



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

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

**FIRST QUARTERLY RESULTS REPORT**  
**FOR THE THREE MONTHS ENDED**  
**31ST MARCH, 2005**

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

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

## **SUMMARY**

- The Group is one of the top providers of Linux software and IT application services to government and enterprises in Mainland China, with particular strength in Beijing.
- Turnover for the three months ended 31st March, 2005 amounted to approximately HK\$9,406,000, representing an increase of 456% from last year (2004: approximately HK\$1,691,000).
- Profit attributable to shareholders for the three months ended 31st March, 2005 amounted to approximately HK\$1,102,000 (2004: loss of approximately HK\$23,789,000 (restated)).
- The Board does not recommend the payment of an interim dividend for the period (2004: Nil).

## FIRST QUARTERLY RESULTS FOR THREE MONTHS ENDED 31ST MARCH, 2005

The board of Directors (the “Board”) of the Company announces the unaudited results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31st March, 2005, together with the unaudited comparative figures for the corresponding period in 2004, as follows:

	<i>Note</i>	<b>Three months ended 31st March, 2005 HK\$'000 (unaudited)</b>	Three months ended 31st March, 2004 (restated) HK\$'000 (unaudited)
Turnover	2	<b>9,406</b>	1,691
Cost of sales and services		<b>(1,169)</b>	(2,862)
Gross profit/(loss)		<b>8,237</b>	(1,171)
Other revenue		<b>875</b>	830
Operating expenses		<b>(7,606)</b>	(7,109)
Provision against inventories		–	(7,976)
Impairment loss in respect of intangible assets		–	(8,320)
Profit/(loss) from operating activities		<b>1,506</b>	(23,746)
Finance costs		<b>(115)</b>	(44)
Profit/(loss) before taxation		<b>1,391</b>	(23,790)
Taxation	3	<b>(6)</b>	(8)
Profit/(loss) for the period/year		<b>1,385</b>	(23,798)
Minority interests		<b>(283)</b>	9
Profit/(loss) attributable to shareholders		<b><u>1,102</u></b>	<b><u>(23,789)</u></b>
Earnings/(loss) per share	4		
– Basic (in cents)		<b><u>0.03</u></b>	<b><u>(3.44)</u></b>
– Diluted (in cents)		<b><u>N/A</u></b>	<b><u>(3.41)</u></b>
Dividend per share		<b><u>Nil</u></b>	<b><u>Nil</u></b>

Notes:

## 1. Basis of presentation

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has converged all Hong Kong Financial Reporting Standards (“HKFRSs”) with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board at 1st January, 2005. As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects. The unaudited financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, accounting standards issued by the HKICPA, and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprises Market of the Stock Exchange of Hong Kong (the “GEM Listing Rules”). They have been prepared under the historical cost convention.

In 2005, the Group has adopted all HKFRSs pertinent to its operations. The applicable HKFRSs are set out below and the 2004 unaudited financial statements have been restated in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Management
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The accounting policies which have material impacts on the Group are set out below:

HKFRS 2 requires an expense to be recognized where the Group buys goods or services in exchange for shares or rights over shares, or in exchange for other assets equivalent in value to a given number of shares or rights over shares. HKFRS 2 requires the expensing of employees’ and directors’ share options and other share-based incentives by using an option-pricing model. The Group has taken advantage of the transitional provisions of HKFRS2 in respect of equity-settled awards and has applied HKFRS2 only to share options granted after 7th November, 2002 that had not vested on or before 31st December, 2003.

The adoption of HKFRS 3, HKAS 36 and HKAS 38, which was also early adopted in the audited financial statements for the nine months ended 31st December, 2004, 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 HKFRS3:

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

The effect of adopting HKAS36, HKAS38 and HKFRS3 on the unaudited consolidated profit and loss account is summarized as follows:

	<b>Three months ended 31st March, 2005 HK\$'000 (unaudited)</b>	Three months ended 31st March, 2004 HK\$'000 (unaudited)
Increase/(decrease) in profit/(loss) attributable to shareholders	<b><u>3,689</u></b>	<u>(282)</u>
Increase/(decrease) in basic earnings/(loss) per share	<b>0.10 cents</b>	(0.04) cents
Increase/(decrease) in diluted earnings/(loss) per share	<b><u>N/A</u></b>	<u>(0.04) cents</u>

The adoption of other new HKFRSs does not result in substantial changes to the Group's accounting policies except certain presentation and disclosure of the financial statements would be affected on the 2005 half-year and annual reports.

## 2. Turnover

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

### 3. Taxation

- (i) No provision for Hong Kong profits tax has been made as no income was earned or derived from Hong Kong during the period.
- (ii) No provision for profits tax has been provided in respect of the Cayman Islands or the British Virgin Islands as there were no assessable tax for the period in those jurisdictions. The tax expenses during the period represents tax charges on the assessable profits of certain subsidiaries operating in the PRC calculated at the applicable rates.
- (iii) Certain of the subsidiaries in the PRC enjoy tax exemptions.
- (iv) No deferred tax asset has been recognized due to the unpredictability of future profit streams.

### 4. Earnings/(loss) per share

The basic earnings per share is calculated based on the Group's profit attributable to shareholders of HK\$1,102,000 (2004: loss of approximately HK\$23,789,000 (restated)) and on the weighted average of 3,758,471,752 (2004: 693,007,938) ordinary shares in issue during the period.

Diluted earnings per share amount for the three months ended 31st March, 2005 has not been disclosed as the outstanding options had an anti-dilutive effect on the basis earnings per share for the current period.

The comparative diluted earnings per share was based on 697,220,479 ordinary shares, which was the weighted average number of ordinary shares in issue during the prior period plus the weighted average of 4,212,541 ordinary shares deemed to be issued if all outstanding options had been exercised at the date they were granted.

