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If you are in any doubt as to any aspect of this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Beijing Development (Hong Kong) Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected, for transmission to the purchaser.

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北京發展（香港）有限公司

BEIJING DEVELOPMENT (HONG KONG) LIMITED

(incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock code: 154)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

**in relation to the sale of a 51% interest in Astoria Innovations Limited
and the entire issued share capital of Wisdom Elite Holdings Limited**

Independent financial adviser to the Independent Board Committee



KINGSTON CORPORATE FINANCE LIMITED

A letter from the Board (as defined herein) is set out on pages 6 to 25 of this circular. A letter from the Independent Board Committee (as defined herein) containing its recommendation regarding the Sale Transaction (as defined herein) is set out on page 26 of this circular. A letter from Kingston Corporate Finance Limited, containing its advice to the Independent Board Committee regarding the Sale Transaction, is set out on pages 27 to 43 of this circular.

A notice dated 30 June 2004 convening an extraordinary general meeting of Beijing Development (Hong Kong) Limited to be held at Chater Room II, Basement 1, The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on Thursday, 22 July 2004 at 11:30 a.m., is set out on pages 153 to 154 of this circular. If you are not able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to Beijing Development (Hong Kong) Limited's share registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

30 June 2004

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DEFINITIONS

In this circular the following expressions bear the following meanings, unless the context otherwise requires:

“Acquisition”	the acquisition by Xteam of 680 shares of Astoria and 100 shares of Wisdom Elite pursuant to the Deed
“Announcement”	the joint announcement dated 19 May 2004 made by Beijing Enterprises, Beijing Development and Xteam
“associate(s)”	has the meaning ascribed to it under the Old Main Board Listing Rules or the Old GEM Listing Rules, as the case may be
“Astoria”	Astoria Innovations Limited, a company incorporated in the British Virgin Islands with limited liability which is owned as to 51.0% by E-tron (a wholly-owned subsidiary of Beijing Development), 11.0% by Mr. Liu Jun, 10.1% by Mr. Cai Tianhong, 10.1% by Mr. Chen Daqing, 4.4% by Ms. Zheng Xiaohua, 2.4% by Mr. Yang Xiping, 3.0% by Mr. He, 3.0% by Mr. Li and 5.0% by Capinfo (Hong Kong) Co., Ltd.
“Astoria Group”	Astoria and its subsidiary
“B E Information”	B E Information Technology Group Limited (formerly known as Cyber Vantage Group Limited), a company incorporated in the British Virgin Islands with limited liability which is owned as to 72% by Prime Technology, 20% by Cosmos Vantage, 4% by Mr. Li and 4% by Mr. He
“Becom”	Becom Software Co., Ltd. (北控軟件有限公司), a company incorporated in the PRC in which B E Information indirectly holds a 95% interest and 北京教育網絡和信息中心 (Beijing Education Network and Information Center) holds a 5% interest
“Becom Software Business”	the software business carried out by Becom
“Beijing Development”	Beijing Development (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the Main Board
“Beijing Development Director(s)”	the director(s) of Beijing Development
“Beijing Development Group”	Beijing Development and its subsidiaries
“Beijing Development Shareholder(s)”	holder(s) of the shares of HK\$1.00 each in the share capital of Beijing Development
“Beijing Enterprises”	Beijing Enterprises Holdings Limited, a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the Main Board

DEFINITIONS

“Cap Amounts”	the maximum transaction values for the Transactions for each the three years ending 31 March 2005, 2006 and 2007 being HK\$120 million, HK\$150 million and HK\$200 million respectively
“Consideration Shares”	the new Xteam Shares to be issued by Xteam as consideration for the Acquisition under the Deed
“Cosmos Town”	Cosmos Town Limited, a company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by Mr. Lau Tai Hang, which owns a 22% interest in Snow Fair
“Cosmos Town Acquisition”	the proposed acquisition of a 22% interest in Snow Fair by Xteam from Cosmos Town pursuant to the Cosmos Town Agreement
“Cosmos Town Agreement”	the conditional agreement entered into between Xteam, as purchaser, and Cosmos Town, as vendor, on 10 February 2004 in respect of the sale and purchase of 22 ordinary shares of Snow Fair
“Cosmos Vantage”	Cosmos Vantage Limited, a company incorporated in the British Virgin Islands with limited liability and wholly and beneficially owned by Mr. Chung Kwok Ho, which holds a 20% interest in B E Information
“Deed”	the conditional deed entered into between Beijing Development, E-tron, the Other Vendors, B E Information, Cosmos Vantage, Prime Technology, Xteam and Upwise dated 10 February 2004 in respect of the sale and purchase of (a) 680 shares of Astoria and (b) 100 shares of Wisdom Elite
“e-education”	e-education refers to the use of electronic medium for education
“e-government”	e-government refers to the use of information and communications technologies to improve the efficiency, effectiveness, transparency and accountability of government
“EGM”	the extraordinary general meeting of Beijing Development to be held at Chater Room II, Basement 1, The Ritz-Carlton, 3 Connaught Road Central, Hong Kong at 11:30 a.m. on Thursday, 22 July 2004 to approve the Sale Transaction, notice of which is set out on pages 153 to 154 of this circular, or any adjournment thereof
“Enlarged Group”	existing Beijing Development Group including Xteam and its subsidiaries after completion of the Sale Transaction
“E-tron”	E-tron Limited, a company incorporated in the British Virgin Islands with limited liability which is a wholly-owned subsidiary of Beijing Development
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any or his delegates
“Existing GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM currently in effect

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“Existing Main Board Listing Rules”	the Rules Governing the Listing of Securities on the Main Board currently in effect
“Fortune Leo”	Fortune Leo Investment Limited, a company incorporated in the British Virgin Islands with limited liability, which owns a 49% interest in Pantosoft
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“Holding Announcement”	the joint announcement made by Beijing Enterprises, Beijing Development and Xteam on 29 April 2004 in respect of the Acquisition
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Independent Board Committee”	an independent committee of the Board comprising Mr. Cao Guixing and Mr. Feng Ching Yeng, Frank
“Independent Shareholders”	shareholders of Beijing Development other than Mr. He, Mr. Li who are parties to the Deed and Mr. and Mrs. Chung Kwok Ho who are shareholders of Cosmos Vantage, which is a party to the Deed
“Independent Xteam Shareholders”	Xteam Shareholders who (i) are independent, disinterested and not involved in the Snow Fair Acquisition, the Pantosoft Acquisition and the Acquisition and are allowed to vote in respect of each of the Snow Fair Acquisition, the Pantosoft Acquisition, the Acquisition and the Whitewash Waiver under the Old GEM Listing Rules and the Takeovers Code, or (ii) are independent and are allowed to vote in respect of the Transactions and the Cap Amounts, under the Existing GEM Listing Rules, as the case may be
“Kingston”	Kingston Corporate Finance Limited, a corporation licensed to carry out Types 6 regulated activities under the SFO and the Independent financial adviser to the Independent Board Committee in relation to the Sale Transaction
“Latest Practicable Date”	28 June 2004 being the latest practicable date prior to the printing of this circular for ascertaining information contained in this circular
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM
“Master Agreement”	the master agreement for the transactions to be entered into between the then Beijing Development Group and the then Xteam Group upon completion of the Acquisition in respect of the Transactions
“MC Capital”	MC Capital B.V., a company incorporated in the Netherlands with limited liability, which owns a 9% interest in Snow Fair
“MC Capital Acquisition”	the proposed acquisition of a 9% interest in Snow Fair by Xteam from MC Capital pursuant to the MC Capital Agreement

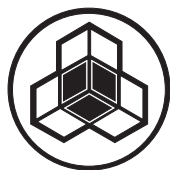
DEFINITIONS

“MC Capital Agreement”	the conditional agreement entered into between Xteam, as purchaser, and MC Capital, as vendor, on 10 February 2004 in respect of the sale and purchase of 9 ordinary shares of Snow Fair
“Mr. He”	Mr. He Yingkai (賀迎凱), who holds a 4% interest in B E Information
“Mr. Li”	Mr. Li Jichen (李繼成), who holds a 4% interest in B E Information
“Mr. Ma”	Mr. Ma Ming Fai Gary, the non-executive Xteam Director and the Chairman of the board of directors of Xteam
“Old GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM in effect immediately prior to 31 March 2004
“Old Main Board Listing Rules”	the Rules Governing the Listing of Securities on the Main Board in effect immediately prior to 31 March 2004
“Other Vendors”	Mr. He, Mr. Li, Mr. Cai Tianhong, Ms. Zheng Xiaohua, Mr. Chen Daqing, Mr. Liu Jun and Mr. Yang Xiping, being all the vendors under the Deed, other than E-tron and B E Information
“Pantosoftware”	Pantosoftware International Limited, a company incorporated in the British Virgin Islands with limited liability on 7 June 2002
“Pantosoftware Acquisition”	the proposed acquisition of the remaining 49% interest in Pantosoftware by Snow Fair from Fortune Leo pursuant to the Pantosoftware Acquisition Agreement
“Pantosoftware Acquisition Agreement”	the conditional agreement entered into between Snow Fair, as purchaser and Fortune Leo, as vendor, on 10 February 2004 in respect of the sale and purchase of 49 ordinary shares of Pantosoftware
“PRC”	People’s Republic of China
“Prime Technology”	Prime Technology Group Limited, a company incorporated in the British Virgin Islands with limited liability, which is a wholly-owned subsidiary of Beijing Development
“Proposed Distribution”	the proposed distribution of the Consideration Shares to which B E Information is entitled under the Deed by B E Information to its shareholders by way of distribution in specie
“Sale Transaction”	the sale of a 51% equity interests in Astoria and the entire issued share capital of Wisdom Elite by the Beijing Development Group to Xteam in the consideration of new Xteam Shares pursuant to the Deed
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Shanghai Pantosoft”	Shanghai Pantosoft Co., Ltd. (上海鵬達計算機系統開發有限公司), a company established in the PRC on 16 June 1996 which became a wholly foreign owned enterprise on 30 August 2002
“Snow Fair”	Snow Fair Co., Ltd., a company incorporated in the British Virgin Islands with limited liability on 17 October 2001
“Snow Fair Acquisition”	the Cosmos Town Acquisition and the MC Capital Acquisition
“Software Businesses”	the software businesses managed and operated by Astoria, together with the software business managed and operated by Wisdom Elite (including the Becom Software Business to be transferred to Wisdom Elite by Becom prior to completion of the Deed)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers
“Transactions”	the continuing connected transactions between the companies involved in the Software Businesses including Astoria and Wisdom Elite and their respective subsidiaries, and B E Information and its subsidiaries which are expected to continue after completion of the Acquisition
“Upwise”	Upwise Investments Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Ma
“Whitewash Waiver”	the whitewash waiver applied for by Beijing Development in respect of the mandatory general offer obligation which would be triggered by Beijing Development and its concert parties upon completion of the Acquisition
“Wisdom Elite”	Wisdom Elite Holdings Limited, a company incorporated in the British Virgin Islands which is a wholly-owned subsidiary of B E Information
“Wisdom Elite Group”	Wisdom Elite and its subsidiary
“Xteam”	Xteam Software International Limited, an exempted company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on GEM
“Xteam Director(s)”	the director(s) of Xteam
“Xteam EGM”	the extraordinary general meeting proposed to be held by Xteam in accordance with its articles of association for approving the Cosmos Town Acquisition, the MC Capital Acquisition, the Pantosoft Acquisition Agreement, the Acquisition, the Whitewash Waiver, the increase in the authorized share capital of Xteam, the amendment of the memorandum and articles of association of Xteam, the Transactions and the Cap Amounts
“Xteam Group”	Xteam and its subsidiaries
“Xteam Shareholder(s)”	holder(s) of the Xteam Shares
“Xteam Shares”	the shares of HK\$0.01 each in the capital of Xteam

LETTER FROM THE BOARD



北京發展（香港）有限公司

BEIJING DEVELOPMENT (HONG KONG) LIMITED

(incorporated in Hong Kong with limited liability under the Companies Ordinance)

Executive Directors:

Mr. Zhang Honghai (*Chairman*)
Mr. Ng Kong Fat, Brian (*Managing Director*)
Mr. E Meng (*Deputy Managing Director*)
Mr. Zhao Jifeng (*Deputy Managing Director*)

Head office and registered office:

Mezzanine Floor
Yardley Commercial Building
3 Connaught Road West
Sheung Wan
Hong Kong

Independent non-executive Directors:

Mr. Cao Guixing
Mr. Feng Ching Yeng, Frank

30 June 2004

To the shareholders of Beijing Development

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

**in relation to the sale of a 51% interest in Astoria Innovations Limited
and the entire issued share capital of Wisdom Elite Holdings Limited**

INTRODUCTION

On 19 May 2004, Beijing Development issued the Announcement jointly with Beijing Enterprises and Xteam in respect of, among other things, the Acquisition and the Whitewash Waiver.

Pursuant to the Deed entered into on 10 February 2004, an aggregate interest of 68% in Astoria and the entire issued share capital of Wisdom Elite will be sold by the Beijing Development Group and the Other Vendors to Xteam and Xteam will issue the Consideration Shares, representing 75% of the issued share capital of Xteam on a fully diluted basis to the Beijing Development Group and the Other Vendors. The Software Businesses of the Beijing Development Group will be sold to the Xteam Group and Xteam will become a subsidiary of Beijing Development upon completion of the Acquisition.

The Sale Transaction is a part of the Acquisition. After the issue of the Consideration Shares under the Acquisition and assuming that 139,360,000 new Xteam Shares will be issued upon completion of the Snow Fair Acquisition and the Pantosoft Acquisition and none of the 143,000,000 outstanding share options of Xteam is exercised, the Beijing Development Group will own approximately 56.29% of the voting rights in Xteam and Beijing Development and its concert parties (including but not limited to Cosmos Vantage, the

LETTER FROM THE BOARD

Other Vendors, Cosmos Town, MC Capital and Fortune Leo) will in aggregate own approximately 82.06% of the voting rights in Xteam. Accordingly, Beijing Development and its concert parties would trigger a mandatory general offer obligation under Rule 26.1 of the Takeovers Code in the absence of the Whitewash Waiver. Beijing Development has applied to the Executive for the Whitewash Waiver under Note 1 of the Notes on dispensation from Rule 26 of the Takeovers Code. The Executive has indicated granting Beijing Development the Whitewash Waiver subject to approval by the Independent Xteam Shareholders who are not involved in, or interested in, the Acquisition by an independent vote cast by way of a poll at the Xteam EGM.

Completion of the Acquisition is conditional on the completion of the Snow Fair Acquisition and the Pantosoft Acquisition.

As the above transactions were entered into prior to 31 March 2004 when the recent amendments to the Rules Governing the Listing of Securities on the Main Board came into effect, the Sale Transaction is governed by the Old Main Board Listing Rules which were in effect immediately prior to 31 March 2004.

The Sale Transaction constitutes a very substantial acquisition for Beijing Development under the Old Main Board Listing Rules. Accordingly, the Sale Transaction is subject to approval by the Beijing Development Shareholders under Rule 14.07(1) of the Old Main Board Listing Rules. The Stock Exchange has indicated that the Sale Transaction will not be treated as a new listing application under Rule 14.07(3) of the Old Main Board Listing Rules. As Mr. Cai Tianhong is a substantial shareholder of Astoria and a director of Astoria and its subsidiary, the Sale Transaction constitutes a connected transaction for Beijing Development under Rule 14.23(1)(b) of the Old Main Board Listing Rules, and is therefore subject to approval by the independent shareholders of Beijing Development. Mr. He and Mr. Li who are parties to the Deed and Beijing Development Shareholders together with Mr. and Mrs. Chung Kwok Ho who are shareholders of Cosmos Vantage, which is a party to the Deed, and Beijing Development Shareholders are required to abstain from voting at the EGM in respect of the resolution to approve the Sale Transaction. Save for Mr. He and Mr. Li, who are parties to the Deed, and Mr. and Mrs. Chung Kwok Ho, who are shareholders of Cosmos Vantage, no other Beijing Development Shareholders are required to abstain from voting in respect of the resolution to approve the Sale Transaction.

The purposes of this circular is to provide you with information relating to the Sale Transaction, the recommendation from the Independent Board Committee in respect of the Sale Transaction and the advice of Kingston, the independent financial adviser to the Independent Board Committee, and to give the Beijing Development Shareholders notice of the EGM convened for the purpose of considering the Sale Transaction.

THE SNOW FAIR ACQUISITION AND THE PANTOSOFT ACQUISITION OF XTEAM

As stated in the Announcement, Xteam entered into the Cosmos Town Agreement, the MC Capital Agreement and the Pantosoft Acquisition Agreement with Cosmos Town, MC Capital and Fortune Leo respectively on 10 February 2004 in respect of the Snow Fair Acquisition and the Pantosoft Acquisition.

Pursuant to the Cosmos Town Agreement, Cosmos Town has agreed to sell and Xteam has agreed to purchase a 22% interest in Snow Fair at a consideration of HK\$3,500,010. Pursuant to the MC Capital Agreement, MC Capital has agreed to sell and Xteam has agreed to purchase a 9% interest in Snow Fair at a consideration of HK\$1,421,000. Pursuant to the Pantosoft Acquisition Agreement, Fortune Leo has agreed to sell and Snow Fair has agreed to purchase a 49% interest in Pantosoft at a consideration of HK\$15,598,190.

LETTER FROM THE BOARD

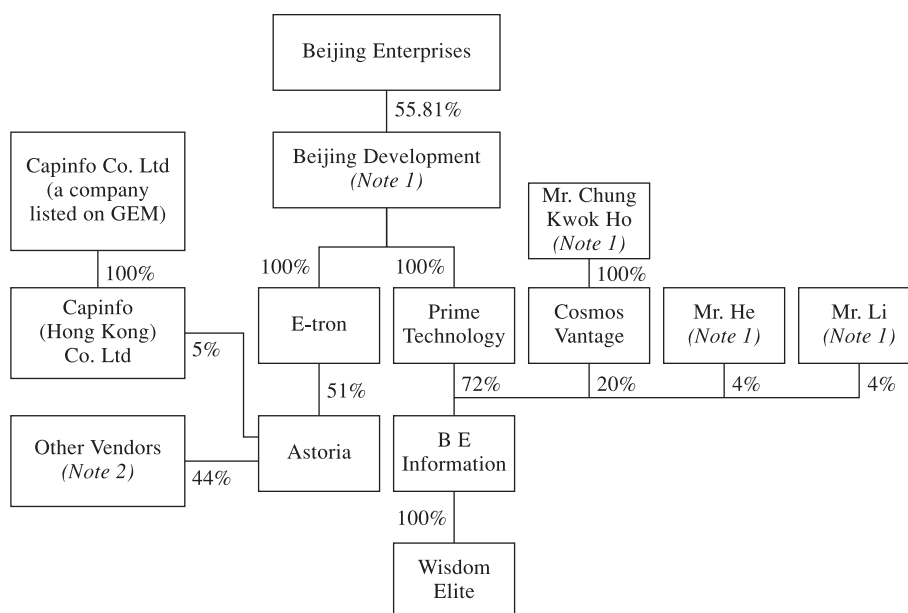
24,138,000 new Xteam Shares will be issued to Cosmos Town and 9,800,000 new Xteam Shares will be issued to MC Capital by Xteam as consideration for the Snow Fair Acquisition. To settle the consideration for the Pantosoft Acquisition, Xteam will issue 105,422,000 new Xteam Shares to Fortune Leo and Snow Fair will further pay HK\$312,000 in cash to Fortune Leo.

Completion of the Acquisition is conditional on, among other things, completion of the Snow Fair Acquisition and the Pantosoft Acquisition.

For details of the Snow Fair Acquisition and the Pantosoft Acquisition, please refer to the Announcement.

THE ACQUISITION

The diagram below shows the shareholding structures of Astoria and Wisdom Elite as at the Latest Practicable Date.



Notes:

1. Mr. Chung Kwok Ho, the sole beneficial owner of Cosmos Vantage, and his wife held 76,000 Beijing Development Shares representing approximately 0.02% of the issued share capital of Beijing Development as at the Latest Practicable Date. Each of Mr. He and Mr. Li held 4,533,760 Beijing Development Shares, representing approximately 0.9% of the issued share capital of Beijing Development as at the Latest Practicable Date. Save for the above, no other party to the Deed held any Beijing Development Shares as at the Latest Practicable Date.
2. The remaining 44% interests in Astoria are owned as to 11.0% by Mr. Liu Jun, 10.1% by Mr. Cai Tianhong, 10.1% by Mr. Chen Daqing, 4.4% by Ms. Zheng Xiaohua, 3.0% by Mr. He, 3.0% by Mr. Li and 2.4% by Mr. Yang Xiping.

