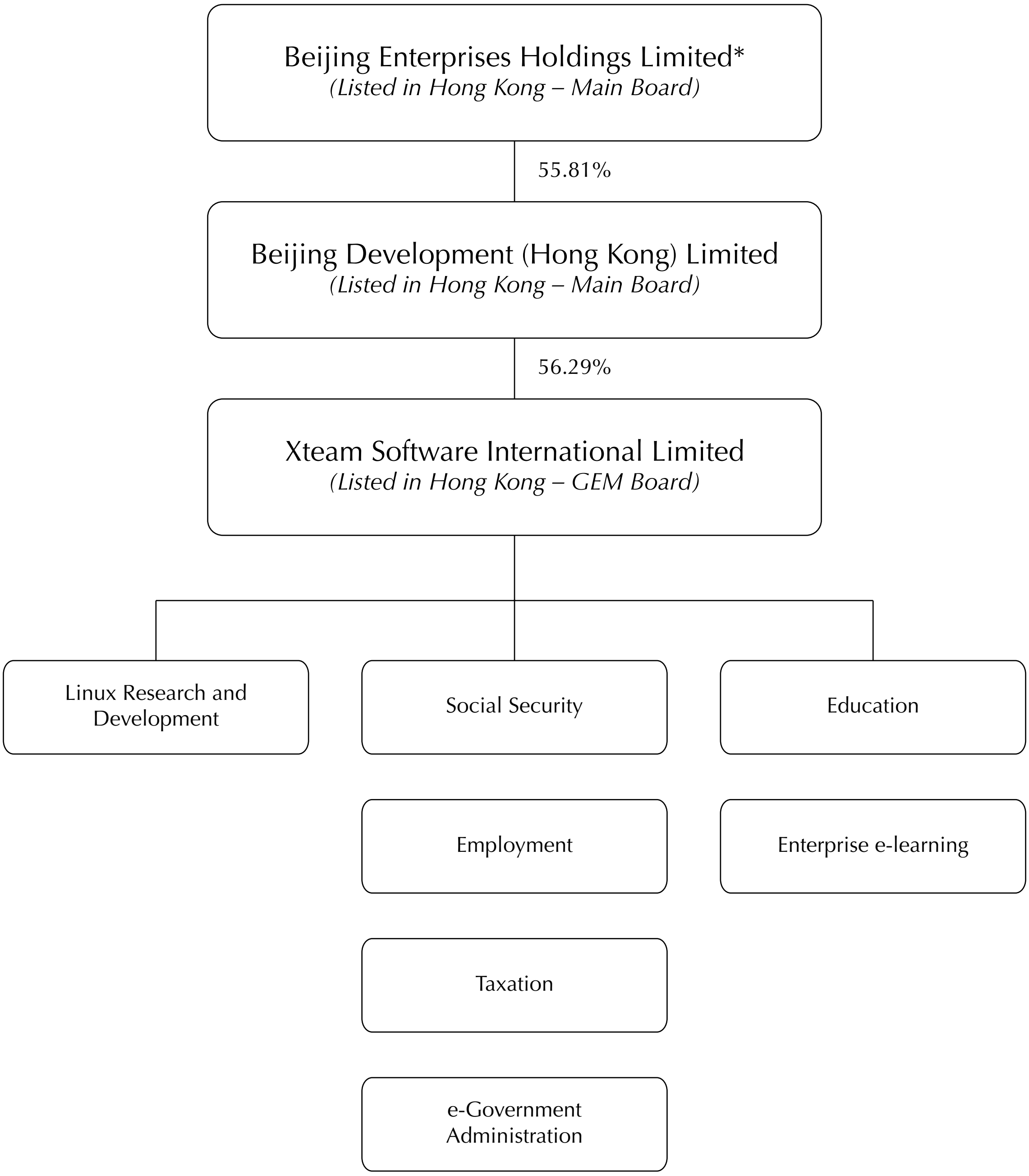
Bank of Butterfield International (Cayman) Ltd.
Butterfield House, Fort Street,
P.O. Box 705, George Town,
Grand Cayman,
Cayman Islands
British West Indies

GEM STOCK CODE

8178

WEB-SITE ADDRESS

Xteamlinux.com.cn



* *A company under the control of Beijing Municipal Government.*

INTRODUCTION

The Group underwent an important transformation in 2004. The acquisitions of four software businesses including three from Beijing Development (Hong Kong) Limited ("Beijing Development"), with the latter becoming the Group's parent as a result, brought some very important benefits. These benefits include:

1. the fact that Xteam is now profitable;

2. membership of a powerful business group which is able to bring important opportunities;

3. ownership of businesses which have attractive future growth potential;

4. a strengthened management team with proven talents in developing information technology businesses in mainland China; and

5. an enhanced ability to fulfil the purpose for which Xteam was founded, developing a leading position in Chinese Linux.

Given the fundamental changes referred to above it is appropriate to summarise our views of the environment in which we operate and our strategy for developing Xteam in the years ahead.

The main business of the Xteam Group is the development and sale of computer software primarily for large scale applications and provision of related support services to government and major corporate customers in mainland China, with particular strength in Beijing. We also procure hardware on behalf of our customers but this activity offers less opportunity to add value for our customers and is declining in relative importance. We have gained a deep understanding of our government customers' needs, procedures and requirements – particularly in the areas of education, social security, employment, tax and administration – and have established a strong reputation for providing them with effective service and support. Our Chinese Linux kernel, expertise in the open source software and our presence in the Chinese Linux arena are attracting increasing interest from our customers and potential partners.

PROSPECTS

We foresee a bright future for China's software industry. The drivers of future growth relevant to the sectors in which we have chosen to specialise include:

1. The Chinese Government's decision to spend massively on automation to improve the efficiency and quality of services it can deliver to the Chinese people. The Chinese Government is China. biggest IT customer.

2. The leading role in China's IT industry being played by the Beijing Municipal Government with increasing proportions of its growing IT budgets focused on software.

3. The Chinese Government's determination to foster a successful domestic software industry.

4. The generally low level of IT development in Chinese enterprises.

5. The drive to reduce the level of piracy while keeping software costs to reasonable levels. This clearly favours open source software and applications based thereon. This effectively means Linux.

STRATEGY

There are four main inter-related strands to our strategy:

1. Continue to focus on our major customers. Grow with them by building bigger and better systems and providing the outstanding service that meets their needs.

2. Develop nationally step-by-step. As China's IT showcase Beijing attracts attention from provinces all over the country. This brings us many opportunities to apply the solutions we have developed in Beijing all over China: we will do this selectively.

3. Build a strong base of recurrent income. Our customers are increasingly asking us to play an operational role in relation to the systems we build. This provides Xteam with opportunities for developing on-going businesses in partnership with our customers: this will take us beyond being purely a software "construction contractor".

4. Become a leading Chinese Linux player. The "lift off" point for Linux in China is approaching. With our Chinese Linux kernel, expertise and customer base, we are actively positioning Xteam to participate in this exciting market.

By developing Xteam around these four strategies we believe we can build a coherent business that will be a source of value to our customers and investors over the long term and will contribute to the attainment of a vital national objective.

INVESTOR COMMUNICATION

Xteam is, as yet, small and not well known by investors. We are however operating in one of the most important and exciting information technology markets in the world. We believe that, despite our size, Xteam is of potential interest to international investors. We are therefore increasing our efforts to communicate effectively and helpfully with the investment community.

APPRECIATION

On behalf of the Board, I would like to extend my gratitude and appreciation to our shareholders and parties for their support, and our hardworking colleagues during the year.

Zhang Hong Hai
Chairman

Hong Kong, 23rd March, 2005

FINANCIAL REVIEW

The Group reported a consolidated turnover of approximately HK$51,739,000 for the nine months ended 31st December, 2004, up 92.9% compared with approximately HK$26,823,000 for the twelve months ended 31st March, 2004.