### 5. Movements in reserves

	Share premium account <i>HK\$'000</i>	Statutory reserve fund <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2004 (as restated)	71,821	–	(26,713)	45,108
Transfer	–	60	(60)	–
Loss for the period (as restated)	–	–	(23,789)	(23,789)
	<u>71,821</u>	<u>60</u>	<u>(50,562)</u>	<u>21,319</u>
At 31st March, 2004 (as restated)	<u>71,821</u>	<u>60</u>	<u>(50,562)</u>	<u>21,319</u>
At 1st January, 2005	333,221	60	(39,265)	294,016
Profit for the period	–	–	1,102	1,102
	<u>333,221</u>	<u>60</u>	<u>(38,163)</u>	<u>295,118</u>
At 31st March, 2005 (unaudited)	<u>333,221</u>	<u>60</u>	<u>(38,163)</u>	<u>295,118</u>

### 6. Comparative amounts

Certain comparative amounts have been reclassified to conform with current period's presentation.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the period (2004: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review and Prospects**

The Group's main business is the development and sale of computer software primarily for large scale applications and provision of related support services to government and large corporate customers in mainland China. In addition, the Group is also one of a few top Linux providers in China.

The Group continued to make significant progress toward profitability during the period under review. Turnover for the three months ended 31st March 2005 amounted to approximately HK\$9.4 million, up 456% compared with approximately HK\$1.7 million for the corresponding period in 2004. The growth in turnover was entirely due to steady performance of software businesses the Group acquired in August 2004. Profit attributable to shareholders for the first quarter was approximately HK\$1.1 million in comparison with a loss of approximately HK\$23.8 million (restated) for the corresponding period in 2004. The loss in 2004 was, to a large extent, due to the charging of one-off provisions against inventories and intangible assets.

Looking ahead, the Group foresees a bright future for China's software industry. Strong economic growth, rapid internet adoption, continued computerisation of government and corporate work flows and government's strategic policies of fostering domestic software industry are strong drivers of future software growth. The Group is actively positioning itself to take full advantage of such powerful and exciting trends.

### **CAPITAL STRUCTURE, EXPOSURE TO EXCHANGE RATES FLUCTUATION**

As at 31st March, 2005 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.

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

As at 31st March, 2005, the interests or short positions of the Directors and chief executives of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### (1) Interests in shares

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

*Notes:*

- (1) 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 certain Director and employee 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 March, 2005, no options under the Pre-IPO Share Option Scheme have been exercised.

## (3) Interests in ordinary shares of associated corporation of the Company

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

#### (4) Share Option Scheme

At 31st March, 2005, the interests of a director of the Company in options to subscribe for shares of Beijing Enterprises Holdings Limited (“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 1 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.

At 31st March, 2005, the interests of directors of the Company 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 March, 2005, 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 March, 2005, the following persons (other than the Directors and chief executive of the Company) had interests or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or

indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

<b>Name</b>	<b>Nature of interests</b>	<b>Number of shares</b>	<b>Percentage of issued share capital</b>
Beijing Development	Interests of controlled corporation	2,115,513,445	56.29%
Beijing Enterprises	Interests of controlled corporation	2,115,513,445 ( <i>note 1</i> )	56.29%
Beijing Enterprises Investments Limited	Interests of controlled corporation	2,115,513,445 ( <i>note 2</i> )	56.29%
Beijing Holdings Limited	Interests of controlled corporation	2,115,513,445 ( <i>note 3</i> )	56.29%
Mr. Chung Kwok Ho	Interests of controlled corporation	382,864,129 ( <i>note 4</i> )	10.18%
Ms. Lee Man Yee	Interests of spouse	382,864,129 ( <i>note 5</i> )	10.18%
Cosmos Vantage Limited	Beneficial interests	382,864,129 ( <i>note 6</i> )	10.18%
Amberwood Group Ltd.	Beneficial interests	204,712,000 ( <i>note 7</i> )	5.45%
Ms. Chong Sok Un	Interests of controlled corporation	204,712,000 ( <i>note 8</i> )	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 March, 2005, 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 and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

## SHARE OPTIONS SCHEME

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

Details of the pre-IPO share options granted to Directors are set out in the sub-section headed “Interests in underlying shares” under the section headed “Directors’ and chief executives’ interests or short position in the shares and underlying shares”. Details of outstanding pre-IPO share options granted to other executives and full time employees as at 31st March, 2005 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	14th November, 2001	11th June, 2002 to 13th November, 2011	30,000,000	HK\$0.266

Up to 31st March, 2005, 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. 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.

During the period under review, 2,000,000 post-IPO share options were lapsed due to the resignation of two directors on 14th December, 2004.

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

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

Up to 31st March, 2005, no options under the Share Option Scheme have been exercised.

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

During the three months ended 31st March, 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **COMPETING INTERESTS**

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

## **AUDIT COMMITTEE**

As required by Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee on 21st November, 2001 with written terms of reference which deal clearly with its authority and duties. The audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems. The audit committee comprises 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.

At the date of this report, The board of directors of Company comprises Mr. Zhang Hong Hai, Mr. Li Kang Ying, Mr. Ma Gary Ming Fai, Mr. Cao Wei, Mr. Ng Kong Fat, Brian, Mr. E Meng and Ms. Chen Zhi (who are executive directors of the Company), and Ms. Ma Yu Hua, Ms. Liang Ye Ping and Mr. Jiang Qi Ping (who are independent non-executive directors of the Company).

By order of the Board  
**Xteam Software International Limited**  
**Zhang Hong Hai**  
*Chairman*

Hong Kong, 11th May, 2005