LETTER FROM THE BOARD

The Deed

Date : 10 February 2004

Vendors : *In respect of Astoria*

1. E-tron, a wholly and beneficially owned subsidiary of Beijing Development, which has agreed to sell 510 shares of Astoria, representing 51% of the issued share capital of Astoria
2. Zheng Xiaohua, who has agreed to sell 44 shares of Astoria, representing 4.4% of the issued share capital of Astoria
3. Cai Tianhong, who has agreed to sell 39 shares of Astoria, representing 3.9% of the issued share capital of Astoria
4. Chen Daqing, who has agreed to sell 39 shares of Astoria, representing 3.9% of the issued share capital of Astoria
5. Liu Jun, who has agreed to sell 15 shares of Astoria, representing 1.5% of the issued share capital of Astoria
6. Yang Xiping, who has agreed to sell 9 shares of Astoria, representing 0.9% of the issued share capital of Astoria
7. Mr. He, who has agreed to sell 12 shares of Astoria, representing 1.2% of the issued share capital of Astoria
8. Mr. Li, who has agreed to sell 12 shares of Astoria, representing 1.2% of the issued share capital of Astoria

In respect of Wisdom Elite

B E Information has agreed to sell 100 shares of Wisdom Elite, representing 100% of the issued share capital of Wisdom Elite.

B E Information is beneficially owned as to 72% by Prime Technology, 20% by Cosmos Vantage, 4% by Mr. He and 4% by Mr. Li.

Cosmos Vantage is wholly and beneficially owned by Mr. Chung Kwok Ho. Mr. Chung and his wife together held 76,000 Beijing Development Shares as at the Latest Practicable Date.

LETTER FROM THE BOARD

Cosmos Vantage is a substantial shareholder of B E Information. Mr. He, Mr. Li are the respective chief executives of Wisdom Elite and its subsidiary. Ms. Zheng Xiaohua and Mr. Cai Tianhong are both directors of Astoria and its subsidiary. Mr. Cai Tianhong, Mr. Liu Jun and Mr. Chen Daqing are substantial shareholders of Astoria. Accordingly, Cosmos Vantage, Mr. He, Mr. Li, Ms. Zheng Xiaohua, Mr. Cai Tianhong, Mr. Liu Jun and Mr. Chen Daqing, who are parties to the Deed, are connected persons of Beijing Development under the Old Main Board Listing Rules.

Purchaser	:	Xteam
Subject assets	:	<ol style="list-style-type: none">1. 680 shares of Astoria, representing 68% of the issued share capital of Astoria2. 100 shares of Wisdom Elite, representing the entire issued share capital of Wisdom Elite
Consideration	:	Xteam shall issue the Consideration Shares to E-tron, the Other Vendors and the shareholders of B E Information, as directed by B E Information, representing in aggregate 75% of the issued share capital of Xteam on a fully-diluted basis on completion of the Deed after taking into consideration (i) all new Xteam Shares which would be issued assuming full exercise of all outstanding share options granted or agreed to be granted over any Xteam Shares, all rights to acquire or convert into any new Xteam Shares granted or agreed to be granted, and all rights of subscription or conversion into new Xteam Shares granted or agreed to be granted, on or prior to the completion of the Deed; (ii) all new Xteam Shares to be issued or agreed to be issued on or prior to the completion of the Deed; and (iii) all new Xteam Shares to be issued pursuant to the Snow Fair Acquisition and the Pantosoft Acquisition. The actual number of Consideration Shares to be issued therefore depends on the number of Xteam Shares as at completion of the Deed and any securities of Xteam which carry rights to subscribe for or convert into new Xteam Shares in issue or agreed to be issued by Xteam prior to the completion date of the Deed.

Based on 693,007,938 Xteam Shares in issue as at the Latest Practicable Date, the 139,360,000 Xteam Shares to be issued under the Cosmos Town Agreement, the MC Capital Agreement and the Pantosoft Acquisition Agreement and 143,000,000 share options outstanding as at the Latest Practicable Date and assuming Xteam will not issue or agree to issue any Xteam Shares or securities carrying rights to subscribe for or convert into new Xteam Shares (other than the 139,360,000 new Xteam Shares which will be issued by Xteam pursuant to the Cosmos Town Agreement, the MC Capital Agreement and the Pantosoft Acquisition Agreement) prior to the completion date of the Deed, a total of 2,926,103,814 Consideration Shares shall be issued by Xteam under the Deed, of which:

1. 217,967,375 new Xteam Shares will be issued by Xteam to E-tron;
2. an aggregate of 72,655,790 new Xteam Shares will be issued by Xteam to the Other Vendors pro rata to the number of Astoria's shares sold by each of them to Xteam; and

LETTER FROM THE BOARD

3. as directed by B E Information and to effect the Proposed Distribution, 1,897,546,070 new Xteam Shares will be issued to Prime Technology, 527,096,129 new Xteam Shares will be issued to Cosmos Vantage, 105,419,225 new Xteam Shares will be issued to Mr. He and 105,419,225 new Xteam Shares will be issued to Mr. Li by Xteam. Please refer to the section headed “The Proposed Distribution” below for details of the Proposed Distribution.

Assuming a total of 2,926,103,814 Consideration Shares to be issued, the monetary value of the consideration for the Acquisition is

- approximately HK\$444.8 million based on the closing price of the Xteam Shares of HK\$0.152 as quoted on GEM on 6 February 2004 (being the last trading day of Xteam Shares prior to the date of the Announcement); and
- approximately HK\$447.7 million based on the closing price of the Xteam Shares of HK\$0.153 as quoted on GEM on the Latest Practicable Date.

Xteam is an independent third party not connected with Beijing Development, the directors, chief executives and substantial shareholders of Beijing Development or any of its subsidiaries or any of their respective associates and Xteam is not a connected person of Beijing Development under the Old Main Board Listing Rules.

Among the Other Vendors, (i) Mr. He and his associates held 4,533,760 Beijing Development Shares, representing approximately 0.9% of the issued share capital of Beijing Development as at the Latest Practicable Date and (ii) Mr. Li and his associates held 4,533,760 Beijing Development Shares, representing approximately 0.9% of the issued share capital of Beijing Development as at the Latest Practicable Date. Save for Mr. He and Mr. Li, no Other Vendors and their respective associates is a Beijing Development Shareholder. Mr. Chung Kwok Ho, the sole beneficial shareholder of Cosmos Vantage, together with his wife was interested in 76,000 Beijing Development Shares, representing approximately 0.02% of the issued share capital of Beijing Development as at the Latest Practicable Date.

The terms and conditions, including the consideration, of the Deed (including the consideration of the Acquisition) were determined after arm’s length negotiations between the parties, in particular, with reference to the historical financial track record of the Software Businesses, the price-to-earnings ratios of other listed companies which are principally engaged in the development of software, the future prospects of the Software Businesses and the synergy between the Software Businesses and the business of the Xteam Group. The aggregate audited net profits of the Software Businesses for the year ended 31 December 2003 was approximately HK\$41.3 million. Based on 2,926,103,814 Consideration Shares to be issued under the Deed, the consideration for the Acquisition and the historical price-to-earnings ratio of the Software Businesses are

- approximately HK\$444.8 million and approximately 11.28 times respectively (based on the closing price per Xteam Share of HK\$0.152 as quoted on GEM on 6 February 2004 (being the last trading day of the Xteam Shares prior to the Announcement)); and
- approximately HK\$447.7 million and approximately 11.35 times respectively (based on the closing price per Xteam Share of HK\$0.153 as quoted on GEM on the Latest Practicable Date).

LETTER FROM THE BOARD

The Consideration Shares

The Consideration Shares to be issued under the Deed shall rank pari passu in all respects with the Xteam Shares in issue on the date of allotment and issue of the Consideration Shares.

Xteam has undertaken to Beijing Development and the Other Vendors that it will not from the date of the Announcement to the completion date of the Deed, issue or enter into any agreement to issue (i) any new Xteam Shares, other than those which may be issued pursuant to (a) the exercise of the 143,000,000 outstanding share options of Xteam; (b) the Cosmos Town Agreement; (c) the MC Capital Agreement; and (d) the Pantosoft Acquisition Agreement; and (ii) any securities carrying rights to subscribe for or convert into new Xteam Shares. On this basis, the maximum number of Xteam Shares that may be issued under the Deed to the Beijing Development Group and the Other Vendors is 2,926,103,814 Consideration Shares.

Assuming 2,926,103,814 Xteam Shares shall be issued as Consideration Shares, such number of Consideration Shares represents (i) approximately 4.2 times the issued share capital of Xteam as at the Latest Practicable Date; (ii) 77.85% of the issued share capital of Xteam as enlarged by the issue of the new Xteam Shares under the Cosmos Town Agreement, the MC Capital Agreement and the Pantosoft Acquisition Agreement as well as the Consideration Shares; and (iii) 75.0% of the issued share capital of Xteam as enlarged by the issue of new Xteam Shares under the Cosmos Town Agreement, the MC Capital Agreement and the Pantosoft Acquisition Agreement as well as the Consideration Shares, assuming all the outstanding 143,000,000 share options of Xteam had been exercised in full.

Non-disposal undertakings

As requested by Xteam, each of E-tron, the Other Vendors, Prime Technology and Cosmos Vantage, has undertaken under the Deed that, it will not sell, transfer, grant any option over or otherwise dispose of (or enter into any agreement to sell, transfer, grant any option over or otherwise dispose of), nor permit the registered holder to sell, transfer, grant any option over or otherwise dispose of (or to enter into any agreement to sell, transfer, grant any option over or otherwise dispose of) any if its direct or indirect interest in the Consideration Shares to be issued to it or him or her under the Deed, from the issue date of such Consideration Shares to the date falling six months after completion of the Deed, save for (i) the Proposed Distribution, (ii) any transfer of the Consideration Shares by each of E-tron and Prime Technology to their respective associated companies (i.e. their subsidiaries, holding companies or subsidiaries of such holding companies) and (iii) any sale, transfer or otherwise disposal in order to maintain the public float of Xteam required under the Existing GEM Listing Rules requested by the Stock Exchange or the SFC.

Upwise is a company wholly and beneficially owned by Mr. Ma. As at the Latest Practicable Date, Upwise held 74,821,349 Xteam Shares, representing approximately 10.8% of the existing issued share capital of Xteam. In view of Xteam's request for E-tron, the Other Vendors, Prime Technology and Cosmos Vantage to give the above non-disposal undertaking, E-tron, the Other Vendors, Prime Technology and Cosmos Vantage have also requested Upwise, as the substantial shareholder of Xteam, to undertake and Upwise has undertaken under the Deed that it will not sell, transfer, grant any option over or otherwise dispose of (or enter into any agreement to sell, transfer, grant any option over or otherwise dispose of), nor permit the registered holder to sell, transfer, grant any option over or otherwise dispose of (or to enter into any agreement to sell, transfer, grant any option over or otherwise dispose of) any of its interest in the 74,821,349 Xteam Shares held by it as at the date of the Deed from the date of the Deed to the date falling six months after completion of the Deed.

LETTER FROM THE BOARD

Conditions precedent

Completion of the Deed is subject to, among other things, the following conditions precedent:

1. approval for the Sale Transaction being obtained from the Beijing Development Shareholders who are allowed to vote in respect of the Sale Transaction under the Old Main Board Listing Rules;
2. approval being obtained from the Independent Xteam Shareholders in respect of, among other things, the Acquisition and the Whitewash Waiver, who are allowed to vote under the Old GEM Listing Rules and the Takeovers Code, such vote to be by way of a poll;
3. approval being obtained from the Xteam Shareholders in respect of the increase in authorised share capital of Xteam from HK\$10 million to HK\$100 million in accordance with Xteam's memorandum and articles of association and the relevant Cayman Islands legislation;
4. the Executive granting the Whitewash Waiver to Beijing Development and the parties acting in concert with it;
5. approval for the listing of, and permission to deal in, the Consideration Shares being granted by the GEM Listing Committee;
6. the approval of the MC Capital Acquisition, the Cosmos Town Acquisition and/or the Pantosoft Acquisition, as the case may be, by the Xteam Shareholders, who are not involved in, or interested in, the MC Capital Acquisition, the Cosmos Town Acquisition and/or the Pantosoft Acquisition, as the case may be, and are allowed to vote in respect of such resolution(s) under the Takeovers Code, if necessary;
7. all the warranties given by the parties to the Deed, as the case may be, remaining true and accurate and not misleading up to and including the completion date of the Deed and the relevant parties to the Deed having performed all of the covenants and agreements under the Deed;
8. approval being obtained from the Independent Xteam Shareholders in respect of the Transactions and the Cap Amounts in accordance with the requirements under the GEM Listing Rules, such vote to be by way of a poll;
9. any other necessary consents from third parties (including governmental or official or regulatory authorities) and all other necessary consents and approvals required pursuant to any legal or regulatory requirement being obtained;
10. completion of the proposed transfer of Becom Software Business to the subsidiary of Wisdom Elite; and
11. completion of the Snow Fair Acquisition and the Pantosoft Acquisition.

Completion of the Deed shall take place on the third business day after satisfaction or waiver of the above conditions precedent in accordance with the Deed or upon such other date as may be agreed between Xteam and Beijing Development. Conditions 1, 2, 3, 4, 5, 6 and 8 stated above cannot be waived by any parties to the Deed. If condition 11 is waived, the Acquisition may then proceed without the MC Capital Acquisition, the Cosmos Town Acquisition and/or the Pantosoft Acquisition being completed. If the Snow Fair Acquisition and the Pantosoft Acquisition are not completed, based on 693,007,938 Xteam Shares in

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issue and assuming that the 143,000,000 share options outstanding as at the Latest Practicable Date have been exercised and assuming Xteam will not issue or agree to issue any Xteam Shares or securities carrying rights to subscribe for or convert into new Xteam Shares prior to the completion date of the Acquisition, 2,508,023,814 Consideration Shares will be issued by Xteam under the Deed.

Whitewash Waiver application

Under the Deed, Consideration Shares representing 75% of the enlarged issued share capital of Xteam on a fully diluted basis (as more fully described in the paragraph headed “the Deed” above) will be issued by Xteam to the Beijing Development Group and the Other Vendors upon completion of the Deed. Xteam has undertaken to Beijing Development and the Other Vendors that it will not from the date of the Announcement to the completion date of the Deed, issue or enter into any agreement to issue (i) any new Xteam Shares, other than those which may be issued pursuant to (a) the exercise of the 143,000,000 outstanding share options of Xteam; (b) the Cosmos Town Agreement; (c) the MC Capital Agreement; and (d) the Pantosoft Acquisition Agreement; and (ii) any securities carrying rights to subscribe for or convert into new Xteam Shares. On this basis, the maximum number of Xteam Shares that may be issued under the Deed to the Beijing Development Group and the Other Vendors is 2,926,103,814 Consideration Shares. Based on 2,926,103,814 Consideration Shares to be issued under the Deed, the values of the consideration for the Acquisition and the historical price-to-earnings ratios of the Software Businesses are

- approximately HK\$444.8 million and approximately 11.28 times respectively (based on the closing price of HK\$0.152 of each Xteam Share as quoted on GEM on 6 February 2004 (being the last trading day of the Xteam Shares prior to the date of the Announcement)); and
- approximately HK\$447.7 million and approximately 11.35 times respectively (based on the closing price of each Xteam Share of HK\$0.153 as quoted on GEM on the Latest Practicable Date).

Immediately after completion of the Acquisition and assuming (i) 2,926,103,814 Consideration Shares will be issued by Xteam under the Deed, (ii) 139,360,000 new Xteam Shares will be issued by Xteam upon completion of the Snow Fair Acquisition and the Pantosoft Acquisition and (iii) none of the 143,000,000 outstanding share options of Xteam is exercised, the Beijing Development Group will hold 56.29% of the voting rights of Xteam and Beijing Development and its concert parties (including Cosmos Vantage, the Other Vendors, Cosmos Town, MC Capital and Fortune Leo) will in aggregate hold approximately 82.06% of the voting rights in Xteam. Accordingly, Beijing Development would trigger a mandatory general offer obligation under Rule 26.1 of the Takeovers Code unless it obtains the Whitewash Waiver from the Executive.

Beijing Development has applied to the Executive for the Whitewash Waiver under Note 1 of the Notes on dispensation from Rule 26 of the Takeovers Code. Save for MC Capital, who owns 18,610,829 Xteam Shares, representing 2.69% of the issued share capital of Xteam, Beijing Development and its concert parties did not own any Xteam Shares as at the Latest Practicable Date. Beijing Development and its concert parties have not acquired any Xteam Shares in the past six months prior to the Date of the Deed.

The Executive has indicated granting Beijing Development the Whitewash Waiver subject to approval by the Independent Xteam Shareholders who are not involved in, or interested in, the Snow Fair Acquisition, the Pantosoft Acquisition and the Acquisition by an independent vote cast on a poll at the Xteam EGM.

LETTER FROM THE BOARD

Listing Rules requirements

As disclosed in the Holding Announcement, the Listing Division of the Stock Exchange previously ruled that the Acquisition constituted a reverse takeover for Xteam under the Old GEM Listing Rules and the Sale Transaction constituted a spin-off for Beijing Development under the Old Main Board Listing Rules. Beijing Development and Xteam applied to the Listing Committees (as defined in the Holding Announcement) for such ruling to be reviewed by the Listing Committees. The Listing Committees have decided that the Acquisition does not constitute a reverse takeover for Xteam under Rule 19.06(5) of the Old GEM Listing Rules and the Sale Transaction is not subject to Practice Note 15 of the Old Main Board Listing Rules (which Practice Note relates to spin-offs), subject to the condition that Mr. Ma and all other Xteam Shareholders who are interested in the Acquisition must abstain from voting at the Xteam EGM in respect of the resolution for approving the Acquisition.

As the aggregate consideration for the Sale Transaction exceeds 100% of the published net tangible asset value of the Beijing Development Group as at 30 June 2003, the Sale Transaction constitutes a very substantial acquisition for Beijing Development under the Old Main Board Listing Rules. Accordingly, the Sale Transaction is subject to approval by the Beijing Development Shareholders under Rule 14.07(1) of the Old Main Board Listing Rules. The Stock Exchange has indicated that the Sale Transaction will not be treated as a new listing application under Rule 14.07(3) of the Old Main Board Listing Rules.

As Mr. Cai Tianhong is a substantial shareholder of Astoria and a director of Astoria and its subsidiary, the Sale Transaction constitutes a connected transaction for Beijing Development under Rule 14.23(1)(b) of the Old Main Board Listing Rules and is therefore subject to approval by the independent shareholders of Beijing Development.

Mr. He and Mr. Li who are parties to the Deed and Beijing Development Shareholders together with Mr. and Mrs. Chung Kwok Ho who are shareholders of Cosmos Vantage, which is a party to the Deed and Beijing Development Shareholders, are required to abstain from voting at the EGM in respect of the resolution to approve the Sale Transaction. Save for Mr. He, Mr. Li, Mr. and Mrs. Chung Kwok Ho, no other Beijing Development Shareholder is required to abstain from voting in respect of the Sale Transaction at the EGM.

Board of directors of Xteam

The board of directors of Xteam currently comprises 9 members, including 5 executive directors, 2 non-executive directors and 2 independent non-executive directors. Upon completion of the Acquisition, Beijing Development intends to nominate such number of representatives to become Xteam Directors as shall constitute a majority of the board of the Xteam Directors. Beijing Development intends to nominate the following persons as executive Xteam Directors:

Mr. ZHANG Honghai (to be nominated as the chairman of Xteam), aged 51, is the vice chairman, president and executive director of 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 honour of Senior Economist. Mr. Zhang has worked for the 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

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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.

Mr. E Meng, aged 46, is the vice president of Beijing Enterprises and the deputy managing director 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.

Mr. LI Kang Ying, aged 47, is the assistant to the chairman of Beijing Enterprises and the chairman of B E Information. He graduated from North China Institute of Electric Power majoring in telecommunications and is a qualified engineer in the PRC. Mr. Li held the posts of university lecturer and 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. CAO Wei, aged 39, is the director and the Chief Executive Officer of B E Information. He graduated from Harbin Industrial University and is one of the founding members of the underlying business of B E Information. Mr. Cao has over 15 years' experience in the telecommunications and information technology field.

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

Mr. NG Kong Fat, Brian, aged 48, 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.

Beijing Development Directors understand that save for Mr. Ma, Mr. Wang Shi Yu and Mr. Cheng Shu Wing, all existing Xteam Directors intend to resign as Xteam Directors after completion of the Deed. Mr. Wang Shi Yu and Mr. Cheng Shu Wing will continue to be independent non-executive Xteam Directors. The position of Mr. Ma is intended to change from a non-executive Xteam Director and chairman to an executive Xteam Director.

Reasons for and benefits of the Sale Transaction

The Software Businesses

Beijing Development acquired a 51% interest in Astoria in 17 April 2003. Astoria is principally engaged in the development and sale of re-employment and e-government software systems to government authorities.