The profit attributable to shareholders for the nine months ended 31st December, 2004 was approximately HK$11,297,000 in comparison with the loss of approximately HK$33,722,000 (restated) for the twelve months ended 31st March, 2004.

The Group's gross profit margin also posted a sharp increase to 56.2% for the nine months ended 31st December, 2004, compared with the 13.6% for the twelve months ended 31st March, 2004. The increase was attributed to the greater proportion in the sales of software products which enjoyed a relatively higher profit margin than hardware products.

Successful integration of the software businesses the Group bought from Beijing Development was the main factor for this turnaround performance.

LIQUIDITY, FINANCIAL RESOURCES AND DEBT RATIO

As at 31st December, 2004, the Group had cash and bank balances of approximately HK$16,459,000 (as at 31st March, 2004: HK$9,184,000) and had no outstanding bank loans (as at 31st March, 2004: Nil).

The gearing ratio (defined as total liabilities over equity) of the Group as at 31st December, 2004 was approximately 5.7% (as at 31st March, 2004: approximately 32.7%).

The debt ratio (defined as total liabilities over total assets) of the Group as at 31st December, 2004 was approximately 5.4% (as at 31st March, 2004: approximately 22.9%).

CAPITAL STRUCTURE, EXPOSURE TO EXCHANGE RATES FLUCTUATION

As at 31st December, 2004, the number of issued share capital of the Company was 3,758,471,752 (as at 31st March, 2004: 693,007,938). During the period, a total of 3,065,463,814 new ordinary shares of the Company were issued for the acquisitions of certain subsidiaries. For details of the acquisitions, please refer to the following section headed "Material Acquisitions and Disposals During the Period and Future Plans for Material Investments".

As at 31st December, 2004, the Group held cash and cash equivalents denominated in Hong Kong Dollars and Renminbi.

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

FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash and cash equivalents, trade receivables and payable, other receivables and payables, are approximately at 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.

MATERIAL ACQUISITIONS AND DISPOSALS DURING THE PERIOD AND FUTURE PLANS FOR MATERIAL INVESTMENTS

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

(a) Snow Fair Company Limited ("Snow Fair ") entered into a share purchase agreement to acquire 49 shares of Pantosoft International Limited ("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. After the completion of this transaction, Snow Fair 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 a total consideration of approximately HK$4,921,000, to be satisfied by the allotment of 33,938,000 new shares in the Company. 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 a 68% interest in Astoria, and 100 shares of Wisdom Elite Holdings Limited ("Wisdom Elite"), representing a 100% interest in Wisdom Elite. Astoria and Wisdom Elite are subsidiaries of Beijing Development and are engaged in the software business. The considerations will be satisfied by the Company issuing 2,926,103,814 new shares.

For details of the acquisitions, please refer to the announcement and circular of the Company dated 19th May, 2004 and 30th 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 of the Company dated 22nd July, 2004.

The above acquisitions were completed on 16th August, 2004. For details, please refer to the announcement of the Company dated 16th August, 2004

SEGMENTAL INFORMATION

No analysis of the Group's turnover and its contribution to profit before taxation by principal activities for the period were presented as 100% (twelve months ended 31st March, 2004: 100%) of the Group's turnover and operating results arose from the sales of computer software, provision of system integration, software development and related services in the PRC.

STAFF

As at 31st December, 2004, the Group employed approximately 350 employees, including directors of the Company, (as at 31st March, 2004: approximately 110) at market remuneration and benefits such as defined retirement/pension contributions, employee share options and medical insurance, etc. Total staff costs for the reported period were approximately HK$9,832,000 (twelve months ended 31st March, 2004: approximately HK$11,179,000).

CHARGE OF ASSETS

As at 31st December, 2004, the Group did not have any charge on its assets (at 31st March, 2004: Nil).

CONTINGENT LIABILITIES

As at 31st December, 2004 the Group did not have any material contingent liabilities (at 31st March, 2004: Nil).

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases and sales for the nine months ended 31st March, 2004 attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	26%
– five largest suppliers combined	45%
Sales	
– the largest customer	36%
– five largest customers combined	59%

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.

EXECUTIVES DIRECTORS

Mr. ZHANG Hong Hai, aged 52, is the chairman of the Company. Mr. Zhang is also the vice chairman, president and executive director of Beijing Enterprises Holdings Limited ("Beijing Enterprises") and the chairman and executive director of Beijing Development. Mr. Zhang graduated from Beijing University in 1982 and subsequently obtained a post-graduate qualification in business studies at The International Business School of Hunan University and has been awarded with the honor of Senior Economist. Mr. Zhang has worked for Beijing Municipal Government for many years. Prior to joining the Beijing Enterprises group, Mr. Zhang was the director of Foreign Affairs Office of the People's Government of Beijing Municipality & Hong Kong and Macao Affairs office of the People's Government of Beijing Municipality. He also served as vice president of Beijing People's Association for Friendship with Foreign Countries. Mr. Zhang initially worked as deputy general manager and was then promoted to vice chairman and general manager of Beijing International Trust Investment Limited during the period from 1990 to 1998, and has accumulated extensive experience in corporate management. Beijing Enterprises and Beijing Development are companies listed on the Main Board of the Stock Exchange.

Mr. LI Kang Ying, aged 48, is the vice chairman of the Company. Mr. Li is also the assistant to the president of Beijing Enterprises, the executive director and deputy general manager of Beijing Development and the chairman of B E Information Technology Group Limited and a director of each of Wisdom Elite, Astoria, Beijing Enterprises VST Software Engineering Co., Ltd. ("VST") and Beijing Enterprises Sanxing Information Technology Co., Ltd. ("Sanxing"), all of which are subsidiaries of the Company. He graduated from North China University of Electric Power majoring in telecommunications and is a qualified engineer in the PRC. Mr. Li was a university lecturer and a member of the governmental research institute and has been responsible for the management and operational affairs in the technological field for the past decade.

Mr. MA Gary Ming Fai, aged 41, is the vice chairman of the Company. He is the founder or early investor in a number of technology projects both in the PRC and Hong Kong. Mr. Ma is a member of the Institute of Chartered Accountants of Ontario in Canada by training and has worked for several years with an international accounting firm. Mr. Ma received his Bachelor of Commerce degree from the University of Calgary, Canada in 1985. He joined the Group in December 1999.

Mr. CAO Wei, aged 41, is the president of the Company. Mr. Cao is also the executive director of Beijing Development, the director and Chief Executive Officer of B E Information Technology Group Limited and a director of each of Wisdom Elite and VST, both of which are subsidiaries of the Company. He graduated from Harbin Industrial University and is one of the founding members of the underlying business of B E Information Technology Group Limited. Mr. Cao has over 15 years' experience in the telecommunications and information technology field.

Mr. NG Kong Fat, Brian, aged 49, is the managing director of Beijing Development. Mr. Ng graduated from the University of Stirling in Scotland in 1983 and is a member of the Institute of Chartered Accountants of Scotland. Mr. Ng has over 15 years' experience in corporate, investment and financial management.

Mr. E Meng, aged 46, is the vice president of Beijing Enterprises and the executive director and deputy general manager of Beijing Development. Mr. E graduated from China Science and Technology University with a master's degree in engineering, and is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1998, Mr. E was the deputy director of Beijing New Technology Development Zone ("BNTDZ"), the director for BNTDZ Department of Finance Auditing and State Asset Management, the manager of BNTDZ Investment Operation Company, the director of Beijing Tianping Accounting Firm and the deputy director of the State Asset Management Office of Beijing Haidian District. Mr. E has over 15 years' experience in economics, finance and enterprise management.

Ms. CHEN Zhi, aged 33, graduated from Fudan University, Shanghai in 1992. Ms. Chen has over 10 years of experience in marketing, financial, corporate and human resources management in the information technology field in the PRC and Canada.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. MA Yu Hua, aged 56, graduated from Beijing Financial College. Ms. Ma was the general manager in Beijing International Trust and Investment Co., Ltd. and was responsible for the financial department of Beijing Economic Construction Company. Ms. Ma has over 30 years' extensive experiences in financial management and investment and she is currently the president of Guodu Securities Company Limited.

Ms. LIANG Ye Ping, aged 56, graduated from China Communist Party's School and School of Economics and Management of Tsinghua University. Ms. Liang is currently the chief consultant of the Global Chinese CEO's Fellowship MBL course, a professor of the Global Chinese Competitiveness Foundation and a council member of the China Enterprise Directors Association. Ms. Liang was the president of various companies such as China Xingfa Group Co., Ltd., Beijing Guoxinan IC Design Co., Ltd., Nanjing Jiangning Digital Harbor Co., Ltd., etc. in which she has accumulated extensive experiences in operation, management and information technology.

Mr. JIANG Qi Ping, aged 42, graduated from Tianjin Nan Kai University in 1984. Mr. Jiang is currently the general secretary of the Information Research Centre of Chinese Academy of Social Sciences and is responsible for the research and development on information integration standard for the government, enterprises, manufacturers, e-business, e-government, etc. In 1999, Mr. Jiang was awarded with the "Man of the Time" and the "10 Most Outstanding Internet Persons of the Year" by Beijing Youth Newspaper. Mr. Jiang is also one of the IT commentators and an honorary chief editor of China Internet Weekly magazine and has several publications on information technology such as《資訊化水平測度的理論與方法》、《數字論壇》, etc.

SENIOR MANAGEMENT

Mr. WANG Dong Bin, aged 37, is the vice president of the Company. He graduated from Tsinghua University in 1992 with a master's degree in Applied Physics. Mr. Wang has over 13 years' experience in the telecommunications and information technology field.

Mr. PENG Wen Sheng, aged 36, is the chairman of Shanghai Pantosoft Company Limited, a subsidiary of the Company. Mr. Peng graduated from the Engineering Faculty of Nanjing University of Science & Technology in 1987 with a bachelor degree in Science. He also obtained a master degree in Science in Huazhong University of Technology in 1994. He joined the Company in December 2002.

Mr. YAN Qing, aged 43, is the deputy general manager of Beijing Development and the Chairman of Sanxing. He graduated from Renmin University of China in 1985 with a bachelor's degree in Business. He also obtained a master's degree from 財政部科研所研究生院 in 2000. Mr. Yan has over 15 years of experience in financial and management.

Mr. LI Ji Cheng, aged 40, is the chief executive of VST. He graduated from Tianjin University in 1988. Mr. Li was a university lecturer and has over 13 years of experience in project management and information technology.

Ms. ZHENG Shao Hua, aged 48, is the general manager of Sanxing. She graduated from Beihang University in 1983. Ms. Zheng has over 20 years of experience in project management and information technology.

Mr. REN Yi, aged 32, is the general manager of Xteam Software (China) Co., Limited. Mr. Ren has in-depth knowledge of software development. Mr. Ren graduated from the Department of Computer Science of Beijing University of Technology in 1994. He joined the Group in January 2000.

Mr. MAK To Wai, aged 38, is the financial controller, qualified accountant, company secretary of the Company. Mr. Mak graduated from Baptist University of Hong Kong in 1990 with a bachelor degree in Business Administration. He 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 an international accounting firm. Mr. Mak is a member of the Hong Kong Institute of Certified Public Accountant and a fellow of the Association of Chartered Certified Accountant.

The board of Directors ("Board") of Xteam Software International Limited (the "Company") submit their annual report together with the audited accounts for the nine months ended 31st December, 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company is investment holding. The activities of the subsidiaries are set out in note 15 to the financial statements. The Group is principally engaged in software development and sales of computer software primarily for large scale applications and provision of related support services to government and major corporate customers in Mainland China, with particular strength in Beijing.

RESULTS AND APPROPRIATIONS

The results for the period are set out in the consolidated profit and loss account on page 25.

The Board does not recommend the payment of final dividend for the nine month ended 31st December, 2004 (twelve months ended 31st March, 2004: Nil).

RESERVES

Movements in the reserves of the Group and the Company during the period are set out in the consolidated statement of changes in equity and note 24 to the financial statements.

DONATIONS

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

FIXED ASSETS

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 23 to the financial statements.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

The Directors of the Company during the period were:

Executive Directors

Mr. Zhang Hong Hai	(appointed on 30th August, 2004)
Mr. Li Kang Ying	(appointed on 30th August, 2004)
Mr. Ma Gary Ming Fai	(changed from non-executive director on 30th August, 2004)
Mr. Cao Wei	(appointed on 30th August, 2004)
Mr. Ng Kong Fat, Brian	(appointed on 30th August, 2004)
Mr. E Meng	(appointed on 30th August, 2004)
Ms. Chen Zhi	(appointed on 30th August, 2004)
Mr. Ren Yi	(resigned on 30th August, 2004)
Mr. Peng Wen Sheng	(resigned on 30th August, 2004)
Mr. Yang Feng	(resigned on 30th August, 2004)
Mr. Mak To Wai	(resigned on 30th August, 2004)
Mr. Wu Meng Jie	(resigned on 30th August, 2004)

Non-Executive Directors

Mr. Liu Jun	(resigned on 30th August, 2004)
Mr. Ma Gary Ming Fai	(changed to executive director on 30th August, 2004)

Independent Non-Executive Directors

Ms. Ma Yu Hua	(appointed on 14th December, 2004)
Ms. Liang Ye Ping	(appointed on 14th December, 2004)
Mr. Jiang Qi Ping	(appointed on 14th December, 2004)
Mr. Wang Shi Yu	(resigned on 14th December, 2004)
Mr. Cheng Shu Wing	(resigned on 14th December, 2004)

DIRECTORS' SERVICE CONTRACTS

No service contract for the appointment of executive Directors has been or will be entered into. All of them have not been and will not be appointed with fixed terms of service.

Each of the independent non-executive Directors was appointed for a period of three 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 relations to the Group's business to which the Company was a party and in which a Director or a controlling shareholder or any of its subsidiaries, had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

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

As at 31st December, 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

	Number of shares of the Company				
Name of director	**Personal interests**	**Family interests**	**Corporate interests**	**Total**	**% of issued share capital**
Mr. Ma Gary Ming Fai	1,000,000	–	116,681,821 *(note)*	117,681,821	3.13%

Note: These shares are held by Upwise Investments 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. 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.

(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 a Director is 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

Up to 31st December, 2004, no options under the Pre-IPO Share Option Scheme have been exercised.

(3) Interests in shares of associated corporations of the Company

Name of director	Name of associated corporation	Relationship with the Company	Number of ordinary shares held	Capacity and nature of interest	% of the associated corporation's issued share capital
Mr. Ng Kong Fat, Brian	Beijing Development	Company's holding company	8,792,755	Through a controlled corporation	1.78
Mr. Ng Kong Fat, Brian	BD Ah Yat Abalone Group Limited	Company's fellow subsidiary	1,462,000	Directly beneficially owned	21.5

(4) Share Option Scheme

As at 31st December, 2004, the interests of a Director in options to subscribe for shares of Beijing Enterprises, the Company's holding company, under the share option scheme of Beijing Enterprises were as follows:

Name of director	Number of options held *Note (a)*	*Note (b)*
Mr. E Meng	50,000	450,000

Notes:

(a) These options were granted on 3rd March, 1998 at an exercise price per share of HK$17.03. The options can be exercised at any time in the next 10 years commencing on 1st September, 1998. No such options were exercised during the period.