The Beijing Development Group first acquired a 60% interest in Wisdom Elite in January 2003. As a result of such internal reorganisation, B E Information has become an intermediate holding company of the Beijing Development Group's information technology business and Wisdom Elite has become a wholly-

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owned subsidiary of B E Information. Please refer to Beijing Development's announcement dated 7 October 2003 and its circular dated 29 October 2003 for further details of the internal reorganisation of the information technology business of the Beijing Development Group. Wisdom Elite Group is principally engaged in the development and sale of social security information management systems and tax information management systems in the PRC. The clients of Wisdom Elite include governmental agencies and private enterprises in the PRC.

The Becom Software Business is currently mainly related to the development and sale of educational and information management software and systems in the PRC. The customers of such software business include the Beijing Education Bureau and various schools in Beijing, the PRC. Becom is owned as to 95% by B E Information and 5% by 北京教育網絡和信息中心 (Beijing Education Network and Information Center) under the Beijing Education Bureau. The minority shareholder of Becom is an independent third party not connected with Beijing Development, the directors, chief executive and substantial shareholders of Beijing Development or any of its subsidiaries or any of their respective associates and accordingly, it is not a connected person of Beijing Development under the Old Main Board Listing Rules. In order to further rationalize the corporate structure of the information technology business of the Beijing Development Group, it is planned that the entire Becom Software Business (including all the existing relevant contracts, intangible assets and staff) will be transferred by Becom to Beijing Enterprises VST Software Technology Co. Ltd. (北京北控偉仕軟件工程技術有限公司), a wholly-owned PRC subsidiary of Wisdom Elite, at nil consideration prior to the completion of the Acquisition. The assets and liabilities of the Becom Software Business as shown in the accountants report on the Becom Software Business set out in Appendix V to this circular will not be transferred to the Wisdom Elite Group. The Beijing Development Directors believe that this will further enhance the business prospects and competitiveness of the Wisdom Elite Group in the PRC software development market.

The Beijing Development Directors believe that the Software Businesses have established strong business relationships with a number of government departments in the PRC, such as the Beijing Education Bureau, the Labour and Social Security and Tax Authorities in the PRC. This gives the Software Businesses a strong foundation for further business development in the PRC.

The audited net profit before and after tax of the Becom Software Business for the two years ended 31 December 2003 are set out in the following table:

	For the year ended 31 December 2002	For the year ended 31 December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Audited net profit before tax	2,995	11,647
Audited net profit after tax	2,995	11,647

The Becom Software Business will be transferred to Wisdom Elite prior to completion of the Deed. The transfer of such business will mainly include the transfer of the personnel and the business contracts in progress.

The audited consolidated net profit before and after tax of Wisdom Elite for the period from 26 August 2002 (date of incorporation) to 31 December 2003 was approximately HK\$23,770,000. The audited consolidated total assets and consolidated net tangible assets of Wisdom Elite as at 31 December 2003 were approximately HK\$29,494,000 and approximately HK\$25,657,000 respectively.

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The audited consolidated net profit before and after tax of Astoria for the period from 20 January 2003 (date of incorporation) to 31 December 2003 was approximately HK\$5,912,000. The audited consolidated total assets and consolidated net tangible assets of Astoria as at 31 December 2003 were approximately HK\$9,405,000 and approximately HK\$5,920,000 respectively.

No extraordinary items were recorded by (i) the Becom Software Business for the two years ended 31 December 2003, (ii) Wisdom Elite for the period from 26 August 2002 to 31 December 2003 and (iii) Astoria for the period from 26 August 2002 to 31 December 2003.

The Xteam Group

The Xteam Group is principally engaged in the provision of Chinese Linux operating systems with kernel rewritten to specifically cater for Chinese users in the PRC and the provision of software based on the Linux operating platform for various hardware appliances including servers, mobile network systems and personal computers in the PRC. The Xteam Group also provides technical support and after-sales services to its customers. In 2002, Xteam received “The Best Linux Product Award” from China Center of Information Industry Development of the Ministry of Information Industry. Xteam has been focusing on the e-government market in the PRC and was recognized as one of the “Top 100 e-Government IT Enterprises in the PRC” for the second year by China Weekly in October 2003.

The head office of the Xteam Group is in Beijing. The Xteam Group has set up a sales office in Shanghai and a representative office in each of Guangzhou, Qingdao and Wuhan.

The audited loss before and after tax and minority interests of the Xteam Group for the two years ended 31 March 2004 are set out in the following table:

	For the year ended 31 March	
	2003	2004
	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before tax and minority interests	(10,327)	(33,105)
Loss after tax and minority interests	(10,589)	(34,847)

No extraordinary items were recorded by the Xteam Group for the two years ended 31 March 2004.

Operations of the Xteam Group in the early 2003 were affected by Severe Acute Respiratory Syndrome (“SARS”) outbreak and normal business activities were muted. Though the PRC economy picked up steadily after the SARS outbreak, the Xteam Group had to squeeze the gross profit margin of its products with a view to capturing further market share. The Xteam Group’s consolidated turnover for the year ended 31 March 2004 was approximately HK\$26,823,000, a slight increase to that of approximately HK\$26,694,000 last year.

In view of the changing market conditions, the Xteam Group decided to make significant impairment provisions. Xteam Directors believe this reflects the appropriate current worth of the Xteam Group’s assets and will provide a sound basis to generate value for Xteam Shareholders in the future. The Xteam Group incurred approximately HK\$16,296,000 in aggregate, provision against inventories and impairment loss in respect of intangible assets. These provisions have no impact on the Xteam Group’s operating cash flows.

As a result of the provisions, the Xteam Group recorded a consolidated loss attributable to Xteam Shareholders of approximately HK\$34,847,000 for the year ended 31 March 2004.

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The audited net asset value and total assets value of the Xteam Group as at 31 March 2004 were approximately HK\$27.1 million and HK\$39.2 million respectively.

Benefits and effects of the Sale Transaction

The Beijing Development Group is principally engaged in the provision of information technology solutions to several industries in the PRC (including the Software Businesses and the systems integration business, hardware and software solution businesses carried out by other subsidiaries of B E Information), internet and communication related services (including an internet service provider consultancy business), restaurant operations and property investment. It is a business strategy of Astoria and Wisdom Elite to continue to establish close business relationships with the various government departments in the PRC with a focus on the e-government and e-education market. The Xteam Group will continue to develop its Chinese Linux based software business in the PRC, including the e-government and e-education business segments.

Immediately after completion of the Sale Transaction, Xteam will become a 56.29% owned subsidiary of Beijing Development (assuming that the number of Consideration Shares which is to be issued under the Deed is 2,926,103,814). Astoria and Wisdom Elite will continue to be subsidiaries of Beijing Development after completion of the Acquisition. Assuming (i) 2,926,103,814 Consideration Shares shall be issued by Xteam under the Deed, (ii) 139,360,000 new Xteam Shares will be issued upon completion of the Snow Fair Acquisition and the Pantosoft Acquisition and (iii) none of the 143,000,000 outstanding share options of Xteam is exercised, the indirect attributable and effective interests of Beijing Development in Astoria and Wisdom Elite will decrease from 51% and 72% respectively to approximately 38.3% and approximately 56.29% respectively upon completion of the Acquisition. As described above, business of Astoria and Wisdom Elite and that of the Xteam Group are both software related. The Beijing Development Directors believe that the Software Businesses and the business of the Xteam Group are in the same line of business and are complementary with each other. The combination of the two businesses will allow the Software Businesses to further enhance its technical capability and expertise. The Beijing Development Directors believe that the enlarged Xteam Group (including the Software Businesses), as well as the Enlarged Group, after completion of the Sale Transaction will be in a stronger position to capitalize, capture the opportunities available and to foster the rapid deployment of Linux technology in the PRC as a result of the promotion of e-government and e-education by the PRC Government.

Based on the above, the Beijing Development Directors (after evaluating the dilution effect to Beijing Development's effective interest in the Software Businesses and the expected benefits of combining the businesses of the Xteam Group and the Software Businesses as stated above) believe that the Sale Transaction is in the best interests of Beijing Development and the terms of the Deed are fair and reasonable as far as the respective interests of the Beijing Development Shareholders are concerned.

THE PROPOSED DISTRIBUTION

B E Information is a 72% owned direct subsidiary of Prime Technology. Cosmos Vantage owns a 20% interest in B E Information and each of Mr. Li and Mr. He holds a 4% interest in B E Information. Mr. Li and Mr. He are respectively chief executives of Wisdom Elite and its subsidiary and are connected persons of Beijing Development. Mr. Chung Kwok Ho, the sole beneficial owner of Cosmos Vantage, is a director of certain subsidiaries of B E Information. Each of Mr. Li and Mr. He is also one of the Other Vendors under the Deed for the sale of their respective interests in Astoria. Under the Deed (assuming the issue of 139,360,000 new Xteam Shares upon completion of the Snow Fair Acquisition and the Pantosoft Acquisition and taking into account the 143,000,000 outstanding share options of Xteam), Mr. Li will be allotted 5,128,644 Consideration Shares and Mr. He will be allotted 5,128,644 Consideration Shares for the sale of their interests in Astoria.

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In order to give effect to the allotment and issue of the Consideration Shares to the shareholders of B E Information, including Prime Technology, Cosmos Vantage, Mr. Li and Mr. He, as directed by B E Information under the Deed, B E Information intends to carry out the Proposed Distribution. Pursuant to the Proposed Distribution (assuming the issue of 139,360,000 new Xteam Shares upon completion of the Snow Fair Acquisition and the Pantosoft Acquisition and taking into account the 143,000,000 outstanding share options of Xteam), 2,635,480,649 Consideration Shares will be distributed by B E Information to its shareholders on a pro rata basis based on the proportion of shares in B E Information held by each of such shareholders by way of distribution in specie. The Proposed Distribution is subject to the relevant requirements under the British Virgin Islands law and the memorandum and articles of association of B E Information. Under the Proposed Distribution, 1,897,546,070 Consideration Shares will be distributed to Prime Technology, 527,096,129 Consideration Shares will be distributed to Cosmos Vantage, 105,419,225 Consideration Shares will be distributed to Mr. He and 105,419,225 Consideration Shares will be distributed to Mr. Li assuming that the total number of Consideration Shares which will be issued by Xteam under the Deed is 2,926,103,814.

SHAREHOLDING STRUCTURE OF XTEAM

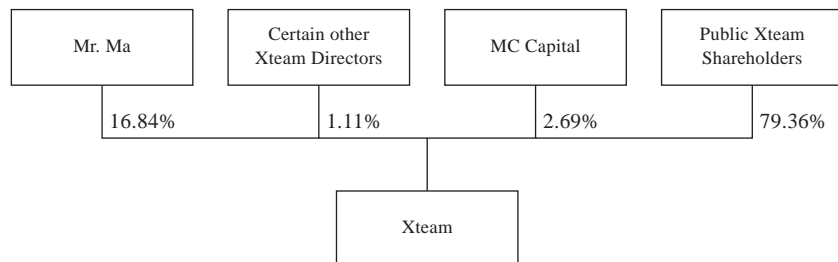
The table below shows the shareholding structure of Xteam as at the Latest Practicable Date and the structure immediately after completion of the Snow Fair Acquisition, the Pantosoft Acquisition and the Acquisition.

	Shareholding as at the Latest Practicable Date	Percentage	Immediately after completion of Snow Fair Acquisition, the Pantosoft Acquisition and the Acquisition	Percentage	Immediately after completion of the Acquisition (assuming the Snow Fair Acquisition and the Pantosoft Acquisition are not completed)	Percentage
The Beijing Development Group	—	0.00%	2,115,513,445	56.29%	1,813,250,125	56.65%
Cosmos Vantage	—	0.00%	527,096,129	14.02%	451,784,943	14.11%
Other Vendors						
Mr. He	—	0.00%	110,547,869	2.94%	94,752,854	2.96%
Mr. Li	—	0.00%	110,547,869	2.94%	94,752,854	2.96%
Ms. Zheng Xiaohua	—	0.00%	18,805,028	0.50%	16,118,176	0.50%
Mr. Cai Tianhong	—	0.00%	16,668,093	0.44%	14,286,565	0.45%
Mr. Chen Daqing*	—	0.00%	16,668,093	0.44%	14,286,565	0.45%
Mr. Liu Jun*	—	0.00%	6,410,805	0.17%	5,494,833	0.17%
Mr. Yang Xiping*	—	0.00%	3,846,483	0.10%	3,296,899	0.10%
Cosmos Town*	—	0.00%	24,138,000	0.64%	—	0.00%
MC Capital*	18,610,829	2.69%	28,410,829	0.76%	18,610,829	0.58%
Fortune Leo*	—	0.00%	105,422,000	2.81%	—	0.00%
Beijing Development and its concert parties	18,610,829	2.69%	3,084,074,643	82.06%	2,526,634,643	78.93%
Mr. Ma	116,681,821	16.84%	116,681,821	3.10%	116,681,821	3.65%
Certain other Xteam Directors	7,701,469	1.11%	7,701,469	0.21%	7,701,469	0.24%
Other existing public Xteam Shareholders*	550,013,819	79.36%	550,013,819	14.63%	550,013,819	17.18%
	<u>693,007,938</u>	<u>100%</u>	<u>3,758,471,752</u>	<u>100%</u>	<u>3,201,031,752</u>	<u>100%</u>
* public Xteam Shareholders	<u>568,624,648</u>	<u>82.05%</u>	<u>734,910,029</u>	<u>19.55%</u>	<u>591,702,947</u>	<u>18.48%</u>

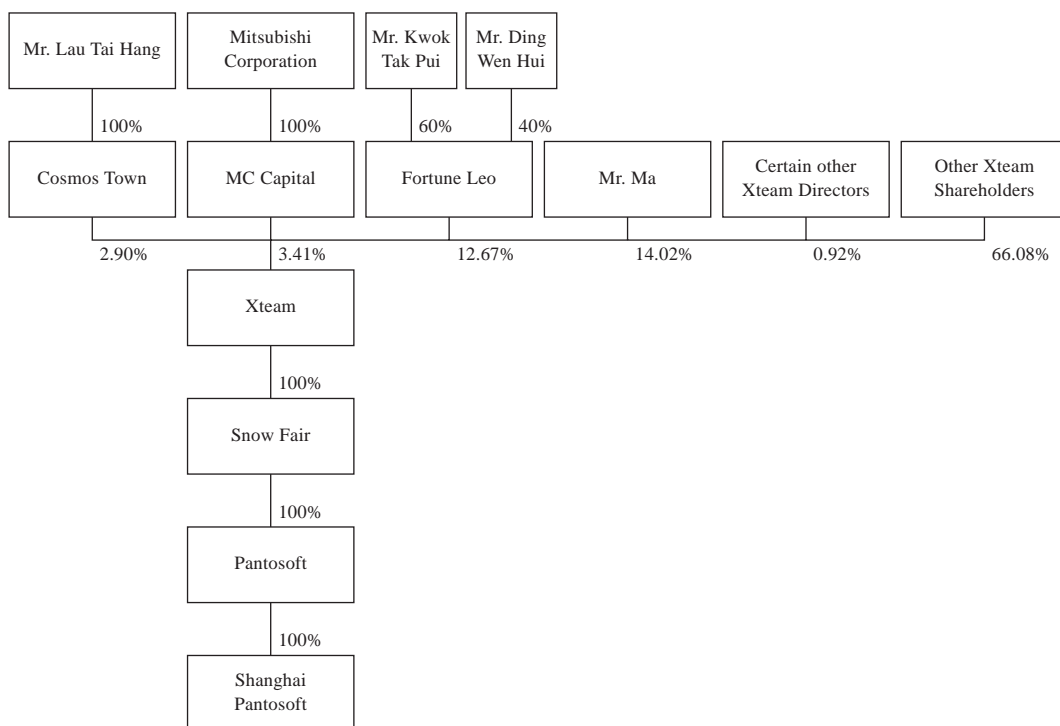
Note: Assuming that apart from (a) the new Xteam Shares to be allotted and issued pursuant to the Cosmos Town Agreement, the MC Capital Agreement and the Pantosoft Acquisition Agreement and (b) the Consideration Shares, no further new Xteam Shares and securities carrying rights to subscribe for or convert into new Xteam Shares or otherwise will be allotted and issued after the date of the Deed and before the completion of the Acquisition (including any new Xteam Shares which may be issued upon exercise of the outstanding share options of Xteam), 2,926,103,814 Consideration Shares will be issued under the Deed.

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Shareholding structure of Xteam as at the Latest Practicable Date was as follows:

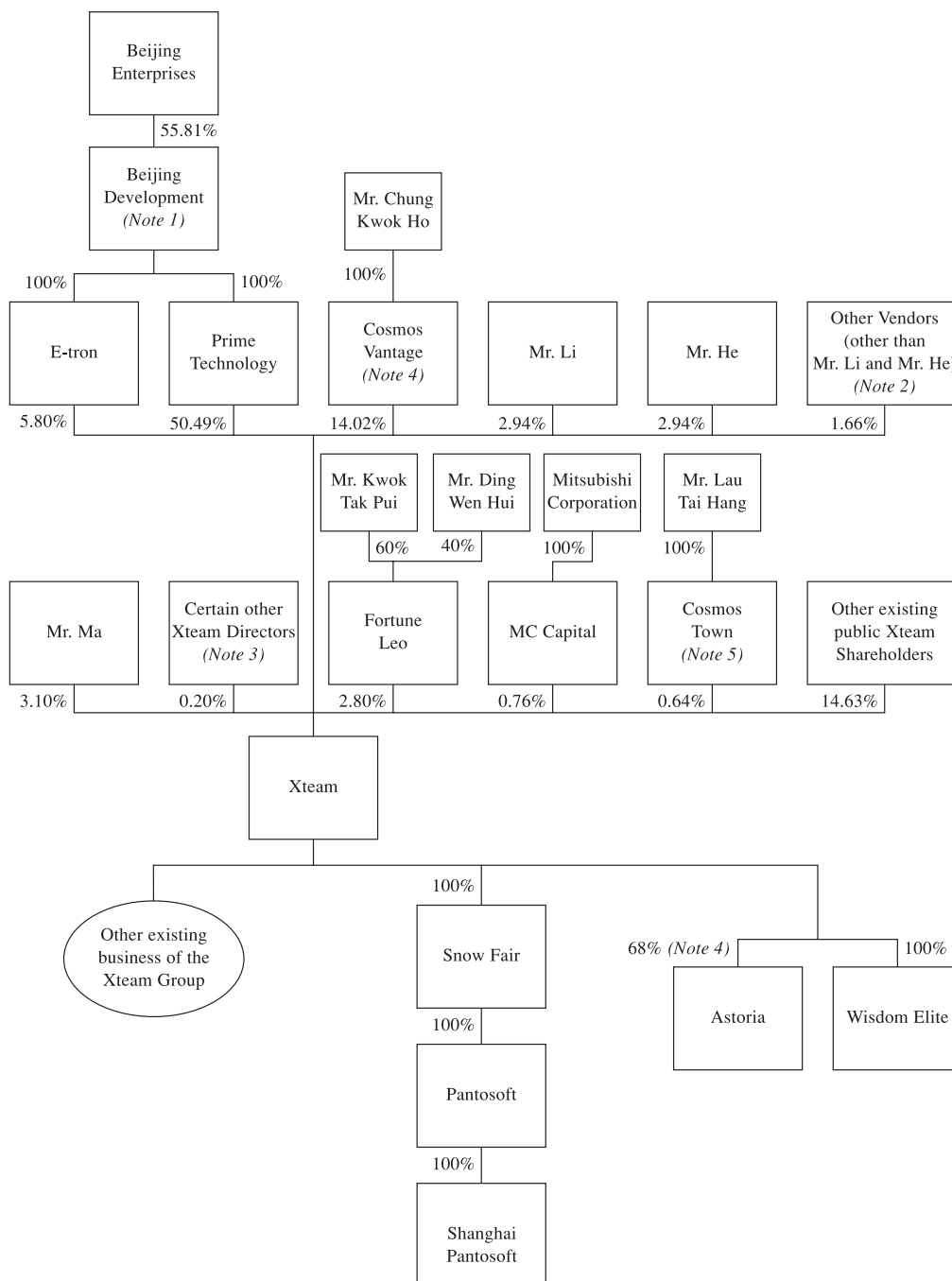


After completion of the Snow Fair Acquisition and the Pantosoft Acquisition but before completion of the Acquisition, the structure of the Xteam Group will be as follows:



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After completion of the Snow Fair Acquisition, the Pantosoftware Acquisition and the Acquisition, the structure of the Xteam Group will be as follows:



Notes:

- Mr. Chung Kwok Ho, the sole beneficial owner of Cosmos Vantage, and his wife held 76,000 Beijing Development Shares representing approximately 0.02% of the issued share capital of Beijing Development as at the Latest Practicable Date. Each of Mr. He and Mr. Li held 4,533,760 Beijing Development Shares, representing approximately 0.9% of the issued share capital of Beijing Development as at the Latest Practicable Date. Save for the above, no other party to the Deed held any Beijing Development Shares as at the Latest Practicable Date.

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2. The 1.66% interests in Xteam will be owned by Ms. Zheng Xiaohua as to 0.50%, Mr. Cai Tianhong as to 0.44%, Mr. Chen Daqing as to 0.44%, Mr. Liu Jun as to 0.17% and Mr. Yang Xiping as to 0.10%.
3. The 0.20% interests in Xteam will be owned by Mr. Wu Meng Jie and Mr. Ren Yi (both are executive Xteam Directors) as to 0.16% and 0.04% respectively.
4. The remaining shareholding interests in Astoria are held by the Other Vendors as to 27% (9.5% by Mr. Liu Jun, 6.2% by Mr. Cai Tianhong, 6.2% by Mr. Chen Daqing, 1.5% by Mr. Yang Xiping, 1.8% by Mr. Li and 1.8% by Mr. He) and Capinfo (Hong Kong) Co. Ltd. as to 5%. Capinfo (Hong Kong) Co. Ltd. is a wholly-owned subsidiary of Capinfo Co. Ltd., the shares of which are listed on GEM. Mr. He, Mr. Li are the respective chief executives of Wisdom Elite and its subsidiary. Ms. Zheng Xiaohua and Mr. Cai Tianhong are directors of Astoria and its subsidiary. Accordingly, Mr. He, Mr. Li, Ms. Zheng Xiaohua and Mr. Cai Tianhong are connected persons of Beijing Development under the Old Main Board Listing Rules.
5. Cosmos Vantage is a substantial shareholder of B E Information and is thus a connected person of Beijing Development under the Old Main Board Listing Rules.

As stated in the Announcement, as a result of the completion of the Acquisition (assuming the issue of 139,360,000 new Xteam Shares upon completion of the Snow Fair Acquisition and the Pantosoft Acquisition and the 143,000,000 outstanding share options of Xteam not being exercised), the public float of Xteam will fall to approximately 19.55% which is below the 25% minimum level required under Rule 11.23(1) of the Existing GEM Listing Rules. Certain of the Other Vendors, including Mr. Chen Daqing, Mr. Liu Jun and Mr. Yang Xiping, together with Cosmos Town, MC Capital, Fortune Leo and the existing public Xteam Shareholders will be regarded as public Xteam Shareholders upon completion of the Snow Fair Acquisition, the Pantosoft Acquisition and the Acquisition. With a view to maintaining the minimum public float of Xteam, Beijing Development, the Beijing Development Directors, Xteam and the Xteam Directors will take all necessary actions to maintain the minimum required public float of Xteam upon completion of the Acquisition. It is proposed that Cosmos Vantage and/or the Other Vendors, other than Mr. Chen Daqing, Mr. Liu Jun and Mr. Yang Xiping, will place down their shareholding in the Xteam Shares to be issued to then under the Deed so that the Xteam Shares held by the public shareholders will not be less than 25% of the issued share capital of Xteam upon completion of the Acquisition. Up to the Latest Practicable Date, no agreement has been entered into by any of Cosmos Vantage and/or the Other Vendors, other than Mr. Chen Daqing, Mr. Liu Jun and Mr. Yang Xiping, in respect of the possible placing down.

THE TRANSACTIONS

The information technology businesses of the Beijing Development Group (including the Software Businesses) involve the design, build and implementation of computer and/or internet systems for clients. Such businesses may involve the design and development of software systems which are carried out by the Software Businesses. It is anticipated by the Beijing Development Directors that after completion of the Acquisition, certain wholly owned subsidiaries of B E Information, namely Beijing Enterprises Teletron Information Technology Co. Ltd. (北京北控電信通信息技術有限公司) and Beijing Enterprises Jetric Technology Development Co. Ltd. (北控捷通(北京)科技發展有限公司) which are indirect subsidiaries of Beijing Enterprises and Beijing Development, will act as the main contractors with the clients in the PRC and such subsidiaries of B E Information will then sub-contract the software related part of the businesses to the companies involved in the Software Businesses, including Astoria, Wisdom Elite and the Becom Software Business to be transferred to Wisdom Elite by Becom prior to completion of the Deed, i.e. (the "Transactions"). The fees in respect of the Transactions will be determined with reference to the market fees charged by the Software Businesses to independent customers, not within the Xteam Group and who are not connected persons, as defined in the Existing Main Board Listing Rules, of Beijing Development and Beijing Enterprises. In the past, agreements were entered into on a project by project basis. It is proposed that the Master Agreement will be entered into upon completion of the Deed to govern the terms of the Transactions for terms up to 31 March 2007. Assuming the Master Agreement had been entered into on 1

LETTER FROM THE BOARD

January 2001, the Beijing Development Directors estimate that the annual aggregate fees which would have been received by Astoria, Wisdom Elite and the Becom Software Business in respect of the Transactions would have been HK\$0.9 million, HK\$23.3 million and HK\$55.8 million for the years ended 31 December 2001, 2002 and 2003 respectively. The Beijing Development Directors have confirmed that the Transactions will be carried out in (i) the ordinary and usual course of business of the Beijing Development Group and the Xteam Group respectively and (ii) on normal commercial terms.

The Transactions do not and will not constitute connected transaction for Beijing Development under the Existing Main Board Listing Rules. However, the Beijing Development Directors understand from the Xteam Directors that the Transactions will constitute continuing connected transactions for Xteam under the Existing GEM Listing Rules. The Beijing Development Directors understand from the Xteam Directors that the Transactions and the Cap Amounts are subject to approval of the Independent Xteam Shareholders at the Xteam EGM and a number of other requirements under the Existing GEM Listing Rules. Beijing Development Shareholders may refer to the Announcement for details of such requirements. Based on the historical amounts of the Transactions and the expectation that the market is growing, Beijing Development and Xteam propose to set the Cap Amounts to be HK\$120 million, HK\$150 million and HK\$200 million for each of the three years ending 31 March 2005, 2006 and 2007 respectively.

GENERAL

The Sale Transaction constitutes a very substantial acquisition and a connected transaction for Beijing Development. The Sale Transaction is subject to the approval by the Independent Shareholders. Mr. He, Mr. Li, Mr. and Mrs. Chung Kwok Ho have to abstain from voting at the EGM in respect of the resolution to approve the Sale Transaction. Save for Mr. He, Mr. Li, Mr. and Mrs. Chung Kwok Ho, no other Beijing Development Shareholders are required to abstain from voting at the EGM in respect of the resolution to approve the Sale Transaction.

Completion of the Acquisition (including the Sale Transaction) is conditional on the satisfaction of a number of conditions precedent. There is no assurance that all the necessary consents and approvals required to satisfy all the conditions precedent will be obtained and the Acquisition (including the Sale Transaction) will be completed. Caution should be exercised when dealing in the Beijing Development Shares.

RECOMMENDATION

Kingston has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Sale Transaction. The Independent Board Committee has considered the respective terms and conditions of the Sale Transaction and the advice given by Kingston, and is of the opinion that the Sale Transaction are fair and reasonable as far as the interests of the Independent Shareholders are concerned.

The Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Sale Transaction.

THE EGM

Set out on pages 153 to 154 of this circular is a notice convening the EGM to be held at Chater Room II, Basement 1, The Ritz-Carlton, 3 Connaught Road Central, Hong Kong at 11:30 a.m. on Thursday, 22 July 2004. The EGM will be held for the purpose of considering, and, if thought fit, approving the Sale Transaction by the Independent Shareholders.

LETTER FROM THE BOARD

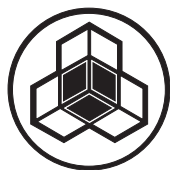
A form of proxy for use at the EGM is enclosed. If you are not able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to Beijing Development's share registrar in Hong Kong, Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting should you so wish.

Beijing Development understands that the extraordinary general meeting of Beijing Enterprises will be held on 22 July 2004 with a view to seeking approval from its shareholders for the Sale Transaction, and the Xteam EGM will be held on 22 July 2004 with a view to seeking approvals from its shareholders for the Cosmos Town Acquisition, the MC Capital Acquisition, the Pantosoft Acquisition, the Acquisition, the Whitewash Waiver, the increase in the authorised share capital of Xteam, the Transaction and the Cap Amounts.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee containing its recommendation regarding the resolution to be proposed at the EGM to approve the Sale Transaction; (ii) the letter from Kingston containing its advice to the Independent Board Committee in respect of the Sale Transaction; and (iii) the further information set out in the appendices to this circular including the financial information on the Beijing Development Group, the Xteam Group, Astoria and Wisdom Elite.

Yours faithfully,
By order of the Board
Ng Kong Fat, Brian
Managing Director



北京發展（香港）有限公司

BEIJING DEVELOPMENT (HONG KONG) LIMITED

(incorporated in Hong Kong with limited liability under the Companies Ordinance)

30 June 2004

To the Independent Shareholders

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

**in relation to the sale of a 51% interest in Astoria Innovations Limited
and the entire issued share capital of Wisdom Elite Holdings Limited**

We refer to the circular issued by Beijing Development to its shareholders dated 30 June 2004 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to consider the terms and conditions of the Sale Transaction, and to advise you in connection therewith. Kingston has been appointed as the independent financial adviser to advise us in this regard.

We wish to draw your attention to the “Letter from the Board”, as set out on pages 6 to 25 of the Circular, which sets out, among other things, information relating to and the reasons for the Sale Transaction, and the “Letter from Kingston” which contains its advice to us in respect of the Sale Transaction as set out on pages 27 to 43 of the Circular.

We have considered the principal factors taken into account by Kingston in arriving at its opinion regarding the Sale Transaction as set out in its letter. We consider that the terms of the Sale Transaction are fair and reasonable as far as the interests of the Independent Shareholders are concerned and the Sale Transaction is in the best interests of Beijing Development and its shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution as set out in the notice of the EGM in respect of the Sale Transaction on pages 153 to 154 of the Circular.

Yours faithfully,

The Independent Board Committee

Mr. Cao Guixing Mr. Feng Ching Yeng, Frank
Independent non-executive Directors

LETTER FROM KINGSTON

Set out below is the text of a letter received from Kingston, the independent financial adviser to the Independent Board Committee, regarding the Sale Transaction prepared for the purpose of inclusion in this circular.



KINGSTON CORPORATE FINANCE LIMITED

Suite 2801, 28th Floor
One International Financial Centre
1 Harbour View Street
Central
Hong Kong

30 June 2004

*The Independent Board Committee of
Beijing Development (Hong Kong) Limited*

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

**in relation to the sale of a 51% interest in Astoria Innovations Limited
and the entire issued share capital of Wisdom Elite Holdings Limited**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in respect of the Sale Transaction, details of which are set out in the letter from the board of the Beijing Development Directors (the "Board Letter") contained in Beijing Development's circular dated 30 June 2004 (the "Circular") of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Beijing Development entered into the Deed with E-tron, the Other Vendors, B E Information, Cosmos Vantage, Prime Technology, Xteam and Upwise on 10 February 2004. Pursuant to the Deed, an aggregate interest of 68% in Astoria and the entire issued share capital of Wisdom Elite will be sold by the Beijing Development Group, Cosmos Vantage and the Other Vendors to Xteam and Xteam will issue the Consideration Shares, representing 75% of the issued share capital of Xteam on a fully diluted basis, to the Beijing Development Group, Cosmos Vantage and the Other Vendors.

As the above transactions were entered into prior to 31 March 2004 when the recent amendments to the Rules Governing the Listing of Securities on the Main Board came into effect, the Sale Transaction is governed by the Old Main Board Listing Rules which were in effect immediately prior to 31 March 2004.

The Sale Transaction constitutes a very substantial acquisition under the Old Main Board Listing Rules for Beijing Development by virtue of the fact that the aggregate consideration for the Sale Transaction exceeds 100% of the published net tangible asset value of the Beijing Development Group as at 30 June 2003. Furthermore, as Mr. Cai Tianhong is a substantial shareholder of Astoria and a director of Astoria and its subsidiary, the Sale Transaction also constitutes a connected transaction for Beijing Development under Rule 14.23 (1) (b) of the Old Main Board Listing Rules.

LETTER FROM KINGSTON

Mr. He and Mr. Li who are parties to the Deed and the Beijing Development Shareholders together with Mr. and Mrs. Chung Kwok Ho who are shareholders of Cosmos Vantage, which is a party to the Deed, and are the Beijing Development Shareholders, are required to abstain from voting at the EGM in respect of the resolution to approve the Sale Transaction.

The Beijing Development Directors have appointed the Independent Board Committee to consider whether the Sale Transaction is fair and reasonable so far as the Independent Shareholders are concerned. Kingston has been appointed to advise the Independent Board Committee in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Beijing Development Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Beijing Development Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so at the date hereof. We have also assumed that all statements of belief, opinion, expectation and intention made by the Beijing Development Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by Beijing Development, its advisers and/or the Beijing Development Directors, which have been provided to us. The Beijing Development Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of Beijing Development, Xteam, Beijing Enterprises, or their respective subsidiaries or associated companies.

SUMMARY OF THE SALE TRANSACTION

For the purpose of our analysis on the Sale Transaction, we have not taken into account the Snow Fair Acquisition and the Pantosoft Acquisition.

Not taking into account the Snow Fair Acquisition and the Pantosoft Acquisition and assuming none of the 143,000,000 outstanding share options of Xteam is exercised, the Acquisition and the Sale Transaction are summarized as follows:

- (i) Xteam will acquire 68% interest of Astoria from E-tron and the Other Vendors;
- (ii) Xteam will acquire 100% interest of Wisdom Elite from B E Information;
- (iii) Xteam will issue the Consideration Shares to E-tron and the Other Vendors as consideration;
- (iv) Xteam will distribute the Consideration Shares to B E Information's shareholders, i.e. Prime Technology, Cosmos Vantage, Mr. Li and Mr. He on a pro rata basis based on the proportion of shares in B E Information held by each of such shareholders by way of distribution in specie as consideration;

LETTER FROM KINGSTON

- (v) Becom will transfer the Becom Software Business to Beijing Enterprises VST Software Technology Co. Ltd. (北京北控偉仕軟件工程技術有限公司) (“BE VST”), a subsidiary of Wisdom Elite;
- (vi) Xteam will be a 56.65% subsidiary of Beijing Development;
- (vii) Astoria will be a 68% subsidiary of Xteam and a 38.52% indirect subsidiary of Beijing Development; and
- (viii) Wisdom Elite will be a wholly-owned subsidiary of Xteam and a 56.65% indirect subsidiary of Beijing Development.

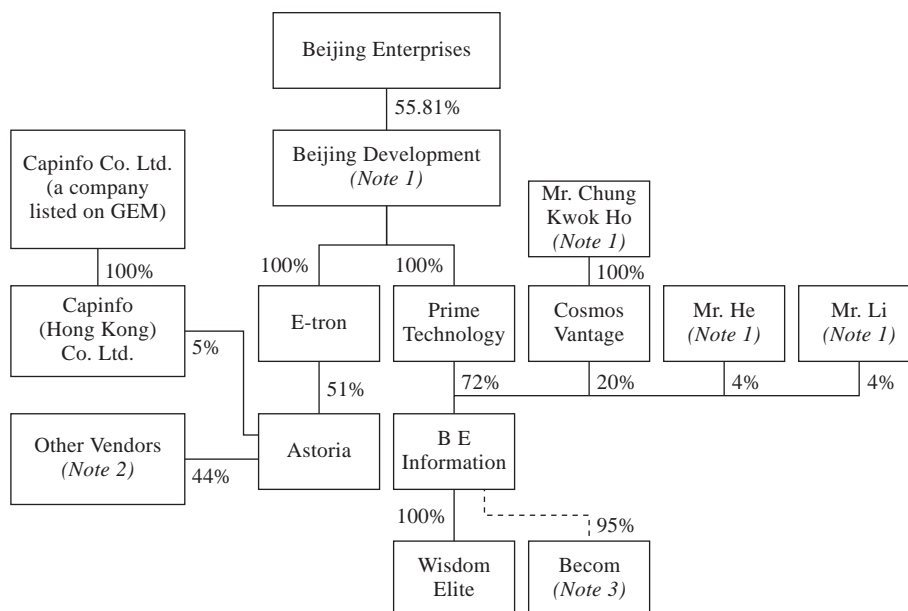
The Sale Transaction is part of the Acquisition. Completion of the Acquisition is conditional on among other things (details of which are set out in the Board Letter), completion of the Snow Fair Acquisition and the Pantosoft Acquisition. Pursuant to the Deed, completion of the Snow Fair Acquisition and the Pantosoft Acquisition can be waived. If the condition is waived, the Acquisition may then proceed without the Snow Fair Acquisition and/or the Pantosoft Acquisition. If the Snow Fair Acquisition and the Pantosoft Acquisition are not completed, based on 693,007,938 Xteam Shares in issue as at the Latest Practicable Date and 143,000,000 share options outstanding as at the Latest Practicable Date, and assuming Xteam will not issue or agree to issue any Xteam Shares or securities carrying rights to subscribe for or convert into new Xteam Shares prior to the completion date of the Acquisition, 2,508,023,814 Consideration Shares will be issued by Xteam to the Beijing Development Group, Cosmos Vantage and the Other Vendors under the Deed.

Assuming the Snow Fair Acquisition and the Pantosoft Acquisition will be completed, based on 693,007,938 Xteam Shares in issue as at the Latest Practicable Date and 143,000,000 share options outstanding as at the Latest Practicable date, and assuming Xteam will not issue or agree to issue any Xteam Shares or securities carrying rights to subscribe for or convert into new Xteam Shares prior to the completion date of the Acquisition, 2,926,103,814 Consideration Shares will be issued by Xteam to the Beijing Development Group, Cosmos Vantage and the Other Vendors under the Deed.

LETTER FROM KINGSTON

Set out below are the charts illustrating the shareholding structure before and after completion of the Sale Transaction without taking into account the Snow Fair Acquisition and the Pantosoft Acquisition.

Before completion of the Sale Transaction

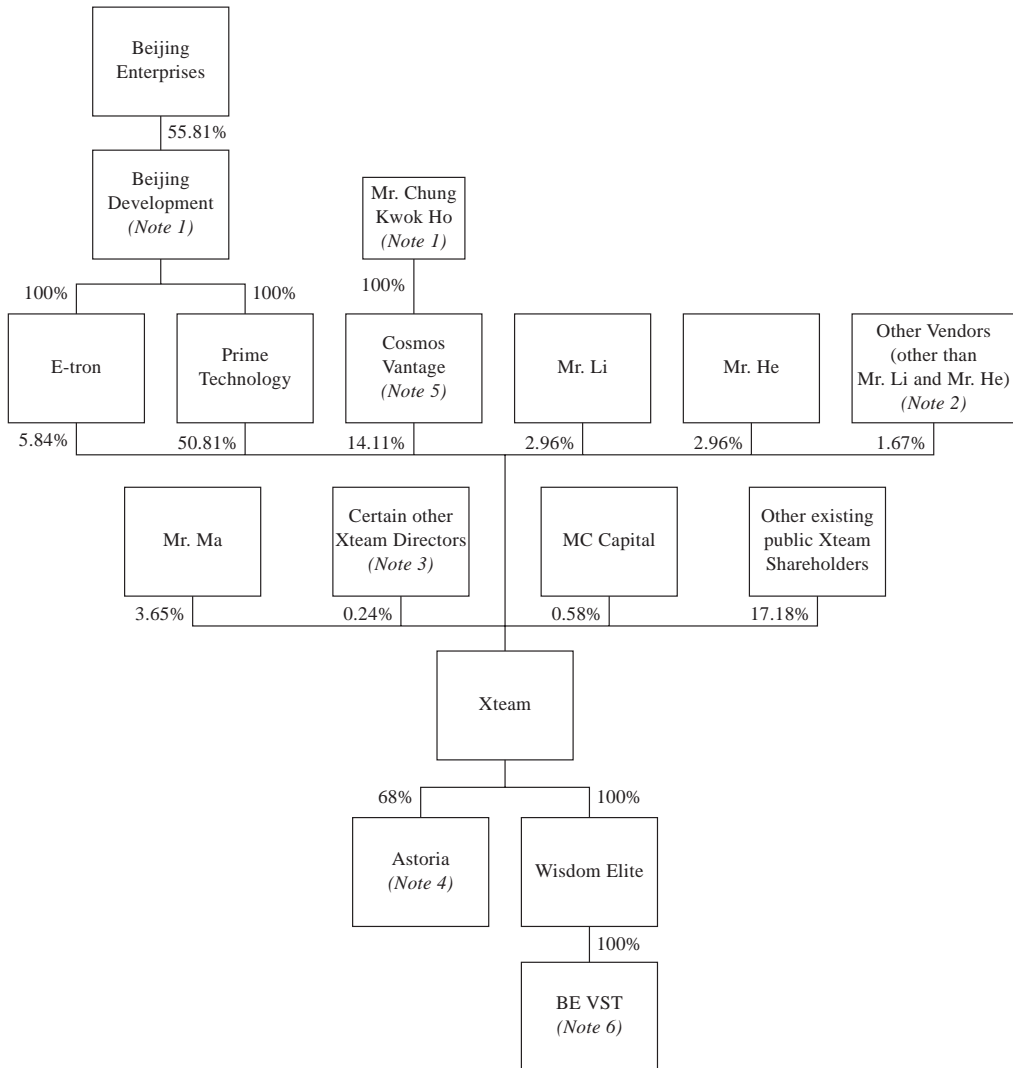


Notes:

1. Mr. Chung Kwok Ho, the sole beneficial owner of Cosmos Vantage, and his wife held 76,000 Beijing Development Shares representing approximately 0.02% of the issued share capital of Beijing Development as at the Latest Practicable Date. Each of Mr. He and Mr. Li held 4,533,760 Beijing Development Shares, representing approximately 0.9% of the issued share capital of Beijing Development as at the Latest Practicable Date. Save for the above, no other party to the Deed held any Beijing Development Shares as at the Latest Practicable Date.
2. The remaining 44% interests in Astoria are owned as to 11.0% by Mr. Liu Jun, 10.1% by Mr. Cai Tianhong, 10.1% by Mr. Chen Daqing, 4.4% by Ms. Zheng Xiaohua, 3.0% by Mr. He, 3.0% by Mr. Li and 2.4% by Mr. Yang Xiping.
3. Becom is held by various subsidiaries of B E Information.