(b) These options were granted on 23rd June, 1998 at an exercise price per share of HK$17.03. The options can be exercised in nine equal portions. The first portion is exercisable at any time commencing on 1st January, 1999 and one additional portion becomes exercisable on 1st January in each of the following years. All of the options (to the extent not exercised) will become exercisable on 1st January, 2007 and, if not otherwise exercised, will lapse on 1st January, 2009. No such options were exercised during the period.

As at 31st December, 2004, the interests of Director in options to subscribe for shares of Beijing Development, the Company's holding company, under the share option scheme of Beijing Development were as follows:

Name of director	Number of options held *Note (c)*	*Note (d)*
Mr. Li Kang Ying	–	2,700,000
Mr. Cao Wei	–	2,500,000
Mr. Ng Kong Fat, Brian	2,300,000	1,200,000
Mr. E Meng	1,600,000	1,200,000

Notes:

(c) These options were granted on 19th June, 2001 at an exercise price of HK$1.13 per share. The options can be exercised in two or three equal portions. The first portion is exercisable at any time commencing on 1st January, 2002, and each further portion becomes exercisable on 1st January in each of the following years. All of the options, if not otherwise exercised, will lapse on 26th June, 2006. No such options were exercised during the period.

(d) These options were granted on 18th January, 2002 at an exercise price of HK$1.00 per share. The options can be exercised in three equal portions. The first portion is exercisable at any time commencing on 18th January, 2002, and each further portion becomes exercisable on 1st January in each of the following years. All of the options, if not otherwise exercised, will lapse on 17th January, 2007. No such options were exercised during the period.

Save as disclosed above, as at 31st December, 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 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 31st December, 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:

Name	Nature of interests	Number of shares	Percentage of issued share capital
Beijing Development	Interests of controlled corporation	2,115,513,445	56.29%
Beijing Enterprises	Interests of controlled corporation	2,115,513,445 *(note 1)*	56.29%
Beijing Enterprises Investments Limited	Interests of controlled corporation	2,115,513,445 *(note 2)*	56.29%
Beijing Holdings Limited	Interests of controlled corporation	2,115,513,445 *(note 3)*	56.29%
Mr. Chung Kwok Ho	Interests of controlled corporation	382,864,129 *(note 4)*	10.18%
Ms. Lee Man Yee	Interests of spouse	382,864,129 *(note 5)*	10.18%
Cosmos Vantage Limited	Beneficial interests	382,864,129 *(note 6)*	10.18%
Amberwood Group Ltd.	Beneficial interests	204,712,000 *(note 7)*	5.45%
Ms. Chong Sok Un	Interests of controlled corporation	204,712,000 *(note 8)*	5.45%

Notes:

1. Beijing Enterprises was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Beijing Development.

2. 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.

3. 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.

4. Mr. Chung Kwok Ho held these shares through Cosmos Vantage Limited in which he is the sole beneficial owner.

5. These shares were held by Cosmos Vantage Limited, which is wholly owned by Mr. Chung Kwok Ho. Ms. Lee Man Yee is the spouse of Mr. Chung Kwok Ho and accordingly she was deemed to be interested in these shares.

6. Cosmos Vantage Limited is wholly owned by Mr. Chung Kwok Ho.

7. Amberwood Group Ltd. is wholly owned by Ms. Chong Sok Un.

8. Ms. Chong Sok Un held these shares through Amberwood Group Ltd. in which she is the sole beneficial owner.

Save as disclosed above, as at 31st December, 2004, the Directors were not aware of any other person (other than the Directors and the 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.

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 positions in the shares and underlying shares". Details of outstanding pre-IPO share options granted to a full time employee as at 31st December, 2004 are as follows:

Type of grantee	Date granted	Exercise period	No. of shares eligible for subscription under the pre-IPO share option	Exercise price per share
Employee (resigned as director on 30th August, 2004)	14th November, 2001	11th June, 2002 to 13th November, 2011	30,000,000	HK$0.266

Up to 31st December, 2004, no options under the Pre-IPO Share Option Scheme have been exercised.

(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 of the Company. 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 are as follows:

Typer of grantee	Date granted	Exercise period	No. of shares eligible for subscription under the pre-IPO share option	Exercise price per share
Ex-directors (resigned on 14th December, 2004)	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 31st December, 2004, no options under the Share Option Scheme have been exercised.

Up to 23rd March, 2005, 2,000,000 outstanding post-IPO share options were lapsed due to the resignation of the directors.

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

During the nine months ended 31st December, 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.

CONNECTED TRANSACTIONS

Details of related party transactions are disclosed in note 27 to the financial statements. Moore Stephens, the Company's auditors, has reviewed such transactions which were conducted in accordance with the terms of the relevant agreements.

The independent non-executive Directors have reviewed the exempted connected transactions as disclosed in the circular of the Company dated 30th June, 2004 and confirmed that during the period from 1st April, 2004 to 31st December, 2004, such transactions are:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms (to the extent there are comparable transactions) or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the independent shareholders of the Company as a whole.

The independent non-executive Directors were of the view that the Group should continue such connected transactions.

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 period.

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 three independent non-executive Directors, namely Ms. Ma Yu Hua, Ms. Liang Ye Ping and Mr. Jiang Qi Ping. The Group's audited results have been reviewed by the three 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.

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

Zhang Hong Hai
Chairman

Hong Kong, 23rd March, 2005

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CERTIFIED PUBLIC ACCOUNTANTS

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馬施雲
會計師事務所

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 25 to 60 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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 31st December, 2004 and of the profit and cash flows of the Group for the period from 1st April, 2004 to 31st December, 2004 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Moore Stephens
Certified Public Accountants
Hong Kong

23rd March, 2005

	Notes	**1.4.2004 to 31.12.2004 *HK$'000***	1.4.2003 to 31.3.2004 *HK$'000* (Restated)
Turnover	*4*	**51,739**	26,823
Cost of sales and services		**(22,645)**	(23,176)
Gross profit		**29,094**	3,647
Other revenue	*4*	**2,578**	1,687
Selling and marketing expenses		**(3,363)**	(5,087)
General and administrative expenses		**(14,277)**	(13,078)
Research and development costs		**(1,443)**	(2,817)
Provision against inventories		**–**	(7,976)
Impairment loss in respect of intangible assets		**–**	(8,320)
Profit/(loss) from operating activities	*6*	**12,589**	(31,944)
Finance costs	*9*	**(198)**	(36)
Profit/(loss) before taxation		**12,391**	(31,980)
Taxation	*10*	**97**	(318)
Profit/(loss) for the period/year		**12,488**	(32,298)
Minority interests		**(1,191)**	(1,424)
Profit/(loss) attributable to shareholders	*11*	**11,297**	(33,722)
Earnings/(loss) per share	*13*		
– Basic		**0.51 cent**	(5.20 cents)
– Diluted		**N/A**	(5.19 cents)

Consolidated Balance Sheet

31st December, 2004

	Notes	31.12.2004 HK$'000	31.3.2004 HK$'000 (Restated)
Fixed assets	14	**3,989**	2,477
Goodwill	16	**279,449**	14,813
Intangible assets	17	**1,840**	1,920
Current assets			
Inventories	18	**6,944**	1,747
Accounts receivable	19	**35,847**	4,199
Prepayments, deposits and other receivables		**5,262**	4,695
Due from related companies	20	**3,911**	–
Value added tax refundable		**–**	1,259
Tax recoverable		**86**	–
Cash and bank balances		**16,459**	9,184
		68,509	21,084
Current liabilities			
Accounts payable	21	**2,010**	1,315
Tax payable		**–**	97
Value added tax payable		**1,918**	–
Due to a related company	22	**2,915**	–
Other payables and accrued expenses		**12,110**	7,832
		18,953	9,244
Net current assets		**49,556**	11,840
Minority interests		**3,233**	2,801
		331,601	28,249
Share capital	23	**37,585**	6,930
Reserves		**294,016**	21,319
		331,601	28,249