LETTER FROM KINGSTON

After completion of the Sale Transaction



Notes:

1. Mr. Chung Kwok Ho, the sole beneficial owner of Cosmos Vantage, and his wife held 76,000 Beijing Development Shares representing approximately 0.02% of the issued share capital of Beijing Development as at the Latest Practicable Date. Each of Mr. He and Mr. Li held 4,533,760 Beijing Development Shares, representing approximately 0.9% of the issued share capital of Beijing Development as at the Latest Practicable Date. Save for the above, no other party to the Deed held any Beijing Development Shares as at the Latest Practicable Date.
2. The 1.66% interests in Xteam will be owned by Ms. Zheng Xiaohua as to 0.50%, Mr. Cai Tianhong as to 0.44%, Mr. Chen Daqing as to 0.44%, Mr. Liu Jun as to 0.17% and Mr. Yang Xiping as to 0.10%.
3. The 0.20% interests in Xteam will be owned by Mr. Wu Meng Jie and Mr. Ren Yi (both are executive Xteam Directors) as to 0.16% and 0.04% respectively.
4. The remaining shareholding interests in Astoria will be owned by the Other Vendors as to 27% (9.5% by Mr. Liu Jun, 6.2% by Mr. Cai Tianhong, 6.2% by Mr. Chen Daiqing, 1.5% by Mr. Yang Xiping, 1.8% by Mr. Li and 1.8% by Mr. He) and Capinfo (Hong Kong) Co. Ltd. as to 5%. Capinfo (Hong Kong) Co. Ltd. is a wholly-owned subsidiary of Capinfo Co. Ltd., the shares of

LETTER FROM KINGSTON

which are listed on GEM. Mr. He and Mr. Li are respective chief executives of Wisdom Elite and its subsidiary. Ms. Zheng Xiohua and Mr. Cai Tianhong are directors of Astoria and its subsidiary. Accordingly, Mr. He, Mr. Li, Ms. Zheng Xiaohua and Mr. Cai Tianhong are connected persons of Beijing Development under the Old Main Board Listing Rules.

5. Cosmos Vantage is a substantial shareholder of B E Information and is thus a connected person of Beijing Development under the Old Main Board Listing Rules.
6. BE VST will own the Becom Software Business.

The structure of the Xteam Group after completion of the Snow Fair Acquisition, the Pantosoft Acquisition and the Sale Transaction is illustrated in the Board Letter on page 22 of the Circular.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Sale Transaction, we have taken into consideration the following principal factors and reasons:

I. Reasons for the Sale Transaction

Information technology (“IT”) business

The Beijing Development Group is principally engaged in the provision of IT services, restaurant operations and property investment. The IT business of the Beijing Development Group includes (i) the provision of last-mile networking services and telecommunications, data communications and management services; (ii) systems integration for intelligent building; (iii) the construction of information networks; (iv) the provision of IT technical support and consultation services; (v) the implementation of smart card systems; and (vi) the Software Businesses.

As set out in Beijing Development’s annual report for the year ended 31 December 2003 (the “Annual Report”), the IT business of the Beijing Development Group continued to grow rapidly in 2003 and was the main contributor to both revenue and profit for the year ended 31 December 2003. As set out in the Annual Report, profit attributable from the IT business of the Beijing Development Group for the year ended 31 December 2003 was approximately HK\$50.53 million. The net asset value (“NAV”) of the IT business as at 31 December 2003 was approximately HK\$248.11 million representing approximately 53.7% of the audited total NAV of the Beijing Development Group at the same date of approximately HK\$462.18 million. As depicted, the IT business of the Beijing Development Group represents a very significant part of the Beijing Development Group.

The Software Businesses

As advised by the Beijing Development Directors, the software businesses of the Beijing Development Group as at the Latest Practicable Date are principally carried out by the Astoria Group, the Wisdom Elite Group and Becom.

As set out in the Annual Report, Beijing Development acquired a 51% interest in Astoria on 17 April 2003. Astoria is principally engaged in the development and sale of re-employment and e-government software systems to community level government authorities.

LETTER FROM KINGSTON

As set out in the circular made by Beijing Development dated 29 October 2003, further to its acquisition of a 60% interest in Wisdom Elite in January 2003, Beijing Development proposed an internal reorganizing of the IT business. As a result of such internal reorganization, B E Information has become an intermediate holding company of the Beijing Development Group's major IT business and Wisdom Elite has become a wholly-owned subsidiary of B E Information. The Wisdom Elite Group is principally engaged in the development and sale of social security information management systems and tax information management systems in the PRC. The clients of Wisdom Elite include government agencies and private enterprises in the PRC.

Apart from the Wisdom Elite Group, B E Information's software business is also carried out by another of its 95% owned subsidiary, Becom. The Becom Software Business is currently principally related to the development and sale of educational and information management software and systems in the PRC. Further to the internal reorganizing of the IT business of the Beijing Development Group, Beijing Development has planned to transfer the Becom Software Business from Becom to BE VST at nil consideration prior to the completion of the Acquisition.

We have enquired of the Beijing Development Directors and they have confirmed that following the internal reorganization of its IT business, it is the strategy of the Beijing Development Group to have a clearer delineation of the Software Businesses from its other IT business. Hence, it is the intention of Beijing Development to transfer the Becom Software Business to BE VST prior to completion of the Acquisition so that the resources on the Software Businesses will be focused. Considering the resources for the software businesses of the Wisdom Elite Group will be focused, we concur with the view of the Beijing Development Directors that the transfer of the Becom Software Business to BE VST should be able to enhance the competitiveness of the Wisdom Elite Group in the PRC software development market and represents an opportunity for the Beijing Development Group to further integrate part of its software business.

Financial performance

The financial performance of the Beijing Development Group, the Beijing Development Group's IT business, Wisdom Elite, the Astoria Group, the Becom Software Business and the Software Businesses is tabularized below:

	Turnover	Net profit	NAV
	For the year ended		As at
	31 December 2003		31 December 2003
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
The Beijing Development Group	481.35	21.72	462.18
IT business of the Beijing Development Group	268.15	54.03	248.11
Wisdom Elite	27.10	23.77	25.66
The Astoria Group	6.97	5.91	5.92
Becom Software Business	23.73	11.65	N/A
Software Businesses (<i>Note</i>)	57.80	39.44	29.68

Note: Upon completion of the Acquisition, Xteam will have a 68% interest in Astoria.

LETTER FROM KINGSTON

Prospects of combining the business of the Xteam Group and the Software Businesses

As advised by the Beijing Development Directors, it is the strategy of Beijing Development Group to become a leading value added provider of IT solutions in the PRC. The Xteam Group is principally engaged in the provision of Chinese Linux operating systems with kernel rewritten to specifically cater for Chinese users in the PRC and the provision of software based on the Linux operating platform for various hardware appliances including servers, mobile network systems and personal computers in the PRC. The Xteam Group also provides technical support and after-sales services to its customers.

The Beijing Development Directors have advised that the Xteam Group has been focusing on the e-government and the e-education markets in the PRC. The Beijing Development Directors have further advised that the Xteam Group's products are mainly operating system ("OS") software while the Software Businesses' products are principally application software. The Xteam Group's expertise in the development of the Chinese Linux based software, will offer a synergy effect to the Software Businesses such that the Xteam Group's technical capability and expertise in the development of OS can be complementary fostered into that of the development of application software by the Software Businesses. In addition, upon completion of the Sale Transaction, the range of products of the Beijing Development Group will not only include application software but also OS software, i.e. the Xteam Group's products. Furthermore, the network of the Beijing Development Group will be enlarged with clients from the Xteam Group.

According to International Data Corporation ("IDC"), the system management software market in Asia Pacific (excluding Japan) would amount to approximately US\$481 million by 2007, posting an approximately 13% compound annual growth rate ("CAGR") for the period from 2002 to 2007 and that China, India, Australia, Taiwan and Korea will comprise more than 85% of the system management software market in 2007. Apart from the expected growth in the system management software market, according to IDC, Asia Pacific e-government spending in 2002 reached US\$880.1 million and is forecasted to reach US\$1,477.6 million in 2007 with a 2002–2007 CAGR of approximately 10.9%. Furthermore, according to CCID Consulting Company Limited, company principally engaged in the provision of consulting services for the information industry in the PRC and listed on GEM ("CCID"), due to the gradual deepening of e-government and IT application projects in education sector and the successive implementation of IT application in traditional manufacturing industries, the government and education sectors, and the traditional manufacturing sector became the main driving force for the growth of China's software market in 2002.

In light of the above, taking into account that (i) the Xteam Group's technical capability and expertise in the development of OS software can be complementary fostered into the development of application software by the Software Businesses; (ii) the Beijing Development Group's range of products will be enlarged from mainly application software to both OS software and application software; (iii) the clientele base will be enlarged; (iv) anticipated improvement on the efficiency of the Beijing Development Group's management on the Software Businesses integrated into Xteam; and (v) anticipated growth in the e-government and e-education sectors, we concur with the Beijing Development Directors' view that upon completion of the Sale Transaction, the Beijing Development Group will be in a stronger position to capitalize and capture the opportunities available and to foster the deployment of Linux technology in the PRC.

LETTER FROM KINGSTON

Xteam — GEM listed entity

Upon completion of the Sale Transaction (without taking into account the Snow Fair Acquisition and the Pantosoft Acquisition and assuming none of the 143,000,000 outstanding share options of Xteam is exercised), Xteam will become a 56.65% owned subsidiary of Beijing Development. Astoria will become a 68% subsidiary of Xteam and Wisdom Elite will be a wholly-owned subsidiary of Xteam. As a result, Beijing Development's effective interest in Astoria and Wisdom Elite will decrease from 51% to 38.52% and from 72% to 56.65% respectively. Although the interest in Astoria and Wisdom Elite will be diluted upon completion of the Sale Transaction, we are of the view that the Sale Transaction will facilitate another step for the Beijing Development Group to further integrate the Software Businesses into another entity principally engaged in software business, i.e. the Xteam Group, and to manifest a clear delineation in software business from the other IT businesses conducted by the Beijing Development Group.

We consider that the Sale Transaction will provide all Beijing Development Shareholders a means, without cash cost, to become shareholders in a separate listed entity, i.e. Xteam, which is committed in the development of its Chinese Linux based software business in the PRC. Moreover, as Xteam is listed on GEM, the Software Businesses will be able to build another identity as an independent business under Xteam which will facilitate access to equity and debt markets to fund the existing operations of the Software Businesses as well as for future expansion.

The board of directors of Xteam currently comprises nine members. Upon completion of the Sale Transaction, Beijing Development intends to nominate such number of representatives to become Xteam Directors as shall constitute a majority of the board of the Xteam Directors. We have enquired of the Beijing Development Directors and they have confirmed that the composition of the board of directors of Wisdom Elite and Astoria will not change upon completion of the Sale Transaction. As a result, upon completion of the Sale Transaction, the Beijing Development Group will have control over Xteam, Wisdom Elite and Astoria.

In light of the above, we consider there are sound commercial and strategic reasons for the Sale Transaction and is in line with the strategy of the Beijing Development Group, and is in the interest of Beijing Development and the Beijing Development Shareholders as a whole.

II. Information on the Xteam Group

As aforementioned above, the Xteam Group is principally engaged in the provision of Chinese Linux operating systems with kernel rewritten to specifically cater for Chinese users in the PRC and the provision of software based on the Linux operating platform for various hardware appliances including servers, mobile network systems and personal computers in the PRC. The Xteam Group was established in November 1999 and listed on GEM since December 2001.

As set out in Appendix II to the Circular, the Xteam Group reported audited net loss of approximately HK\$34.85 million for the year ended 31 March 2004 and approximately HK\$10.59 million for the year ended 31 March 2003. The Xteam Group recorded for the year ended 31 March 2004 turnover increase of approximately 0.5% compared with the corresponding period in 2003.

The audited consolidated NAV and consolidated net tangible asset value ("NTAV") of the Xteam Group as at 31 March 2004 were approximately HK\$27.12 million and approximately HK\$11.52 million respectively.

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According to CCID, China's software market in 3Q 2003 reached RMB11.24 billion representing a year-on-year growth of 20.2% and that with the gradual deepening of e-government and IT application projects in the education sector, the sectors of government and education and the manufacturing industry became the major driving force for the growth of China's software market in 3Q 2003. The table below shows the market size and the year-on-year growth of China's software markets by segments in 3Q 2003:

Product	Market size <i>RMB billion</i>	Year-on- year growth %
Platform software	3.01	13.6
Middle software	0.78	34.3
Application software	7.45	21.7

Furthermore, according to CCID, the OS market saw an increase, up 20.1% on a year-on-year basis. The Linux market was up 27.1% over 3Q 2003 and server-end products are rapidly used in government and enterprises. Taking into account the future prospects of the software industry in the PRC as forecasted by IDC and reported by CCID, we consider the acquisition of Xteam provides an opportunity for the Beijing Development Group to expand its Software Businesses and foster the rapid deployment of Linux technology in the PRC via Xteam's expertise in the Linux market.

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III. The consideration

Pursuant to the Deed, Xteam will acquire 68% interest in Astoria and entire issued share capital of Wisdom Elite and shall issue the Consideration Shares to E-tron and the Other Vendors (being the shareholders selling shares in Astoria) and B E Information (B E Information being the shareholder of Wisdom Elite) as consideration. The consideration of the Deed (being the consideration of the Acquisition) was determined after arm's length negotiations between the parties, in particular, with reference to the historical financial track record of the Software Businesses, the price-to-earnings ratios ("PER") of other listed companies which are principally engaged in the development of software, the future prospects of the Software Businesses and the synergy between the Software Businesses and the business of the Xteam Group.

The table below shows the shareholding structure of Xteam as at the Latest Practicable Date and the structure immediately after completion of the Sale Transaction, the Snow Fair Acquisition and the Pantosoft Acquisition, and assuming that apart from the new Xteam Shares to be allotted and issued pursuant to the Cosmos Town Agreement, the MC Capital Agreement and the Pantosoft Acquisition Agreement and the Consideration Shares, no further new Xteam Shares and securities carrying rights to subscribe for or convert into new Xteam Shares or otherwise will be allotted and issued after the date of the Deed and before the completion of the Acquisition, including any new Xteam Shares which may be issued upon exercise of the outstanding share options of Xteam:

	Shareholding as at the Latest Practicable Date		Immediately after completion of the Sale Transaction		Immediately after completion of the Snow Fair Acquisition, Pantosoft Acquisition and the Sale Transaction	
		Percentage		Percentage		Percentage
E-tron	—	0.00%	186,824,324	5.84%	217,967,375	5.80%
Prime Technology	—	0.00%	1,626,425,801	50.81%	1,897,546,070	50.49%
The Beijing						
Development Group	—	0.00%	1,813,250,125	56.65%	2,115,513,445	56.29%
Cosmos Vantage	—	0.00%	451,784,943	14.11%	527,096,129	14.02%
Other Vendors	—	0.00%	242,988,746	7.59%	283,494,240	7.54%
Cosmos Town	—	0.00%	—	0.00%	24,138,000	0.64%
MC Capital	18,610,829	2.69%	18,610,829	0.58%	28,410,829	0.76%
Fortune Leo	—	0.00%	—	0.00%	105,422,000	2.81%
Mr. Ma	116,681,821	16.84%	116,681,821	3.65%	116,681,821	3.10%
Certain other Xteam						
Directors	7,701,469	1.11%	7,701,469	0.24%	7,701,469	0.21%
Other existing public						
Xteam Shareholders	550,013,819	79.36%	550,013,819	17.18%	550,013,819	14.63%
Total	693,007,938	100.00%	3,201,031,752	100.00%	3,758,471,752	100.00%

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The monetary value of the consideration for the acquisition of Xteam and sale of a 51% equity interests in Astoria and entire issued share capital of Wisdom Elite

	6 February 2004 (being the last trading day of Xteam Shares prior to the date of the Announcement)	Latest Practicable Date
Closing price per Xteam Share	HK\$0.152	HK\$0.153

The Sale Transaction but not taking into account the Snow Fair Acquisition and the Pantosoft Acquisition

Consideration Shares to be issued to E-tron, Prime Technology, Cosmos Vantage and Other Vendors	2,508,023,814	2,508,023,814
Consideration	HK\$381.22 million	HK\$383.73 million

The Sale Transaction, the Snow Fair Acquisition and the Pantosoft Acquisition

Consideration Shares to be issued to E-tron, Prime Technology, Cosmos Vantage, Other Vendors, Cosmos Town, MC Capital and Fortune Leo	2,926,103,814	2,926,103,814
Consideration	HK\$444.78 million	HK\$447.69 million

For the purpose of our analysis on the consideration of the acquisition of Xteam and sale of a 51% equity interests in Astoria and entire issued share capital of Wisdom Elite, we have taken into account the results of the Xteam Group, the Software Businesses and the attributable interests of Xteam to the Beijing Development Group upon completion of the Sale Transaction (without taking into account the Snow Fair Acquisition and the Pantosoft Acquisition). For our analysis purpose, we have prepared the calculation of the attributable pro forma net profit of the Xteam Group to the Beijing Development Group for illustrative purposes only and that it may not give a true picture of the Beijing Development Group's financial position as below:

	<i>HK\$ million</i>
Xteam Group's unaudited net loss for the three months ended 31 March 2003 (<i>Note 1</i>)	(12.58)
Xteam Group's unaudited net loss for the nine months ended 31 December 2003 (<i>Note 2</i>)	<u>(10.78)</u>
Xteam Group's unaudited net loss for the 12 months ended 31 December 2003	(23.35)
Software Businesses' audited net profit for the year ended 31 December 2003	<u>39.44</u>
Pro forma unaudited adjusted net profit of the Xteam Group with the Software Businesses	16.09
Beijing Development Group's 56.65% interest in Xteam Group's pro forma unaudited adjusted net profit	9.11

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Notes:

1. As set out in Xteam's annual report for the year ended 31 March 2003 (the "Xteam 2003 Annual Report") and the third quarterly results report for the nine months ended 31 December 2002 (the "Xteam 2002 Third Quarterly Report"), Xteam reported audited net loss of approximately HK\$10.59 million for the year ended 31 March 2003 and unaudited net profit of approximately HK\$1.99 million for the nine months ended 31 December 2002.
2. As set out in Xteam's third quarterly results report for the nine months ended 31 December 2003 (the "Xteam 2003 Third Quarterly Report"), Xteam reported unaudited net loss of approximately HK\$10.78 million for the nine months ended 31 December 2003.

Without taking into account the Snow Fair Acquisition and the Pantosoft Acquisition, upon completion of the Sale Transaction, based on 693,007,938 Xteam Shares in issue as at the Latest Practicable Date and 143,000,000 share options outstanding as at the Latest Practicable Date, and assuming Xteam will not issue or agree to issue any Xteam Shares or securities carrying rights to subscribe for or convert into new Xteam Shares prior to the completion date of the Sale Transaction, 1,813,250,125 Consideration Shares will be issued by Xteam to E-tron and Prime Technology (both wholly-owned subsidiaries of Beijing Development), hence, the Beijing Development Group's attributable Consideration Shares would be 1,813,250,125.

Based on the above attributable pro forma unaudited adjusted net profit of the Xteam Group to the Beijing Development Group of approximately HK\$9.11 million and 1,813,250,125 Consideration Shares attributable to the Beijing Development Group, the monetary value of the consideration of the Sale Transaction to the pro forma net profit of the Xteam Group attributable to the Beijing Development Group, i.e. PER, represents thereof:

- approximately 30.25 times based on the closing price of the Xteam Shares of HK\$0.152 per Xteam Share as quoted on GEM on 6 February 2004 (being the last trading day of Xteam Shares prior to the date of the Announcement) with the monetary value of the consideration of the Sale Transaction of approximately HK\$275,614,019; and
- approximately 30.45 times based on the closing price of the Xteam Shares of HK\$0.153 per Xteam Share as quoted on GEM on 28 June 2004, the Latest Practicable Date with the monetary value of the consideration of the Sale Transaction of approximately HK\$277,427,269.

As reference and comparison, we have reviewed the PERs of 15 companies, principally engaged in the development of software, the shares of which are traded on GEM and had reported net profits in their latest published annual reports (the "Comparables"). The PERs of the Comparables ranged from 3.09 times to 290.38 times and with an average of approximately 66.47 times on 6 February 2004 and ranged from 2.17 times to 217.79 times and with an average of approximately 52.67 times as at the Latest Practicable Date. We note that the PERs of the consideration as at 6 February 2004 and the Latest Practicable Date are below the average PER of the Comparables and fall within the range.

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Apart from comparing with the Comparables' PERs, we have also compared the consideration of the acquisition of Xteam with the Beijing Development Group's deemed disposal in the interests of Astoria and Wisdom Elite.

	Audited NAV as at 31 December 2003 <i>HK\$ million</i>	NAV attributable to the Beijing Development Group before the Sale Transaction as at 31 December 2003 <i>HK\$ million</i>	NAV attributable to the Beijing Development Group after the Sale Transaction <i>HK\$ million</i>	Difference <i>HK\$ million</i>
Wisdom Elite	25.66	18.47	14.53	3.94
Astoria	<u>5.92</u>	<u>3.02</u>	<u>2.28</u>	<u>0.74</u>
Software Businesses	31.58	21.49	16.81	4.68

Based on the above, the Beijing Development Group's attributable decrease in the NAV of the Software Businesses by approximately HK\$4.68 million to the consideration of the Acquisition attributable to the Beijing Development Group (based on 1,813,250,125 Consideration Shares) represents thereof:

- a discount of approximately 98.30% based on the closing price of the Xteam Shares of HK\$0.152 per Xteam Share as quoted on GEM on 6 February 2004 (being the last trading day of Xteam Shares prior to the date of the Announcement); and
- a discount of approximately 98.31% based on the closing price of the Xteam Shares of HK\$0.153 per Xteam Share as quoted on GEM on 28 June 2004, the Latest Practicable Date.

Having taken into account the above, the PERs of the consideration as at 6 February 2004 and the Latest Practicable Date are below the average PER of the Comparables and fall within the range of the Comparables and that the dilution in the Software Businesses for the acquisition of Xteam represents significant discount over the consideration, we are of the opinion that the consideration for the acquisition of Xteam with the Beijing Development Group's deemed disposal in the interests of Astoria and Wisdom Elite is fair and reasonable.

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V. Financial effects of the Sale Transaction

For our analysis purpose, we have prepared the following, i.e. the pro forma NTAV and earnings of the Beijing Development Group, for illustrative purposes only and that they may not give a true picture of the Beijing Development Group's financial position.

(a) *NTAV*

The following tabularizes the effect on the NTAV of the Beijing Development Group upon completion of the Sale Transaction but without taking into account the Snow Fair Acquisition and the Pantosoft Acquisition:

	<i>HK\$ million</i>	<i>HK\$ million</i>
Audited consolidated NAV as at 31 December 2003	462.18	
Goodwill as at 31 December 2003	135.30	
Negative goodwill as at 31 December 2003	(2.91)	
Intangible assets as at 31 December 2003	16.64	
Jointly-controlled entities goodwill as at 31 December 2003	<u>23.07</u>	
Audited consolidated NTAV as at 31 December 2003 <i>(Note 1)</i>		290.09
Deemed disposal of Wisdom Elite and Astoria		(4.68)
Xteam's NTAV		
Unaudited consolidated NAV as at 30 September 2003	46.21	
Goodwill as at 30 September 2003	14.25	
Intangible assets as at 30 September 2003	<u>12.57</u>	
Unaudited NTAV as at 30 September 2003 <i>(Note 2)</i>	19.39	
Net proceeds from placing of shares in October 2003 <i>(Note 3)</i>	8.00	
Unaudited net loss for the three months ended 31 December 2003 <i>(Note 3)</i>	<u>(2.86)</u>	
Unaudited adjusted consolidated NTAV	24.53	
Beijing Development Group's attributable interest in Xteam's unaudited adjusted consolidated NTAV		<u>13.90</u>
Pro forma unaudited adjusted consolidated NTAV		299.31

Note:

1. Based on the Annual Report.
2. Based on Xteam's interim report for the six months ended 30 September 2003.
3. Based on the Xteam 2003 Third Quarterly Report.

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Based on our calculation as illustrated above, the Sale Transaction will result in an increase in the consolidated NTAV of the Beijing Development Group upon completion. On this basis, we consider that the increase in the pro forma unaudited adjusted consolidated NTAV of the Beijing Development Group will be beneficial to Beijing Development and the Beijing Development Shareholders as a whole.

(b) *Earnings*

Assuming that the Sale Transaction had been completed as at 31 December 2003, the pro forma unaudited adjusted consolidated net profit of the Beijing Development Group would be adjusted as follows:

	<i>HK\$ million</i>	
Audited consolidated net profit as at 31 December 2003 (<i>Note 1</i>)	21.72	
	Before the Sale Transaction	After the Sale Transaction
	<i>HK\$ million</i>	<i>HK\$ million</i>
Attributable interest in Astoria	3.02	2.28
Attributable interest in Wisdom Elite	17.11	13.46
Attributable interest in Becom Software Business	7.97	6.60
	28.10	22.34
Deemed disposal of Astoria, Wisdom Elite and Becom Software Business		(5.76)
Attributable interest in Xteam's unaudited net loss for the 12 months ended 31 December 2003 (<i>Note 2</i>)		(13.23)
Pro forma unaudited adjusted consolidated net profit		2.73

Notes:

1. Based on the Annual Report.
2. As illustrated on page 38 of this letter, Xteam's unaudited net loss for the 12 months ended 31 December 2003 was approximately HK\$23.35 million and Beijing Development Group's attributable interest in Xteam of approximately 56.65%.

In view of the anticipated improvement on the efficiency of the Beijing Development Group's management on the Software Businesses and the Xteam Group's technical capability and expertise in the development of OS software can be complimentary fostered into the development of application software currently by the Software Businesses, we consider that the decrease in the earnings based on our calculation as a result of the Sale Transaction, which is solely based on the historical performance of the Xteam Group and the Software Businesses for

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the 12 months ended 31 December 2003, rather than taking into account the growth potential of the combination of the businesses of the Xteam Group and the Software Businesses, to be acceptable.

RECOMMENDATION

In formulating our recommendation to the Independent Board Committee in respect of the Sale Transaction, we have taken into account all the factors and reasons as set out above, in particular:

- the combination of the business of the Xteam Group and the Software Businesses will enable the Group to be in a stronger position to capitalize and capture the opportunities available and to foster the deployment of Linux technology in the PRC;
- provide all Beijing Enterprises Shareholders a means, without cash cost, to become shareholders in a separate listed entity, i.e. Xteam;
- the PERs of the consideration as at 6 February 2004 and the Latest Practicable Date are below the average PER of the Comparables and fall within the range of the Comparables;
- pro forma unaudited adjusted consolidated NTAV of the Beijing Development Group will increase based on our calculation; and
- although upon completion the pro forma net profit of the Beijing Development Group will decrease, there is a growth potential of the combination of the businesses of the Xteam Group and the Software Businesses.

Having considered the above factors and reasons, we are of the opinion that the terms of the Sale Transaction are fair and reasonable insofar as the Beijing Development Shareholders are concerned and is in the interests of Beijing Development and its Independent Shareholders as a whole and are fair and reasonable insofar as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM in respect of the Sale Transaction.

Yours faithfully,
For and on behalf of
Kingston Corporate Finance Limited
Graham Lam
Executive Director

APPENDIX I FINANCIAL INFORMATION ON THE BEIJING DEVELOPMENT GROUP

1. SUMMARY OF THE AUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

Set out below is a summary of the audited consolidated profit and loss accounts of the Beijing Development Group for the three years ended 31 December 2003, extracted from the audited financial statements of the Beijing Development Group.

	2003	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover:			
Continuing operations	481,345	387,377	221,791
Discontinued operations	<u>—</u>	<u>—</u>	<u>9,634</u>
	<u>481,345</u>	<u>387,377</u>	<u>231,425</u>
Profit before tax	32,158	18,051	67
Tax	<u>116</u>	<u>2,844</u>	<u>(625)</u>
Profit/(loss) before minority interests	32,274	20,895	(558)
Minority interests	<u>(10,553)</u>	<u>(5,479)</u>	<u>(1,042)</u>
Net profit/(loss) from ordinary activities attributable to shareholders	<u>21,721</u>	<u>15,416</u>	<u>(1,600)</u>
Earnings/(loss) per share			
Basic (cents)	<u>4.5</u>	<u>3.5</u>	<u>(0.6)</u>
Diluted (cents)	<u>4.5</u>	<u>N/A</u>	<u>N/A</u>
Dividend	<u>—</u>	<u>—</u>	<u>—</u>

2. AUDITED FINANCIAL STATEMENTS OF BEIJING DEVELOPMENT FOR THE YEAR ENDED 31 DECEMBER 2003

The following information has been extracted from the audited consolidated financial statements of Beijing Development for the year ended 31 December 2003 (the date of which the latest financial statements were made up). Capitalized terms used in this sub-section have the same meanings as defined in the annual report of Beijing Development for the year ended 31 December 2003. The reference to page numbers in this sub-section refers to page numbers of the annual report of Beijing Development for the year ended 31 December 2003.

Consolidated Profit and Loss Account

Year ended 31 December 2003

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
TURNOVER	5	481,345	387,377
Cost of sales		<u>(259,553)</u>	<u>(207,586)</u>
Gross profit		221,792	179,791
Interest income		1,102	1,394
Other revenue and gains		8,144	4,536
Selling and distribution costs		(117,493)	(106,330)
Administrative expenses		(45,811)	(36,869)
Other operating expenses		(25,253)	(12,254)
Revaluation surplus/(deficit) of investment properties	13	<u>200</u>	<u>(902)</u>
PROFIT FROM OPERATING ACTIVITIES	6	42,681	29,366
Finance costs	7	(6,651)	(5,355)
Share of profits and losses of:			
Associates		(2,213)	(591)
Jointly-controlled entities		(230)	223
Amortisation of goodwill on acquisition of a jointly-controlled entity		(1,429)	—
Provision against an amount due from an associate		<u>—</u>	<u>(5,592)</u>
PROFIT BEFORE TAX		32,158	18,051
Tax	10	<u>116</u>	<u>2,844</u>
PROFIT BEFORE MINORITY INTERESTS		32,274	20,895
Minority interests		<u>(10,553)</u>	<u>(5,479)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	<u>21,721</u>	<u>15,416</u>
EARNINGS PER SHARE	12		
Basic (<i>cents</i>)		<u>4.5</u>	<u>3.5</u>
Diluted (<i>cents</i>)		<u>4.5</u>	<u>N/A</u>

APPENDIX I FINANCIAL INFORMATION ON THE BEIJING DEVELOPMENT GROUP

Consolidated Balance Sheet
31 December 2003

	<i>Notes</i>	2003 <i>HK\$' 000</i>	2002 <i>HK\$' 000</i> <i>(Restated)</i>
NON-CURRENT ASSETS			
Fixed assets	13	136,798	132,371
Goodwill:	14		
Goodwill		135,296	108,240
Negative goodwill		(2,912)	(2,091)
Intangible assets	15	16,635	16,667
Interests in associates	17	16,247	15,340
Interests in jointly-controlled entities	18	44,601	7,562
Long term investment	19	472	—
Trade receivables	23	<u>49,366</u>	<u>11,659</u>
		<u>396,503</u>	<u>289,748</u>
CURRENT ASSETS			
Inventories	20	56,977	53,025
Amounts due from customers for contract work	21	3,112	4,516
Properties held for sale	22	12,728	12,728
Trade receivables	23	172,744	86,873
Other receivables, prepayments and deposits	24	89,407	128,991
Pledged deposits		20,511	10,374
Cash and bank balances		<u>90,281</u>	<u>114,117</u>
		<u>445,760</u>	<u>410,624</u>
CURRENT LIABILITIES			
Trade and bills payables	25	81,532	60,428
Amounts due to customers for contract work	21	1,022	1,204
Tax payable		936	1,794
Other payables and accruals	26	75,097	52,931
Bank loans	27	<u>112,702</u>	<u>93,288</u>
		<u>271,289</u>	<u>209,645</u>
NET CURRENT ASSETS		<u>174,471</u>	<u>200,979</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		570,974	490,727

APPENDIX I FINANCIAL INFORMATION ON THE BEIJING DEVELOPMENT GROUP

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i> <i>(Restated)</i>
NON-CURRENT LIABILITIES			
Bank loans	27	43,233	60,264
Long term payables	28	<u>1,999</u>	<u>3,999</u>
		<u>45,232</u>	<u>64,263</u>
MINORITY INTERESTS			
		<u>63,567</u>	<u>29,601</u>
		<u>462,175</u>	<u>396,863</u>
CAPITAL AND RESERVES			
Issued capital	30	493,981	446,259
Reserves	32(a)	<u>(31,806)</u>	<u>(49,396)</u>
		<u>462,175</u>	<u>396,863</u>

APPENDIX I FINANCIAL INFORMATION ON THE BEIJING DEVELOPMENT GROUP

Consolidated Statement of Changes in Equity

Year ended 31 December 2003

<i>Note</i>	Issued share capital <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	PRC reserve funds <i>HK\$'000</i> <i>(note 32(a))</i>	Exchange Fluctuation <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	446,259	35,487	5,224	(1,994)	(101,925)	383,051
Exchange realignment	—	—	—	(1,604)	—	(1,604)
Net losses not recognised in the profit and loss account	—	—	—	(1,604)	—	(1,604)
Net profit for the year	—	—	—	—	15,416	15,416
Transfer to reserve funds	—	—	8,641	—	(8,641)	—
Transfer to accumulated losses	—	(922)	—	—	922	—
At 31 December 2002 and beginning of year	446,259	34,565	13,865	(3,598)	(94,228)	396,863
Exchange realignment	—	—	—	641	—	641
Net gains not recognised in the profit and loss account	—	—	—	641	—	641
Net profit for the year	—	—	—	—	21,721	21,721
Transfer to reserve funds	—	—	10,768	—	(10,768)	—
Transfer to accumulated losses	—	(922)	—	—	922	—
Issue of shares	30 47,722	—	—	—	(4,772)	42,950
At 31 December 2003	<u>493,981</u>	<u>33,643*</u>	<u>24,633*</u>	<u>(2,957)*</u>	<u>(87,125)*</u>	<u>462,175</u>
Reserves retained by:						
Companies and subsidiaries	493,981	33,643	24,633	(3,333)	(85,809)	463,115
Associates	—	—	—	376	(1,490)	(1,114)
Jointly-controlled entities	—	—	—	—	174	174
At 31 December 2003	<u>493,981</u>	<u>33,643</u>	<u>24,633</u>	<u>(2,957)</u>	<u>(87,125)</u>	<u>462,175</u>
Companies and subsidiaries	446,259	34,565	13,865	(3,974)	(94,717)	395,998
Associates	—	—	—	376	267	643
Jointly-controlled entities	—	—	—	—	222	222
At 31 December 2002	<u>446,259</u>	<u>34,565</u>	<u>13,865</u>	<u>(3,598)</u>	<u>(94,228)</u>	<u>396,863</u>

* *These reserve accounts comprise the consolidated negative reserves of HK\$31,806,000 (2002: HK\$49,396,000) in the consolidated balance sheet.*

Consolidated Cash Flow Statement

Year ended 31 December 2003

	2003	2002
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	32,158	18,051
Adjustments for:		
Finance costs	7 6,651	5,355
Share of profits and losses of associates	2,213	591
Share of profits and losses of jointly-controlled entities	230	(223)
Amortisation of goodwill on acquisition of a jointly-controlled entity	1,429	—
Provision against an amount due from an associate	—	5,592
Interest income	6 (1,102)	(1,394)
Loss/(gain) on disposal of fixed assets	6 864	(185)
Gain on disposal of investment properties	6 —	(1,164)
Depreciation	6 16,916	12,575
Amortisation of goodwill	6 14,503	12,254
Release of goodwill upon disposal of partial interests in subsidiaries	6 10,750	—
Negative goodwill recognised as income	6 (1,939)	(3,354)
Amortisation of intangible assets	6 1,918	1,886
Revaluation deficit/(surplus) of investment properties	(200)	902
Operating profit before working capital changes	84,391	50,886
Increase in inventories	(3,952)	(14,750)
Decrease/(increase) in amounts due from customers for contract work	1,404	(3,517)
Decrease in properties held for sale	—	60
Increase in trade receivables	(123,578)	(58,408)
Decrease/(increase) in other receivables, prepayments and deposits	39,584	(55,487)
Increase in trade and bills payables	21,104	17,137
Increase/(decrease) in amounts due to customers for contract work	(182)	1,204
Increase in other payables and accruals	17,595	13,581
Cash generated from/(used in) operations	36,366	(49,294)
Interest received	1,102	1,394
Interest paid	(6,651)	(5,355)
Hong Kong profits tax refunded/(paid)	105	(179)
Overseas taxes paid	(1,491)	(1,122)
Dividends paid to minority shareholders	(4,389)	(69)
Net cash inflow/(outflow) from operating activities	25,042	(54,625)

APPENDIX I FINANCIAL INFORMATION ON THE BEIJING DEVELOPMENT GROUP

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	13	(20,956)	(20,655)
Proceeds from disposal of fixed assets		394	439
Proceeds from disposal of investment properties		—	1,842
Purchase of intangible assets	15	(1,886)	—
Purchase of a long term investment	19	(472)	—
Acquisition of subsidiaries	33(a)	(12,055)	(781)
Acquisition of additional interests in subsidiaries		(962)	—
Balance payment for the acquisition of a subsidiary		(2,240)	(1,660)
Acquisition of a jointly-controlled entity		(7,016)	—
Investments in associates		(2,584)	—
Decrease/(increase) in amounts due from associates		(80)	4,969
Decrease/(increase) in pledged deposits		<u>(10,137)</u>	<u>19,004</u>
Net cash inflow/(outflow) from investing activities		<u>(57,994)</u>	<u>3,158</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		9,434	101,826
Repayment of bank loans		(8,403)	(32,208)
Capital contributed by minority shareholders		2,826	11,082
Advance from/(repayment to) minority shareholders		<u>4,690</u>	<u>(2,400)</u>
Net cash inflow from financing activities		<u>8,547</u>	<u>78,300</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(24,405)	26,833
Cash and cash equivalents at beginning of year		114,117	87,722
Effect of foreign exchange rate changes, net		<u>(523)</u>	<u>(438)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>89,189</u></u>	<u><u>114,117</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		90,281	114,117
Bank overdrafts	27	<u>(1,092)</u>	<u>—</u>
		<u><u>89,189</u></u>	<u><u>114,117</u></u>

APPENDIX I FINANCIAL INFORMATION ON THE BEIJING DEVELOPMENT GROUP

Balance Sheet

31 December 2003

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	13	36,505	37,126
Interests in subsidiaries	16	<u>399,146</u>	<u>303,779</u>
		<u>435,651</u>	<u>340,905</u>
CURRENT ASSETS			
Other receivables, prepayments and deposits	24	39,365	43,664
Cash and bank balances		<u>104</u>	<u>17,469</u>
		<u>39,469</u>	<u>61,133</u>
CURRENT LIABILITIES			
Other payables and accruals	26	2,270	2,290
Bank loans	27	<u>17,852</u>	<u>7,907</u>
		<u>20,122</u>	<u>10,197</u>
NET CURRENT ASSETS		<u>19,347</u>	<u>50,936</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		454,998	391,841
NON-CURRENT LIABILITIES			
Bank loans	27	<u>(38,389)</u>	<u>(55,149)</u>
		<u>416,609</u>	<u>336,692</u>
CAPITAL AND RESERVES			
Issued capital	30	493,981	446,259
Reserves	32(b)	<u>(77,372)</u>	<u>(109,567)</u>
		<u>416,609</u>	<u>336,692</u>

Notes to Financial Statements*31 December 2003***1. CORPORATE INFORMATION**

During the year, the Group was involved in the following principal activities:

- provision of information technology services
- restaurant operations
- property investment

In the opinion of the directors, the ultimate holding company is Beijing Holdings Limited, which is incorporated in Hong Kong.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following new and revised SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 12 (Revised): “Income taxes”
- SSAP 35: “Accounting for government grants and disclosure of government assistance”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised below:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax). The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 10 to the financial statements and include a reconciliation between the accounting profit and the tax income for the year.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance. The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants. However, additional disclosures are now required and are detailed in notes 3 and 6 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain fixed assets as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company/Group has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company/Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company/Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company/Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interests in jointly-controlled entities.