Zhang Hong Hai
Director

Cao Wei
Director

	Share capital HK$'000	Share premium account HK$'000	Statutory reserve fund HK$'000	Accumulated losses HK$'000	Total HK$'000
1st April, 2003	5,883	59,401	–	(16,780)	48,504
Issue of new shares	1,047	13,531	–	–	14,578
Share issue expenses		(1,111)	–	–	(1,111)
Transfer	–	–	60	(60)	–
Loss for the year (as restated)	–	–	–	(33,722)	(33,722)
31st March, 2004 (as restated)	6,930	71,821	60	(50,562)	28,249
1st April, 2004					
– As previously reported	6,930	71,821	60	(51,687)	27,124
– Prior year adjustment *(Note 16)*	–	–	–	1,125	1,125
– As restated	6,930	71,821	60	(50,562)	28,249
Issue of new shares	30,655	263,630	–	–	294,285
Share issue expenses		(2,230)	–	–	(2,230)
Profit for the period	–	–	–	11,297	11,297
31st December, 2004	**37,585**	**333,221**	**60**	**(39,265)**	**331,601**

Consolidated Cash Flow Statement

For the period from 1st April, 2004 to 31st December, 2004

	Note	**1.4.2004 to 31.12.2004** ***HK$'000***	1.4.2003 to 31.3.2004 *HK$'000* (Restated)
Operating activities			
Profit/(loss) before taxation		**12,391**	(31,980)
Adjustment for:			
Bank interest income		**(54)**	(60)
Interest expenses		**198**	24
Gain on disposal of fixed assets		**–**	(12)
Amortisation of intangible assets		**101**	4,641
Depreciation		**1,113**	808
Impairment loss in respect of intangible assets		**–**	8,320
Provision against inventories		**–**	7,976
Provision for bad and doubtful debts		**–**	1,217
Operating profit/(loss) before working capital changes		**13,749**	(9,066)
Increase in inventories		**(4,400)**	(687)
Increase in accounts receivable		**(16,476)**	(3,781)
Decrease in prepayments, deposits and other receivables		**11,972**	7,051
Increase in due from related companies		**(1,421)**	–
Increase/(decrease) in accounts payable		**167**	(621)
Increase in value added tax payable		**3,177**	84
Decrease in other payable and accrued expenses		**(2,350)**	(6,384)
Cash generated from/(used in) operations		**4,418**	(13,404)
Interest paid		**(198)**	(24)
Taxation paid		**(86)**	(221)
Net cash generated from/(used in) operating activities		**4,134**	(13,649)
Investing activities			
Interest received		**54**	60
Proceeds from disposal of fixed assets		**–**	94
Purchase of fixed assets		**(960)**	(1,304)
Purchase of intangible assets		**(21)**	–
Purchase of additional interest in subsidiaries	*25(b)*	**(312)**	–
Acquisition of subsidiaries (net of cash acquired)	*25(a)*	**7,644**	–
Net cash inflow/(outflow) from investing activities		**6,405**	(1,150)
Financing activities			
Issue of new shares		**–**	14,578
Repayment of short-term bank loan		**–**	(1,415)
Decrease in minority interests, net		**(1,034)**	–
Share issue expenses		**(2,230)**	(1,111)
Net cash (outflow)/inflow generated from Financing activities		**(3,264)**	12,052
Net increase/(decrease) in cash and cash equivalents		**7,275**	(2,747)
Cash and cash equivalents at beginning of period/year		**9,184**	11,931
Cash and cash equivalents at end of period/year, representing cash and bank balances		**16,459**	9,184

Balance Sheet

31st December, 2004

	Notes	31.12.2004 HK$'000	31.3.2003 HK$'000
Interests in subsidiaries	15	**322,749**	30,267
Current assets			
Dividend receivable		**2,200**	–
Prepayments, deposits and other receivables		**194**	798
Cash and bank balances		**10**	10
		2,404	808
Current liabilities			
Other payables and accrued expenses		**4,702**	2,983
Net current liabilities		**(2,298)**	(2,175)
		320,451	28,092
Share capital	23	**37,585**	6,930
Reserves	24	**282,866**	21,162
		320,451	28,092

Zhang Hong Hai
Director

Cao Wei
Director

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 24th 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 11th December, 2001.

During the period, the Group was principally engaged in software development and sales of computer software primarily for large scale applications and provision of related support services to government and major corporate customers in Mainland China, with particular strength in Beijing.

2. CHANGE OF FINANCIAL YEAR END

On 11th August, 2004, the Company changed its financial year end from 31st March to 31st December. The Group's revenues and profits are substantially generated from the subsidiaries in the PRC. The directors determine that it will facilitate the preparation of consolidated financial statements by making coterminous the financial year of the Company in line with its major subsidiaries in the PRC. Therefore, this set of financial statements covers a period of nine months instead of twelve months.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and the requirements of the Companies Ordinance. The principal accounting policies and methods of computation used in the preparation of the financial statements for the period from 1st April, 2004 to 31st December, 2004, which are consistent with those adopted in the financial statements for the year ended 31st March, 2004, except for the early adoption of recently issued Hong Kong Financial Reporting Standards, as detailed below:–

a) Early adoption of recently issued Hong Kong Financial Reporting Standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs"), which are effective for accounting periods beginning on or after 1st January, 2005. In the preparation of the current period's financial statements, the Group has early adopted HKFRS 3 "Business Combination", HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets" which supersede SSAP 30 "Business Combination", SSAP 29 "Intangible Assets" and SSAP 31 "Impairment of Assets", respectively.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

a) Early adoption of recently issued Hong Kong Financial Reporting Standards *(Continued)*

The early adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Prior to this, goodwill was:

– amortised on a straight-line basis over a period of not exceeding 20 years; and
– assessed for impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– the Group ceased amortisation of goodwill from 1st April, 2003;
– accumulated amortisation as at 31st March, 2003 has been eliminated with corresponding decrease in the cost of goodwill; and
– from the year ended 31st March, 2004 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment.

The effect of early adopting HKAS36, HKAS38 and HKFRS3 is summarised as follows:

– Increase in profit attributable to shareholders by approximately HK$6,523,000;
– Decrease in accumulated losses by approximately HK$1,125,000;
– Increase in carrying value of goodwill by HK$1,125,000 and HK$6,523,000 as at 31st March, 2004 and 31st December, 2004, respectively.

For the new and revised HKFRSs that the Group did not early adopt in the financial statements for the period ended 31st December, 2004, the Group has already commenced an assessment of the impact of these other HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on the Group's results of operations and financial position for the accounting year beginning on 1st January, 2005.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

b) Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December. Apart from the subsidiaries acquired as part of the reorganisation, the results of subsidiaries acquired or disposed of during the period/year are included in the consolidated profit and loss account from their effective date of acquisition to 31st December, 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 tested annually for impairment and carried at cost less accumulated impairment losses.

On disposal of a subsidiary, any attributable amount of purchased goodwill is included in the calculation of the profit and loss on disposal.

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 period/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.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

e) Fixed assets *(Continued)*

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

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

Leasehold improvements	18% – $33\frac{1}{3}$%
Computer equipment	18% – 20%
Furniture and fixtures	18% – 25%
Office equipment	18% – $33\frac{1}{3}$%
Motor vehicles	18% – 20%

f) Intangible assets

Intangible assets represent the costs of acquiring 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	$33\frac{1}{3}$% per annum
Trademarks	5% per annum
Computer software	20% per annum

g) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

g) Impairment of assets *(Continued)*

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND 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 on hand, demand deposits 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.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND 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 are 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) Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

n) Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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.

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 period/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 period/year to which they relate.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

r) Contingencies

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

A contingent asset is not recognised but is disclosed in the financial statements 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.

4. TURNOVER AND REVENUE

The Group's turnover represents the invoiced value of goods sold and services rendered, net of value added tax and business tax in the PRC, and after allowances for goods returned and trade discounts. An analysis of turnover and revenue is as follows:–

	Group	
	1.4.2004 to 31.12.2004 *HK$'000*	1.4.2003 to 31.3.2004 *HK$'000*
Turnover		
Sales of computer software	**8,203**	8,060
Income from provision of system integration and related services	**32,973**	18,763
Income from provision of software development and related services	**10,563**	–
	51,739	26,823
Other revenue		
Bank interest income	**54**	60
Gain on disposal of fixed assets	**–**	12
Gain on disposal of listed investments	**–**	87
PRC tax subsidy	**1,333**	782
Sundry income	**1,191**	746
	2,578	1,687
Total revenue recognised during the period/year	**54,317**	28,510

5. SEGMENTAL INFORMATION

No analysis of the Group's turnover and its contribution to loss before taxation by principal activities for the period from 1st April, 2004 to 31st December, 2004 is presented as 100% (year ended 31st March, 2004: 100%) of the Group's turnover and operating results arose from the sales of computer software and rendering of system integration, software development and related services in the PRC.

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Group	
	1.4.2004 to 31.12.2004	1.4.2003 to 31.3.2004
	HK$'000	*HK$'000*
Amortisation of intangible assets	**101**	4,641
Auditors' remuneration	**503**	324
Bad and doubtful debts	**–**	1,217
Cost of inventories sold	**22,645**	17,666
Depreciation of fixed assets	**1,113**	808
Operating lease rentals in respect of land and buildings	**1,649**	1,760
Staff costs:		
Wages and salaries (including directors' emoluments)	**9,254**	10,496
Contributions to retirement/pension schemes and other benefits	**578**	683

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	Group	
	1.4.2004 to 31.12.2004	1.4.2003 to 31.3.2004
	HK$'000	*HK$'000*
Fees	**197**	1,270
Salaries and allowances	**611**	1,534
Retirement/pension contributions	**14**	32
Bonuses	**737**	427
	1,559	3,263

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

Emoluments of the directors fell within the following band:

	1.4.2004 to 31.12.2004 No. of directors	1.4.2003 to 31.3.2004 No. of directors
Nil-HK$1,000,000	**18**	9

All the above were paid to twelve (2004: five) existing and former executive directors and six (2004: four) existing and former non-executive directors.

	1.4.2004 to 31.12.2004 ***HK$'000***	1.4.2003 to 31.3.2004 *HK$'000*
Executive director A#	**346**	820
Executive director B#	**168**	663
Executive director C#	**–**	557
Executive director D#	**107**	195
Executive director E#	**741**	308
Executive director F*	**–**	–
Executive director G*	**–**	–
Executive director H*	**–**	–
Executive director I*	**–**	–
Executive director J*	**–**	–
Executive director K*	**–**	–
Executive director L (formerly non-executive director)	**90**	230
Non-executive director M#	**67**	210
Non-executive director N#	**40**	170
Non-executive director O#	**–**	110
Non-executive director P*	**–**	–
Non-executive director Q*	**–**	–
Non-executive director R*	**–**	–
Total	**1,559**	3,263

* *appointed during the period*
\# *resigned during the period*

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

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

During the year ended 31st March, 2004, 2,000,000 share options were granted to the former directors in respect of their services to the Group, further details of which are set out in note 23 to the financial statements. No value in respect of the share options granted during the prior year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

(b) Five highest paid employees

The five highest paid individuals included four (31st March, 2004: four) former executive directors whose emoluments before resignation are detailed above. The emoluments of their emoluments after resignation and the remaining highest paid individuals for the period from 1st April, 2004 to 31st December, 2004 and 1st April, 2003 to 31st March, 2004 are analysed as follows:–

	1.4.2004 to 31.12.2004 *HK$'000*	1.4.2003 to 31.3.2004 *HK$'000*
Salaries and allowances	**1,178**	250
Retirement/pension contributions	**9**	83
Bonuses	**161**	–
	1,348	333

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

	1.4.2004 to 31.12.2004 No. of individuals	1.4.2003 to 31.3.2004 No. of individuals
Nil – HK$1,000,000	**1**	1

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid employees *(Continued)*

During the year ended 31st March, 2004, 6,000,000 share options were granted to the former non-director, highest paid employee in respect of her service to the Group, further details of which are set out in note 23 to the financial statements. No value in respect of the share options granted during the prior year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest-paid employee's remuneration disclosures.

8. RETIREMENT AND PENSION BENEFITS

The Group has implemented a Mandatory Provident Fund Scheme ("MPF Scheme") in accordance with the Mandatary Provident Fund Scheme Ordinance in Hong Kong for its employees in Hong Kong. Under the MPF Scheme, the Group makes mandatory contribution of 5% of the relevant employee's gross earnings 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 contributions to be borne by the Group are 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 period amounted to HK$578,000 (Year ended 31st March, 2004: HK$683,000).

9. FINANCE COSTS

	Group	
	1.4.2004 to 31.12.2004 *HK$'000*	1.4.2003 to 31.3.2004 *HK$'000*
Bank charges and interest	**198**	24
Foreign exchange loss	**–**	12
	198	36

10. TAXATION

The amount of taxation charge/(credit) in the consolidated profit and loss account represents:

	Group	
	1.4.2004 to 31.12.2004	1.4.2003 to 31.3.2004
	HK$'000	*HK$'000*
Hong Kong profits tax *(Note (a))*	**–**	–
Overseas taxation *(Note (b))*	**–**	318
Prior year overprovision	**(97)**	–
Taxation (credit)/charge	**(97)**	318

(a) No provision for profits tax has been made as no income was earned in or derived from Hong Kong during the period.

(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) Certain of the subsidiaries in the PRC enjoy tax exemptions.

10. TAXATION *(Continued)*

A reconciliation of taxation to profit/(loss) before taxation in the consolidated profit and loss account is as follows:–

	Group	
	1.4.2004 to 31.12.2004	1.4.2003 to 31.3.2004
	HK$'000	*HK$'000*
		(Restated)
Profit/(loss) before taxation	**12,391**	(31,980)
Tax at applicable Hong Kong tax rates (17.5%)	**(519)**	(945)
Tax at applicable PRC tax rates (15%)	**2,304**	(3,987)
Tax effect of expenses that are not deductible in determining taxable profits	**1,089**	3,247
Tax effect of income that is not taxable in determining taxable profits	**(803)**	(85)
Tax effect of tax exemption	**(2,397)**	–
Unused tax losses carried forward	**326**	2,088
Prior year overprovision	**(97)**	–
Taxation (credit)/charge	**(97)**	318

Details of the estimated deferred taxation full potential asset are as follows:–

	1.4.2004 to 31.12.2004	1.4.2003 to 31.3.2004
	HK$'000	*HK$'000*
Excess of tax allowances over depreciation	**–**	(2)
Tax losses	**(5,113)**	(3,705)
	(5,113)	(3,707)

No deferred tax asset has been recognised due to the unpredictability of future profit streams.

11. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders dealt with in the financial statements of the Company amounted to HK$304,000 (Year ended 31st March, 2004: loss of HK$35,966,000).

12. DIVIDEND

No dividend has been paid or declared by the Company in respect of the current period (Year ended 31st March, 2004: Nil).

13. EARNINGS/(LOSS) PER SHARE

The basic earnings per share is calculated based on the Group's profit attributable to shareholders of HK$11,297,000 (Year ended 31st March, 2004: loss attributable to shareholders of HK$33,722,000 – restated) and on the weighted average of 2,231,313,416 (Year ended 31st March, 2004: 648,122,801) ordinary shares in issue during the period.

Diluted earnings per share amount for the period from 1st April, 2004 to 31st December, 2004 has not been disclosed, as the outstanding options had an anti-dilutive effect on the basic earnings per share for the current period.