Goodwill

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years. In the case of jointly controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separate identified asset on the consolidated balance sheet. On disposal of subsidiaries or jointly controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account.

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.

Impairment of assets

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

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

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

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

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period 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 that asset.

The transitional provisions set out in paragraph 80 of SSAP 17 “Property, plant and equipment” have been adopted for assets stated at valuation. As a result, those assets stated at revalued amounts, based on revaluations which were reflected in financial statements for periods ended before 30 September 1995, have not been subsequently revalued to fair value by class. It is the directors’ intention not to revalue these assets in the future. The asset revaluation reserve is transferred directly to retained earnings when the reserve is realised completely on the disposal or retirement of the asset, or partially as the asset is used by the Group.

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

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	4%
Leasehold improvements	Over the lease terms or 10 years, whichever is shorter
Furniture, fixtures and equipment	10%–20%
Motor vehicles	12.5%–20%

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm’s length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Intangible assets

Management information systems and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 10 years.

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.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investment

Long term investment is non-trading investment in unlisted equity securities intended to be held on a long term basis. It is stated at cost less any impairment losses.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any estimated costs necessary to make the sale.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, all development expenditure and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, 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, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Employee benefits*Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Pension schemes

Certain companies within the Group have participated in the retirement benefits schemes required by the respective governments of the places in which they operate for their employees. Contributions are made based on a certain percentage of the covered payroll and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The Group's employer contributions vest fully with the employees when contributed into the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Revenue recognition

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:

- (a) from 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;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) receipts from restaurant operations, upon the delivery of food and beverages to customers;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (e) from the sale of properties, when the legally binding unconditional sales contracts are signed and exchanged;
- (f) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above; and
- (g) from the rendering of services, when the services are rendered.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the information technology segment engages in: (i) the provision of last-mile networking services and telecommunications, data communications and management services; (ii) systems integration for intelligent building; (iii) the construction of information networks; (iv) the provision of IT technical support and consultation services; (v) the development and sales of software; and (vi) the implementation of smart card systems;
- (b) the restaurants segment engages in the operation of restaurants and the trading of dried seafood;
- (c) the property investment segment invests in office and factory space for its rental income potential; and
- (d) the corporate segment comprises corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

APPENDIX I FINANCIAL INFORMATION ON THE BEIJING DEVELOPMENT GROUP

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

	<i>Group</i>											
	Information technology		Restaurants		Property investment		Corporate		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	268,151	179,896	206,890	200,571	6,304	6,910	—	—	—	—	481,345	387,377
Intersegment sales	—	—	—	—	954	1,032	—	—	(954)	(1,032)	—	—
Total	<u>268,151</u>	<u>179,896</u>	<u>206,890</u>	<u>200,571</u>	<u>7,258</u>	<u>7,942</u>	<u>—</u>	<u>—</u>	<u>(954)</u>	<u>(1,032)</u>	<u>481,345</u>	<u>387,377</u>
Segment results	<u>50,526</u>	<u>32,215</u>	<u>(710)</u>	<u>5,186</u>	<u>3,962</u>	<u>4,810</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	53,778	42,211
Interest income											1,102	1,394
Unallocated corporate expenses											<u>(12,199)</u>	<u>(14,239)</u>
Profit from operating activities											42,681	29,366
Finance costs											(6,651)	(5,355)
Share of profits and losses of:												
Associates	(713)	—	—	—	(1,500)	(591)	—	—	—	—	(2,213)	(591)
Jointly-controlled entities	(230)	223	—	—	—	—	—	—	—	—	(230)	223
Amortisation of goodwill on acquisition of a jointly-controlled entity	(1,429)	—	—	—	—	—	—	—	—	—	(1,429)	—
Provision against an amount due from an associate	—	—	—	—	—	(5,592)	—	—	—	—	<u>—</u>	<u>(5,592)</u>
Profit before tax											32,158	18,051
Tax											<u>116</u>	<u>2,844</u>
Profit before minority interests											32,274	20,895
Minority interests											<u>(10,553)</u>	<u>(5,479)</u>
Net profit from ordinary activities attributable to shareholders											<u>21,721</u>	<u>15,416</u>

APPENDIX I FINANCIAL INFORMATION ON THE BEIJING DEVELOPMENT GROUP

Group

	Information technology		Restaurants		Property investment		Corporate		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	584,110	427,279	80,690	74,243	78,767	121,207	36,756	54,741	780,323	677,470
Interests in associates	1,834	—	—	—	14,413	15,340	—	—	16,247	15,340
Interests in jointly-controlled entities	44,601	7,562	—	—	—	—	—	—	44,601	7,562
Bank overdrafts included in segment assets	—	—	—	—	—	—	1,092	—	1,092	—
Total assets	630,545	434,841	80,690	74,243	93,180	136,547	37,848	54,741	842,263	700,372
Segment liabilities	117,561	73,634	30,202	34,059	9,618	9,873	2,269	2,790	159,650	120,356
Bank overdrafts included in segment assets	—	—	—	—	—	—	1,092	—	1,092	—
Unallocated liabilities									155,779	153,552
Total liabilities									316,521	273,908
Other segment information:										
Depreciation	3,168	2,232	11,897	8,609	355	340	1,496*	1,394*	16,916	12,575
Amortisation	16,421	14,140	—	—	—	—	—	—	16,421	14,140
Capital expenditure	3,722	5,350	16,334	15,303	—	—	900	2	20,956	20,655

* These are included in "Unallocated corporate expenses".

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Mainland China		Singapore		Indonesia		Malaysia		Thailand		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:																
Sales to external customers	4,634	6,695	316,575	223,311	61,433	86,160	50,604	27,259	37,917	43,952	10,182	—	—	—	481,345	387,377
Intersegment sales	12,918	16,050	—	1,372	27,575	—	—	—	—	—	—	—	(40,493)	(17,422)	—	—
Total	17,552	22,745	316,575	224,683	89,008	86,160	50,604	27,259	37,917	43,952	10,182	—	(40,493)	(17,422)	481,345	387,377
Other segment information:																
Segment assets	77,548	156,580	692,208	481,582	35,862	41,883	20,457	9,954	9,552	10,373	5,544	—	—	—	841,171	700,372
Bank overdrafts included in segment assets	1,092	—	—	—	—	—	—	—	—	—	—	—	—	—	1,092	—
Total assets	78,640	156,580	692,208	481,582	35,862	41,883	20,457	9,954	9,552	10,373	5,544	—	—	—	842,263	700,372
Capital expenditure	900	2	4,693	5,397	428	14,666	11,983	58	42	532	2,910	—	—	—	20,956	20,655

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5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; proceeds from the sale of properties held for sale; gross rental income; and receipts from restaurant operations.

Revenue from the following activities has been included in turnover:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Receipts from restaurant operations	206,141	198,360
Sales of dried seafood	749	2,211
Construction contracts	167,535	122,174
Rendering of services	100,616	57,722
Gross rental income	6,304	6,585
Sales of properties held for sale	—	325
	<u>481,345</u>	<u>387,377</u>

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6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	<i>Notes</i>	Group	
		2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold		93,650	106,722
Cost of sales of properties held for sale		—	60
Cost of services provided		38,899	26,982
Depreciation	13	16,916	12,575
Operating lease rentals for land and buildings:			
Minimum lease payments		19,466	16,351
Contingent rents		<u>1,169</u>	<u>1,216</u>
		<u>20,635</u>	<u>17,567</u>
Amortisation of goodwill*	14	14,503	12,254
Release of goodwill upon disposal of partial interests in subsidiaries*	14	10,750	—
Negative goodwill recognised as income during the year [#]	14	(1,939)	(3,354)
Amortisation of intangible assets [@]	15	1,918	1,886
Research and development costs:			
Current year expenditure		5,089	2,541
Less: Government grants released [†]		<u>(1,340)</u>	<u>—</u>
		<u>3,749</u>	<u>2,541</u>
Foreign exchange losses, net		638	513
Auditors' remuneration:			
Current year provision		1,885	1,493
Prior year's underprovision		<u>221</u>	<u>185</u>
		<u>2,106</u>	<u>1,678</u>
Staff costs (including directors' remuneration — note 8):			
Wages and salaries		65,149	58,080
Pension scheme contributions		<u>3,391</u>	<u>3,209</u>
		<u>68,540</u>	<u>61,289</u>
Gross rental income from investment properties		(3,236)	(3,365)
Gross rental income from properties held for sale		(3,068)	(3,220)
Less: Outgoings		<u>2,210</u>	<u>2,015</u>
Net rental income		<u>(4,094)</u>	<u>(4,570)</u>
Interest income		(1,102)	(1,394)
Gain on disposal of investment properties		—	(1,164)
Loss/(gain) on disposal of fixed assets		<u>864</u>	<u>(185)</u>

* The amortisation of goodwill and release of goodwill are included in "Other operating expenses" on the face of the consolidated profit and loss account.

[#] The negative goodwill recognised in the consolidated profit and loss account for the year is included in "Other revenue and gains" on the face of the consolidated profit and loss account.

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[@] The amortisation of intangible assets is included in “Cost of sales” on the face of the consolidated profit and loss account.

[†] Various government grants have been received for the research and development of management information systems for the education sector in Beijing, Mainland China. The government grants released have been deducted from the research and development costs to which they relate. There are no unfulfilled conditions or contingencies relating to these grants.

7. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	6,651	5,355

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and Section 161 of the Companies Ordinance is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees	80	40
Salaries, allowances and benefits in kind	1,320	1,623
Performance related bonuses	220	314
Pension scheme contributions	11	24
	1,631	2,001

Fees include HK\$80,000 (2002: HK\$40,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive director during the year (2002: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	6	8
HK\$1,500,001 to HK\$2,000,000	1	—
	7	8

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

During the year, 2,800,000 (2002: 6,000,000) share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 31 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2002: two) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2002: three) non-director, highest paid employees for the year are as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	2,730	2,467
Performance related bonuses	292	173
Pension scheme contributions	<u>73</u>	<u>86</u>
	<u><u>3,095</u></u>	<u><u>2,726</u></u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2003	2002
Nil to HK\$1,000,000	3	2
HK\$1,000,001 to HK\$1,500,000	<u>1</u>	<u>1</u>
	<u><u>4</u></u>	<u><u>3</u></u>

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

In accordance with the relevant tax rules and regulations in the PRC, certain of the Company's PRC subsidiaries, associates and jointly-controlled entities enjoy income tax exemptions and reductions. Certain PRC subsidiaries, associates and jointly-controlled entities are subject to income tax rates ranging from 7.5% to 33%.

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group:		
Current — Hong Kong		
Charge for the year	(226)	(298)
Overprovision in prior years	581	4,243
Current — Elsewhere		
Charge for the year	(1,028)	(1,661)
Overprovision in prior years	<u>151</u>	<u>—</u>
	<u>(522)</u>	<u>2,284</u>
Share of tax attributable to:		
Jointly-controlled entities	182	—
Associates	<u>456</u>	<u>560</u>
	<u>638</u>	<u>560</u>
Total tax credit for the year	<u><u>116</u></u>	<u><u>2,844</u></u>

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A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries, associates and jointly-controlled entities are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group

2003

	Hong Kong		Mainland China		Others		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>(33,317)</u>		<u>68,864</u>		<u>(3,389)</u>		<u>32,158</u>	
Tax at the statutory or applicable tax rate	(5,830)	17.5	22,725	33.0	(1,016)	30.0	15,879	49.4
Lower tax rate for specific provinces or local authority	—		(25,696)		(703)		(26,399)	
Adjustments in respect of current tax of previous periods	(581)		—		(151)		(732)	
Income not subject to tax	(426)		(1,715)		(332)		(2,473)	
Expenses not deductible for tax	4,997		1,680		977		7,654	
Tax losses utilised from previous periods	—		—		(103)		(103)	
Deferred tax assets not recognised in respect of losses	<u>1,485</u>		<u>3,382</u>		<u>1,191</u>		<u>6,058</u>	
Tax charge at the Group's effective rate	<u>(355)</u>		<u>376</u>		<u>(137)</u>		<u>(116)</u>	

2002

	Hong Kong		Mainland China		Others		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>(23,560)</u>		<u>40,925</u>		<u>686</u>		<u>18,051</u>	
Tax at the statutory or applicable tax rate	(3,770)	16.0	13,505	33.0	206	30.0	9,941	55.1
Lower tax rate for specific provinces or local authority	—		(14,257)		(211)		(14,468)	
Adjustments in respect of current tax of previous periods	(4,243)		(380)		—		(4,623)	
Income not subject to tax	(655)		(1,142)		(759)		(2,556)	
Expenses not deductible for tax	3,732		1,196		1,044		5,972	
Tax losses utilised from previous periods	(204)		(62)		—		(266)	
Deferred tax assets not recognised in respect of losses	<u>1,195</u>		<u>1,179</u>		<u>782</u>		<u>3,156</u>	
Tax charge at the Group's effective rate	<u>(3,945)</u>		<u>39</u>		<u>1,062</u>		<u>(2,844)</u>	

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company is HK\$36,967,000 (2002: HK\$536,000) (note 32(b)).

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12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$21,721,000 (2002: HK\$15,416,000) and the weighted average of 479,519,199 (2002: 446,258,750) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$21,721,000. The weighted average number of ordinary shares used in the calculation is the 479,519,199 ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 29,299 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

Diluted earnings per share amount for the year ended 31 December 2002 has not been disclosed as the share options outstanding during that year had an anti-dilutive effect on the basic earnings per share for that year.

13. FIXED ASSETS

Group

	Investment properties <i>HK\$'000</i>	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:						
At beginning of year	45,340	61,091	46,125	32,129	5,436	190,121
Additions	—	—	7,455	11,864	1,637	20,956
Disposals	—	—	(562)	(1,665)	(943)	(3,170)
Revaluation surplus	200	—	—	—	—	200
Exchange realignment	—	818	741	655	99	2,313
At 31 December 2003	<u>45,540</u>	<u>61,909</u>	<u>53,759</u>	<u>42,983</u>	<u>6,229</u>	<u>210,420</u>
At cost	—	18,409	53,759	42,983	6,229	121,380
At valuation	<u>45,540</u>	<u>43,500</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>89,040</u>
	<u>45,540</u>	<u>61,909</u>	<u>53,759</u>	<u>42,983</u>	<u>6,229</u>	<u>210,420</u>
Accumulated depreciation:						
At beginning of year	—	9,892	33,586	12,315	1,957	57,750
Provided during the year	—	1,380	6,834	7,337	1,365	16,916
Disposals	—	—	(424)	(690)	(798)	(1,912)
Exchange realignment	—	110	471	249	38	868
At 31 December 2003	<u>—</u>	<u>11,382</u>	<u>40,467</u>	<u>19,211</u>	<u>2,562</u>	<u>73,622</u>
Net book value:						
At 31 December 2003	<u>45,540</u>	<u>50,527</u>	<u>13,292</u>	<u>23,772</u>	<u>3,667</u>	<u>136,798</u>
At 31 December 2002	<u>45,340</u>	<u>51,199</u>	<u>12,539</u>	<u>19,814</u>	<u>3,479</u>	<u>132,371</u>

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Company

	Leasehold land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost or valuation:					
At beginning of year	43,500	527	354	1,315	45,696
Additions	—	636	264	—	900
Disposals	—	(61)	(192)	(127)	(380)
At 31 December 2003	<u>43,500</u>	<u>1,102</u>	<u>426</u>	<u>1,188</u>	<u>46,216</u>
At cost	—	1,102	426	1,188	2,716
At valuation	<u>43,500</u>	—	—	—	<u>43,500</u>
	<u>43,500</u>	<u>1,102</u>	<u>426</u>	<u>1,188</u>	<u>46,216</u>
Accumulated depreciation:					
At beginning of year	7,524	309	214	523	8,570
Provided during the year	1,026	146	86	238	1,496
Disposals	—	(61)	(167)	(127)	(355)
At 31 December 2003	<u>8,550</u>	<u>394</u>	<u>133</u>	<u>634</u>	<u>9,711</u>
Net book value:					
At 31 December 2003	<u>34,950</u>	<u>708</u>	<u>293</u>	<u>554</u>	<u>36,505</u>
At 31 December 2002	<u>35,976</u>	<u>218</u>	<u>140</u>	<u>792</u>	<u>37,126</u>

An analysis of the leasehold land and buildings, which are held under medium term leases, at the balance sheet date is as follows:

	Group		Company	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Situated in Hong Kong:				
At 1994 valuation	43,500	43,500	43,500	43,500
Situated in Singapore:				
At cost	<u>18,409</u>	<u>17,591</u>	—	—
	<u>61,909</u>	<u>61,091</u>	<u>43,500</u>	<u>43,500</u>

A revaluation of certain of the leasehold land and buildings situated in Hong Kong was carried out by CB Richard Ellis Limited, an independent professionally qualified valuer, on an open market value, existing use basis as at 31 December 1994. These land and buildings are stated at a carrying amount of HK\$34,950,000 (2002: HK\$35,976,000) at the balance sheet date. Had the land and buildings not been revalued, their net book value would have been as follows:

	Group and Company	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost	4,339	4,339
Accumulated depreciation	<u>(1,172)</u>	<u>(1,068)</u>
Net book value at 31 December	<u>3,167</u>	<u>3,271</u>

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An analysis of the investment properties at the balance sheet date is as follows:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Situated in Hong Kong	6,440	6,840
Situated in Mainland China	<u>39,100</u>	<u>38,500</u>
	<u><u>45,540</u></u>	<u><u>45,340</u></u>

The Group's investment properties were revalued on 31 December 2003 by CB Richard Ellis Limited, an independent professionally qualified valuer, on an open market value, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 35(a) to the financial statements.

Details of the investment properties, which are held under medium term leases, are as follows:

Location	Use
Part of the second floor and the whole of the third floor, A No. 1 Jian Guo Men Wai Avenue, Chao Yang District, Beijing, PRC	Office building
Units 1103, 1701, 1704 and 1903, Hong Kong Worsted Mills Industrial Building, 31-39 Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong	Industrial

14. GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet arising from the acquisition of subsidiaries are as follows:

Group	Goodwill	Negative goodwill
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:		
At beginning of year	122,536	(5,445)
Acquisition of subsidiaries (<i>note 33(a)</i>)	29,071	—
Acquisition of additional interests in subsidiaries (<i>note 16(d)</i>)	23,238	(2,760)
Disposal of partial interests in subsidiaries (<i>note 16(d)</i>)	<u>(13,723)</u>	<u>—</u>
At 31 December 2003	<u>161,122</u>	<u>(8,205)</u>
Accumulated amortisation/(recognition as income):		
At beginning of year	14,296	(3,354)
Amortisation provided/(recognised as income) during the year	14,503	(1,939)
Disposal of partial interests in subsidiaries (<i>note 16(d)</i>)	<u>(2,973)</u>	<u>—</u>
At 31 December 2003	<u>25,826</u>	<u>(5,293)</u>
Net book value:		
At 31 December 2003	<u><u>135,296</u></u>	<u><u>(2,912)</u></u>
At 31 December 2002	<u><u>108,240</u></u>	<u><u>(2,091)</u></u>

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15. INTANGIBLE ASSETS

Group

	Management information systems HK\$'000	Licences HK\$'000	Total HK\$'000
Cost:			
At beginning of year	18,868	—	18,868
Additions	<u>—</u>	<u>1,886</u>	<u>1,886</u>
At 31 December 2003	<u>18,868</u>	<u>1,886</u>	<u>20,754</u>
Accumulated amortisation:			
At beginning of year	2,201	—	2,201
Provided during the year	<u>1,887</u>	<u>31</u>	<u>1,918</u>
At 31 December 2003	<u>4,088</u>	<u>31</u>	<u>4,119</u>
Net book value:			
At 31 December 2003	<u>14,780</u>	<u>1,855</u>	<u>16,635</u>
At 31 December 2002	<u>16,667</u>	<u>—</u>	<u>16,667</u>

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	218,924	193,947
Due from subsidiaries	<u>251,058</u>	<u>194,668</u>
	469,982	388,615
Provision for impairment	(3,836)	(3,836)
Provision against amounts due from subsidiaries	<u>(67,000)</u>	<u>(81,000)</u>
	<u>399,146</u>	<u>303,779</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK\$42,000,000 (2002: HK\$6,000,000) which bears interest at 4.75% (2002: 4.5%) per annum.