The diluted loss per share for the year ended 31st March, 2004 was based on 649,648,509 ordinary shares which was the weighted average number of ordinary shares in issue during the year plus the weighed average of 1,525,708 ordinary shares deemed to be issued if all outstanding options had been exercised at the date they were granted.

14. FIXED ASSETS

	Leasehold improvements HK$'000	Computer equipment HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Group						
Cost						
1st April, 2004	328	2,537	48	579	1,351	4,843
Acquisition of subsidiaries	–	1,148	176	60	281	1,665
Additions	264	130	–	55	511	960
31st December, 2004	**592**	**3,815**	**224**	**694**	**2,143**	**7,468**
Depreciation						
1st April, 2004	123	1,446	42	396	359	2,366
Charge for the period	83	679	32	99	220	1,113
31st December, 2004	**206**	**2,125**	**74**	**495**	**579**	**3,479**
Net book value						
31st December, 2004	**386**	**1,690**	**150**	**199**	**1,564**	**3,989**
31st March, 2004	205	1,091	6	183	992	2,477

15. INTERESTS IN SUBSIDIARIES

	Company	
	31.12.2004 *HK$'000*	31.3.2004 *HK$'000*
Unlisted shares/registered capital, at cost	**318,859**	24,263
Amounts due from subsidiaries	**36,558**	38,672
Amounts due to subsidiaries	**(590)**	(590)
Less: Provisions	**(32,078)**	(32,078)
	322,749	30,267

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

15. INTERESTS IN SUBSIDIARIES

Particulars of the subsidiaries are as follows:–

Name	Place of incorporation/ registration/ operation	Issued and fully paid-up capital/ registered capital	Effective equity interest	Principal activities
Directly held				
Surfing Platform Software International Limited	British Virgin Islands/ Hong Kong	1,080,668 Ordinary shares of US$1 each	100%	Investment holding
Snow Fair Company Limited ("Snow Fair")	British Virgin Islands/ Hong Kong	100 Ordinary shares of US$1 each	100% (31.3.2004: 69%)	Investment holding
Wisdom Elite Holdings Limited* ("Wisdom Elite")	British Virgin Islands/ Hong Kong	100 Ordinary shares of US$1 each	100%	Investment holding
Astoria Innovations Limited* ("Astoria")	British Virgin Islands/ Hong Kong	100 Ordinary shares of US$1 each	68%	Investment holding
Indirectly held				
Xteam Software (China) Co. Limited	People's Republic of China	US$3,000,000	100%	Sale of computer software and provision of related services
Xteam Software (Hong Kong) Limited	Hong Kong	100 Ordinary shares of HK$1 each	100%	Software distributor
Pantosoft International Limited	British Virgin Islands/ Hong Kong	100 Ordinary shares of US$1 each	100% (31.3.2004: 35.19%)	Investment holding

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration/ operation	Issued and fully paid-up capital/ registered capital	Effective equity interest	Principal activities
Indirectly held (Continued)				
Shanghai Pantosoft Company Limited	People's Republic of China	HK$10,000,000	100% (31.3.2004: 35.19%)	Sale of computer software and provision of related services
Top Hero Investments Limited	British Virgin Islands/ Hong Kong	1 Ordinary share share of US$1 each	100%	Dormant
Beijing Enterprises VST Software Technology Co., Ltd.*	People's Republic of China	RMB2,000,000	100%	Sales of computer software and provision of related services
Beijing Enterprises Sanxing Information Technology Co., Ltd.*	People's Republic of China	RMB3,000,000	68%	Sales of computer software and provision of related services

* *newly acquired during the period*

16. GOODWILL

	Group	
	31.12.2004	31.3.2004
	HK$'000	*HK$'000*
		(Restated)
Group		
Net book value at 1st April, 2004:		
– As previously reported	**13,688**	14,813
– Effect of adopting HKFRS 3, HKAS 36 and HKAS 38	**1,125**	–
– As restated	**14,813**	14,813
Additions		
– Astoria and Wisdom Elite *(Note 25(a))*	**252,721**	–
– Snow Fair	**11,915**	–
	264,636	–
31st December, 2004	**279,449**	14,813

Goodwill as at 1st April, 2003 represented opening value upon adoption of HKFRS 3 of HK$14,813,000.

17. INTANGIBLE ASSETS

Group	Internet platform HK$'000	Trademarks HK$'000	Computer software HK$'000	Total HK$'000
Cost				
1st April, 2004	3,255	2,371	16,823	22,449
Additions	–	–	21	21
31st December, 2004	**3,255**	**2,371**	**16,844**	**22,470**
Amortisation and impairment				
1st April, 2004	3,255	481	16,793	20,529
Charge for the period	–	88	13	101
31st December, 2004	**3,255**	**569**	**16,806**	**20,630**
Net book value				
31st December, 2004	**–**	**1,802**	**38**	**1,840**
31st March, 2004	–	1,890	30	1,920

As of 31st December, 2004, the formal registration of certain trademarks had yet to be issued by the relevant government authorities in the PRC.

18. INVENTORIES

	Group	
	31.12.2004 *HK$'000*	31.3.2004 *HK$'000*
Raw materials and low value consumables	**12,927**	13,612
Work in progress	**258**	125
Finished goods	**6,002**	253
	19,187	13,990
Less: Provision	**(12,243)**	(12,243)
	6,944	1,747

The carrying amount of inventories carried at net realisable value included in the above was HK$279,000 (31st March, 2004: HK$62,000).

19. ACCOUNTS RECEIVABLE

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

	Group	
	31.12.2004	31.3.2004
	HK$'000	*HK$'000*
0 – 30 days	**30,048**	1,806
31 – 60 days	**196**	297
61 – 90 days	**103**	215
Over 90 days	**6,826**	3,207
	37,173	5,525
Less: Provision	**(1,326)**	(1,326)
	35,847	4,199

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

20. DUE FROM RELATED COMPANIES

		Group	
	Maximum	**31.12.2004**	31.3.2004
	balance	***HK$'000***	*HK$'000*
Beijing Enterprises Teletron Information Technology Co. Ltd.	3,260	**3,260**	–
Becom Software Co. Ltd.	651	**651**	–
		3,911	–

The amounts due from related companies are unsecured, interest-free and there are no fixed terms for repayment.

21. ACCOUNTS PAYABLE

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

	Group	
	31.12.2004	31.3.2004
	HK$'000	*HK$'000*
0 – 30 days	**829**	470
31 – 60 days	**–**	32
61 – 90 days	**36**	3
Over 90 days	**1,145**	810
	2,010	1,315

22. DUE TO A RELATED COMPANY

The amount due to a related company is unsecured, interest-free and there are no fixed terms for repayment.

23. SHARE CAPITAL AND SHARE OPTIONS

(i) Share capital

	Number of shares	Nominal value HK$'000
Authorised share capital (HK$0.01 each)		
1st April, 2003, 31st March, 2004 and 1st April, 2004	1,000,000,000	10,000
Increase of authorised share capital	9,000,000,000	90,000
31st December, 2004	**10,000,000,000**	**100,000**
Issued and fully paid (HK$0.01 each)		
31st March, 2003 and 1st April, 2003	588,327,938	5,883
Issue of new shares	104,680,000	1,047
31st March, 2004 and 1st April, 2004	693,007,938	6,930
Issue of new shares for acquisition of subsidiaries *(note 25)*	3,065,463,814	30,655
31st December, 2004	**3,758,471,752**	**37,585**

In August 2004, the Company issued 3,065,463,814 shares as consideration for certain acquisitions.

23. SHARE CAPITAL AND SHARE OPTIONS *(Continued)*

(ii) Share options

(a) Pre-IPO Share Option Scheme

As at 31st December, 2004, there were 80,000,000 (31st March, 2004: 80,000,000) outstanding share options granted under the Pre-IPO Share Option Scheme, adopted by the Company on 30th May, 2001.

Details of the outstanding share options granted under the Pre-IPO Share Option Scheme as at 31st December, 2004 are summarised as follows:

Name of grantee	Dated granted	Exercise period	No. of shares eligible for subscription under the share option	Exercise price
Director				
Mr. Ma Gary Ming Fai	14th November, 2001	11th June, 2002 to 13th November, 2011	50,000,000	HK$0.266
Former director				
Mr. Mak To Wai	14th November, 2001	11th June, 2002 to 13th November, 2011	30,000,000	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 (other than disclosed above) during the period.

(b) Share Option Scheme

On 21st November, 2001, the shareholders of the Company adopted a share option scheme ("Share Option Scheme"), the principal terms of which were set out on pages 199 to 208 of the Prospectus. Under the terms of the Share Option Scheme, the Board may, at their discretion, invite any full-time employees of the Group, including any executive and non-executive directors, and any adviser, consultant 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 share options were granted under the Share Option Scheme.

23. SHARE CAPITAL AND SHARE OPTIONS *(Continued)*

(ii) Share options

(b) Share Option Scheme (Continued)

Details of the outstanding share options granted under the Share Option Scheme as at 31st December, 2004 are summarised as follows:

Name of grantee	Dated granted	Exercise period	No. of shares eligible for subscription under the share option	Exercise price
Former directors				
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
Employees, advisers and consultants	19th December, 2003	19th December, 2003 to 18th December, 2013	61,000,000	HK$0.14

None of the options granted under the Share Option Scheme has been exercised or cancelled during the period.

* *lapsed on 14th March, 2005 (3 months after resignation)*

24. RESERVES

The details of movements in the Group's reserves are set out in the consolidated statement of changes in equity on Page 27.

The details of the movements in the Company's reserves are set out as follows:–

	Share premium account HK$'000	Accumulated losses HK$'000	Total HK$'000
Company			
1st April, 2003	48,534	(3,826)	44,708
Issue of new shares	13,531	–	13,531
Share issue expenses	(1,111)	–	(1,111)
Loss for the year	–	(35,966)	(35,966)
31st March, 2004 and 1st April, 2004	60,954	(39,792)	21,162
Issue of new shares	263,630	–	263,630
Share issue expenses	(2,230)	–	(2,230)
Profit for the period	–	304	304
31st December, 2004	**322,354**	**(39,488)**	**282,866**

Distributable reserves of the Company at 31st December, 2004, determined in accordance with section 34 of the Companies law (2001 Second Revision) of the Cayman Island, amounted to approximately HK$282,866,000 (31st March, 2004: HK$21,162,000).

The share premium account of the Group as set out on Page 27 differs from the Company's share premium account above owing to merger accounting being used by the Company upon its listing in 2001.

25. NOTES TO THE CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

During the period, the Group acquired a 100% interest in Wisdom Elite and its wholly-owned subsidiary and a 68% interest in Astoria and its wholly-owned subsidiary for a consideration of approximately HK$280,906,000 by the Company issuing 2,926,103,814 new shares to Beijing Development (Hong Kong) Limited. These acquisitions had been accounted for using the acquisition method of accounting and the effective date of the acquisition for accounting purposes was 1st August, 2004.

	31.12.2004
	HK$'000
Net assets acquired:	
Fixed assets	**1,665**
Accounts receivables	**15,172**
Prepayments, deposits and other receivables	**12,539**
Due from related companies	**2,490**
Inventories	**797**
Bank balances and cash	**7,644**
Accounts payable	**(528)**
Due to related companies	**(2,915)**
Other payables and accrued expenses	**(6,628)**
	30,236
Minority interests	**(2,051)**
Net assets	**28,185**
Goodwill on consolidation	**252,721**
	280,906
Represented by:	
Shares issued	**280,906**

25. NOTES TO THE CASH FLOW STATEMENT *(Continued)*

(a) Acquisition of subsidiaries *(Continued)*

Analysis of net inflow of cash and cash equivalents in connection with the acquisition of subsidiaries:

	31.12.2004
	HK$'000
Bank balances and cash acquired	**7,644**
Net inflow of cash and cash equivalents	**7,644**

The newly acquired subsidiaries contributed approximately HK$37,932,000 to the Group's turnover and approximately HK$12,803,000 to the consolidated profit after taxation and before minority interests for the period from 1st April, 2004 to 31st December, 2004.

(b) Major non-cash transactions

During the period, the Group acquired a 49% interest in Pantosoft International Limited and a 31% interest in Snow Fair from their minority shareholders. The consideration of approximately HK$13,691,000 was satisfied partly by cash of HK$312,000 and partly by the Company issuing 139,360,000 new shares.

26. OPERATING LEASE COMMITMENTS

As of 31st December, 2004, the Group had outstanding minimum commitments under non-cancellable operating leases in respect of land and buildings which fall due as follows:–

	Group	
	31.12.2004	31.3.2004
	HK$'000	*HK$'000*
Expiring:–		
Within one year	**825**	1,477
In the second to fifth years, inclusive	**–**	535
	825	2,012

27. RELATED PARTY TRANSACTIONS

Transactions with related parties during the period not disclosed elsewhere in the financial statements are as follows:

	1.4.2004 to 31.12.2004	1.4.2003 to 31.3.2004
	HK$'000	*HK$'000*
Sales to a related company	**2,964**	–
Financial advisory services fees paid to a related company	**–**	200

All of the above transactions were entered into between the parties under normal commercial terms.

28. COMPARATIVE AMOUNTS

As explained in note 3 to the financial statements, due to the early adoption of HKFRS 3, HKAS 36 and HKAS 38 during the current period, a prior year adjustment has been made and certain comparative amounts have been restated to conform with the current period's presentation. In addition, as a result of the change of financial year end date from 31st March to 31st December, the comparative amounts for the consolidated profit and loss account, consolidated statement of changes in equity, consolidated cash flow statement and related notes may not be comparable.

29. ULTIMATE HOLDING COMPANY

The Directors consider the Company's ultimate holding company to be Beijing Holdings Limited, which is incorporated in Hong Kong.

30. APPROVAL OF THE AUDITED FINANCIAL STATEMENTS

The audited financial statements were approved and authorised for issue by the board of Directors on 23rd March, 2005.

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, are set out below. The amounts for the year ended 31st March, 2004 have been restated for the early adoption of recently issued Hong Kong Financial Reporting Standards, as detailed in note 3 to the financial statements.

RESULTS

	1.4.2004 to 31.12.2004 *HK$'000*	1.4.2003 to 31.3.2004 *HK$'000* (Restated)	1.4.2002 to 31.3.2003 *HK$'000*	1.4.2001 to 31.3.2002 *HK$'000*	23.11.1999 to 31.3.2001 *HK$'000*
Turnover	**51,739**	26,823	26,694	21,835	19,671
Profit/(loss) from operating activities	**12,589**	(31,944)	(10,127)	3,714	(9,332)
Finance costs	**(198)**	(36)	(200)	(236)	(166)
Profit/(loss) before taxation	**12,391**	(31,980)	(10,327)	3,478	(9,498)
Taxation	**97**	(318)	(117)	–	–
Profit/(loss) for the period/year	**12,488**	(32,298)	(10,444)	3,478	(9,498)
Minority interests	**(1,191)**	(1,424)	(145)	–	–
Profit/(loss) attributable to shareholders	**11,297**	(33,722)	(10,589)	3,478	(9,498)

ASSETS, LIABILITIES AND MINORITY INTERESTS

Total assets	**353,787**	40,294	67,448	47,940	19,324
Total liabilities	**(18,953)**	(9,244)	(17,567)	(12,380)	(9,721)
Minority interests	**(3,233)**	(2,801)	(1,377)	–	–
	331,601	28,249	48,504	35,560	9,603