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Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
Ah Yat Abalone Forum Restaurant Holdings Pte. Ltd. ⁴	Singapore	S\$250,000	51	45.9 [@]	Restaurant operations
Ah Yat Seafood Market Pte. Ltd. ⁴	Singapore	S\$200,000	23 [@]	20.7 [@]	Restaurant operations
Astoria Innovations Limited (note (a))	British Virgin Islands/PRC	US\$1,000	51	—	Investment holding
Beijing Development Properties (Hong Kong) Limited*	Hong Kong	HK\$100,000	100	100	Property investment
Beijing Enterprises Jetrich Holdings Limited (note (d))	British Virgin Islands/PRC	US\$100	72	51	Investment holding
Beijing Enterprises Jetrich Limited (note (d))	British Virgin Islands/PRC	US\$1	72	51	Investment holding
Beijing Singapore Investments Pte. Ltd.* ⁴	Singapore	S\$800,000	90	90	Property and investment holding
B E Information Technology Group Limited (formerly named Cyber Vantage Group Limited) (note (d))	British Virgin Islands/PRC	US\$1,000	72	100	Investment holding
BD Ah Yat Abalone Group Limited* [^]	Hong Kong	HK\$6,800,000	51	—	Investment holding and trading of dried seafood
Business Net Limited* (note (c))	British Virgin Islands/PRC	US\$100	100	—	Investment holding
H.K. Forewell Investments Limited	Hong Kong	HK\$10,000	51	51	Investment holding
Lord King Investment Limited	Hong Kong/PRC	HK\$1,000,000	51	51	Restaurant operations
Wisdom Elite Holdings Limited (notes (b) and (d))	British Virgin Islands/PRC	US\$100	72	—	Investment holding
北京市北控捷通培训中心 [^] (Beijing Enterprises Jetrich Training Center)	PRC	RMB500,000	68.4	—	Provision of training services
北京市電信通系統集成有限公司 (Beijing Teletron System Integration Co., Ltd.) (note (d))	PRC	RMB1,000,000	36.7 [@]	51	Provision of networking services

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Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
北京北控三興信息技術有限公司 [^] (Beijing Enterprises Sanxing Information Technology Co., Ltd.)	PRC	RMB3,000,000	51	—	Software developer
北京北控偉仕軟件工程技術有限公司 (Beijing Enterprises VST Software Technology Co., Ltd.) <i>(notes (b) and (d))</i>	PRC	RMB2,000,000	72	—	Software developer
北京北控電信通信息技術有限公司 (Beijing Enterprises Teletron Information Technology Co., Ltd.) <i>(note (d))</i>	PRC	RMB65,000,000	72	100	Construction of information networks; and the provision of IT technical support and consultation services
北京北控電信通技術服務有限公司 [^] (Beijing Enterprises Teletron Technical Services Co., Ltd.)	PRC	RMB1,000,000	100	—	Dormant
北京阿一鮑魚酒家有限公司 (Beijing Ah Yat Abalone Restaurant Co., Ltd.)	PRC	US\$1,400,000	48.5 [@]	48.5 [@]	Restaurant operations
北控軟件有限公司 (Becom Software Co., Ltd.) <i>(note (d))</i>	PRC	RMB50,000,000	68.4	71.2	Provision of management information system services
北控捷通(北京)科技發展有限公司 [^] (Beijing Enterprises Jetric Information Technology Development Co., Ltd.)	PRC	US\$2,450,000	72	—	Provision of total education solutions
北京捷通瑞奇信息技術有限公司 (Beijing Jetric Information Technology Co., Ltd.) <i>(note (d))</i>	PRC	RMB5,000,000	63	44.6 [@]	Construction of information networks and the provision of IT technical support services
北京電信通智能科技有限公司 (Beijing Teletron Intelligent System Co., Ltd.) <i>(note (d))</i>	PRC	RMB1,100,000	57.6	80	Provision of system integration services
北京發展物業投資管理有限公司 (Beijing Development Property Investment and Management Co., Ltd.)	PRC	US\$4,000,000	85.5	85.5	Property investment

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Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
湖南教育信息服務有限公司 (Hunan Education Information Services Co., Ltd.)	PRC	RMB10,000,000	41 [@]	42.7 [@]	Construction of information networks and the provision of IT technical support services

^A Not audited by Ernst & Young Hong Kong or other Ernst & Young Global member firms.

[@] These entities are accounted for as subsidiaries by virtue of control over the entities.

* Directly held by the Company.

[^] Set up during the year.

Notes:

- (a) On 17 April 2003, the Group acquired from independent third parties a 51% equity interest in Astoria Innovations Limited for a cash consideration of HK\$9.6 million.
- (b) On 6 January 2003, the Company acquired from independent third parties a 60% equity interest in Wisdom Elite Holdings Limited and its wholly-owned subsidiary, 北京北控偉仕軟件工程技術有限公司 (Beijing Enterprises VST Software Technology Co., Ltd.), for a consideration of HK\$21,204,000, satisfied as to HK\$8,481,600 in cash and HK\$12,722,400 by way of the allotment of 12,722,400 new shares of the Company at an issue price of HK\$1 per share. Subsequently, the Group's interests in these companies increased from 60% to 72% pursuant to a group reorganisation.
- (c) The Company acquired this company during the year. Further details of this acquisition are included in note 18(a) to the financial statements.
- (d) Pursuant to a group reorganisation during the year, the Company's equity interests in these companies changed. As a result, goodwill of HK\$23,238,000 arose (note 14) and goodwill previously recognised of HK\$10,750,000 was released (note 14).

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. INTERESTS IN ASSOCIATES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	1,477	650
Amounts due from associates	<u>14,770</u>	<u>14,690</u>
	<u><u>16,247</u></u>	<u><u>15,340</u></u>

The balances with the associates are unsecured, interest-free and have no fixed terms of repayment.

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Particulars of the principal associates, all of which are indirectly held by the Company, are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2003	2002	
Overseas Union Investments Limited	Corporate	Hong Kong	50	50	Investment holding
北京千龍網都科技有限公司 [^] (Beijing Qianlong Wangdou Technology Co., Ltd.)	Corporate	PRC	18 [@]	—	Sales of IT products
北京得來速科技服務有限公司 [^] (Beijing Delaiou Technology Services Co., Ltd.)	Corporate	PRC	14.4 [@]	—	Design of telephone ordering systems

[@] These entities are held by non-wholly owned subsidiaries of the Company.

[^] Set-up during the year.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	21,534	7,562
Goodwill on acquisition	<u>23,067</u>	<u>—</u>
	<u>44,601</u>	<u>7,562</u>

The amount of goodwill capitalised as an asset in the consolidated balance sheet arising from the acquisition of a jointly-controlled entity is as follows:

	HK\$'000
Cost:	
At beginning of year	—
Acquisition of a jointly-controlled entity	<u>24,496</u>
At 31 December 2003	<u>24,496</u>
Accumulated amortisation:	
At beginning of year	—
Provided during the year	<u>1,429</u>
At 31 December 2003	<u>1,429</u>
Net book value:	
At 31 December 2003	<u>23,067</u>
At 31 December 2002	<u>—</u>

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Particulars of the jointly-controlled entities, all of which are indirectly held, are as follows:

Name	Business structure	Place of registration and operations	Ownership interest	Percentage of Voting power	Profit sharing	Principal activity
北京世訊互通通訊技術有限公司 (Beijing Shixun Hutong Communication Technology Co., Ltd.)	Corporate	PRC	36	50	36	Dormant
北京教育信息網服務中心有限公司 (Beijing Education Information Services Center Co., Ltd.))	Corporate	PRC	36	50	36	Provision of information network services
北京市政交通一卡通有限公司 (Beijing Municipal Administration & Communications Card Co., Ltd.) (“BMAC”) (note (a))	Corporate	PRC	38	22.2	38	Operations of contactless multipurpose electronic payment cards

Note:

- (a) On 30 May 2003, the Company acquired from Beijing Enterprises Holdings Limited (“BEHL”), the Company’s holding company, the entire issued share capital of Business Net Limited together with all the benefits and interest of and in the shareholder’s loan amounting to RMB19 million (approximately HK\$17.92 million) owing by Business Net Limited to BEHL at an aggregate consideration of HK\$40 million, satisfied as to HK\$5 million in cash and HK\$35 million by way of the issue of 35 million shares of the Company at an issue price of HK\$1 per share. The sole asset of Business Net Limited is a 38% interest in BMAC and the consideration of the transaction was determined with reference to the business valuation of BMAC.

19. LONG TERM INVESTMENT

	Group	
	2003 HK\$’000	2002 HK\$’000
Unlisted equity investment, at cost	472	—

20. INVENTORIES

	Group	
	2003 HK\$’000	2002 HK\$’000
Materials, at cost	56,977	53,025

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21. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts due from customers for contract work	3,112	4,516
Amounts due to customers for contract work	<u>(1,022)</u>	<u>(1,204)</u>
	<u>2,090</u>	<u>3,312</u>
Contract costs incurred plus recognised profits less recognised losses to date	7,611	6,629
<i>Less:</i> Progress billings received and receivable	<u>(5,521)</u>	<u>(3,317)</u>
	<u>2,090</u>	<u>3,312</u>

22. PROPERTIES HELD FOR SALE

The details of the Group's properties held for sale are as follows:

Location	Group interest	Existing use	Gross floor area
Units 101–103, 107, 1501, 1503, 2001, 2101 and 2103–2104; private carpark nos. 4, 6, 8, 10–13, 16 and 19–21 on the upper ground floor; lorry carpark nos. 2–8, 12–14, 16–25, 27, 29 and container space no. 30 on the ground floor; roof and external wall; Hong Kong Worsteds Mills Industrial Building, 31–39 Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong	100%	Factory and carpark rental	44,551 sq.ft. (excluding roof and carpark)

23. TRADE RECEIVABLES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)
Due from third parties	192,690	94,003
Due from a fellow subsidiary	23,168	4,529
Due from a jointly-controlled entity	2,798	—
Due from related companies	<u>3,454</u>	<u>—</u>
	222,110	98,532
Portion classified as current assets	<u>(172,744)</u>	<u>(86,873)</u>
Long term portion	<u>49,366</u>	<u>11,659</u>

The various Group companies have different credit policies, dependent on the requirements of their markets and the business which they operate. Certain customers are allowed to settle the construction contract sum by 3 annual instalments. An aged analysis of trade receivables is regularly prepared and closely monitored in order to minimise any related credit risk.

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An aged analysis of the Group's trade receivables as at balance sheet date, based on the payment due date and net of provisions, is as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current and within 3 months	179,327	85,589
4-6 months	5,308	7,989
7-12 months	19,164	3,019
Over 1 year	18,311	1,935
	<u>222,110</u>	<u>98,532</u>

24. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		Company	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepayments	5,176	2,821	5	—
Deposits and other receivables	59,524	60,475	323	146
Due from subsidiaries	—	—	39,037	—
Due from fellow subsidiaries	16,963	16,963	—	—
Due from related companies	4,442	5,021	—	—
Due from a minority shareholder	3,302	—	—	—
Due from a jointly-controlled entity	—	193	—	—
Due from an associate	—	43,518	—	43,518
	<u>89,407</u>	<u>128,991</u>	<u>39,365</u>	<u>43,664</u>

The balances with subsidiaries, fellow subsidiaries, related companies, a minority shareholder, a jointly controlled entity and an associate are unsecured, interest-free and have no fixed terms of repayment, except for an amount due from a subsidiary of HK\$5,660,000 which bears interest at 4.5% per annum and is repayable in 2004.

25. TRADE AND BILLS PAYABLES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	44,474	44,800
Bills payable	37,058	15,628
	<u>81,532</u>	<u>60,428</u>

An aged analysis of the Group's trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 3 months	70,634	49,543
4-6 months	2,374	2,106
7-12 months	691	1,221
Over 1 year	7,833	7,558
	<u>81,532</u>	<u>60,428</u>

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26. OTHER PAYABLES AND ACCRUALS

	Note	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Other payables		25,904	15,780	1,285	985
Accruals		42,860	32,494	985	1,305
Current portion of long term payables	28	3,691	3,931	—	—
Amount due to a fellow subsidiary		—	255	—	—
Amounts due to related companies		2,642	471	—	—
		<u>75,097</u>	<u>52,931</u>	<u>2,270</u>	<u>2,290</u>

The balances with the fellow subsidiary and related companies are unsecured, interest-free and have no fixed terms of repayment.

27. BANK LOANS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank overdrafts, secured	<u>1,092</u>	<u>—</u>	<u>1,092</u>	<u>—</u>
Bank loans:				
Secured	7,853	10,146	2,499	4,556
Unsecured	<u>146,990</u>	<u>143,406</u>	<u>52,650</u>	<u>58,500</u>
	<u>154,843</u>	<u>153,552</u>	<u>55,149</u>	<u>63,056</u>
	<u>155,935</u>	<u>153,552</u>	<u>56,241</u>	<u>63,056</u>
Bank overdrafts repayable within one year or on demand	<u>1,092</u>	<u>—</u>	<u>1,092</u>	<u>—</u>
Bank loans repayable:				
Within one year	111,610	93,288	16,760	7,907
In the second year	38,389	17,247	38,389	16,760
In the third to fifth years, inclusive	1,617	39,905	—	38,389
After five years	<u>3,227</u>	<u>3,112</u>	<u>—</u>	<u>—</u>
	<u>154,843</u>	<u>153,552</u>	<u>55,149</u>	<u>63,056</u>
	155,935	153,552	56,241	63,056
Portion classified as current liabilities	<u>(112,702)</u>	<u>(93,288)</u>	<u>(17,852)</u>	<u>(7,907)</u>
Long term portion	<u>43,233</u>	<u>60,264</u>	<u>38,389</u>	<u>55,149</u>

Certain of the Group's bank facilities are secured by:

- (a) the Group's investment properties which had an aggregate carrying value at the balance sheet date of HK\$6,440,000 (2002: HK\$6,840,000);
- (b) the Group's leasehold land and buildings which had an aggregate net book value at the balance sheet date of HK\$50,527,000 (2002: HK\$51,199,000);

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- (c) the Group's properties held for sale which had an aggregate carrying value at the balance sheet date of HK\$11,527,000 (2002: HK\$11,527,000); and
- (d) the Group's bank deposits at the balance sheet date of HK\$6,865,000 (2002: HK\$9,408,000).

28. LONG TERM PAYABLES

	<i>Note</i>	Group	
		2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts payable:			
Within one year		3,691	3,931
In the second year		1,999	2,000
In the third to fifth years, inclusive		—	1,999
		5,690	7,930
Portion classified as current liabilities	26	(3,691)	(3,931)
Long term portion		1,999	3,999

The long term payables represent the amounts payable for the acquisition of a subsidiary in 1995. The amounts are interest-free and are repayable by annual instalments up to the year 2005.

29. DEFERRED TAX

The Group has tax losses arising in Hong Kong and Singapore of HK\$112,965,000 (2002: HK\$103,104,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in companies that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

30. SHARE CAPITAL

Shares

	Company	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$1 each	1,000,000	1,000,000
<i>Issued and fully paid:</i>		
493,981,150 (2002: 446,258,750) ordinary shares of HK\$1 each	493,981	446,259

During the year, the movements in share capital were as follows:

- (a) On 6 January 2003, 12,722,400 new shares of HK\$1 each were issued at a price of HK\$1 per share as part of the consideration for the acquisition of Wisdom Elite Holdings Limited (note 16(b)).
- (b) On 30 May 2003, 35,000,000 new shares of HK\$1 each were issued at a price of HK\$1 per share as part of the consideration for the acquisition of Business Net Limited (note 18(a)).

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A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000
At 1 January 2003	446,258,750	446,259
New issue of shares for the acquisition of subsidiaries	<u>47,722,400</u>	<u>47,722</u>
At 31 December 2003	<u>493,981,150</u>	<u>493,981</u>

The market price of HK\$0.9 per share of the Company's shares on 6 January 2003 and 30 May 2003 was used to determine the fair values of the shares issued as purchase considerations in the above acquisitions. The difference between the par values and the fair values of the shares issued amounting to HK\$4,772,000 was debited to the accumulated losses.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 31 to the financial statements.

31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") to give executives and key employees of the Group an interest in preserving and maximising shareholder value in the longer term, to enable the Company and the relevant subsidiaries to attract and retain individuals with experience and ability and to reward individuals for future performance. Eligible participants of the Scheme include the executive directors and employees of the Company or any of its subsidiaries. The Scheme became effective on 18 June 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme is limited to 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date on which the offer of the share options is accepted or on the expiry date of the Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares on the Stock Exchange on the date of the offer of the share options; (ii) the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.

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The following share options were outstanding under the Scheme during the year:

Name or category of participant

		Number of share options			
		At 1 January 2003	Granted during the year	Lapsed during the year	At 31 December 2003
Directors					
Mr. Xiong Da Xin*	(a)	2,800,000	—	(2,800,000)	—
	(b)	<u>1,200,000</u>	<u>—</u>	<u>(1,200,000)</u>	<u>—</u>
		<u>4,000,000</u>	<u>—</u>	<u>(4,000,000)</u>	<u>—</u>
Mr. Ng Kong Fat, Brian	(a)	2,300,000	—	—	2,300,000
	(b)	<u>1,200,000</u>	<u>—</u>	<u>—</u>	<u>1,200,000</u>
		<u>3,500,000</u>	<u>—</u>	<u>—</u>	<u>3,500,000</u>
Mr. E Meng	(a)	1,600,000	—	—	1,600,000
	(b)	<u>1,200,000</u>	<u>—</u>	<u>—</u>	<u>1,200,000</u>
		<u>2,800,000</u>	<u>—</u>	<u>—</u>	<u>2,800,000</u>
Mr. Zhao Jifeng	(c)	—	2,800,000	—	2,800,000
Dr. Mao Xiang Dong, Peter	(a)	1,600,000	—	—	1,600,000
	(b)	<u>1,200,000</u>	<u>—</u>	<u>—</u>	<u>1,200,000</u>
		<u>2,800,000</u>	<u>—</u>	<u>—</u>	<u>2,800,000</u>
Other employees	(a)	6,900,000	—	(2,600,000)	4,300,000
	(b)	<u>18,900,000</u>	<u>—</u>	<u>(1,200,000)</u>	<u>17,700,000</u>
		<u>25,800,000</u>	<u>—</u>	<u>(3,800,000)</u>	<u>22,000,000</u>
		<u>38,900,000</u>	<u>2,800,000</u>	<u>(7,800,000)</u>	<u>33,900,000</u>

* *Mr. Xiong Da Xin resigned as a director on 15 October 2003.*

Notes:

- (a) These options were granted on 19 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 1 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 26 June 2006.
- (b) These options were granted on 18 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 18 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 17 January 2007.
- (c) These options were granted on 2 October 2003 at an exercise price of HK\$1.05 per share. The closing price of the Company's shares on the Stock Exchange on the trading day immediately prior to the date of the grant of the share options was HK\$1.05. The options can be exercised in three equal portions. The first portion is exercisable at any time commencing on 2 October 2003, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 1 October 2008.

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No share options were exercised during the year. At the balance sheet date, the Company had 33,900,000 share options outstanding under the Scheme, which represented approximately 6.9% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 33,900,000 additional ordinary shares of the Company and additional share capital of HK\$33,900,000 and share premium of HK\$1,414,000 (before issue expenses).

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 20 of the financial statements.

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries in the PRC has been transferred to PRC reserve funds which are restricted as to use.

(b) Company

	Asset revaluation reserve	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 1 January 2002	35,487	(145,590)	(110,103)
Net profit for the year	—	536	536
Transfer to accumulated losses	(922)	922	—
	34,565	(144,132)	(109,567)
At 31 December 2002 and beginning of year			
Net profit for the year	—	36,967	36,967
Transfer to accumulated losses	(922)	922	—
Issue of shares in acquisition of subsidiaries	—	(4,772)	(4,772)
	33,643	(111,015)	(77,372)
At 31 December 2003			

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33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:		
Interest in a jointly-controlled entity	—	6,868
Fixed assets	—	112
Cash and bank balances	1,887	5,020
Trade receivables	—	24
Inventories	—	2,497
Other receivables, prepayments and deposits	—	2,050
Trade and bills payables	—	(21)
Other payables and accruals	—	(2,872)
Minority interests	(755)	(2,432)
	<u>1,132</u>	<u>11,246</u>
Goodwill/(negative goodwill) on acquisition (<i>note 14</i>)	<u>29,071</u>	<u>(5,445)</u>
	<u><u>30,203</u></u>	<u><u>5,801</u></u>
Satisfied by:		
Cash	18,753	5,801
Issue of shares	<u>11,450</u>	<u>—</u>
	<u><u>30,203</u></u>	<u><u>5,801</u></u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	(18,753)	(5,801)
Consideration payable in 2004	4,811	—
Cash and bank balances acquired	<u>1,887</u>	<u>5,020</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u><u>(12,055)</u></u>	<u><u>(781)</u></u>

The subsidiaries acquired during the year contributed HK\$34,067,000 to the Group's turnover and HK\$29,682,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003. The subsidiaries acquired in the prior year contributed HK\$37,906,000 to the Group's turnover and HK\$9,242,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2002.

(b) Major non-cash transactions

During the year, 12,722,400 shares and 35,000,000 shares of HK\$1 each were issued at a price of HK\$1 per share as part of the consideration for the acquisition of Wisdom Elite Holdings Limited and Business Net Limited, respectively.

APPENDIX I FINANCIAL INFORMATION ON THE BEIJING DEVELOPMENT GROUP

34. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given to banks in connection with facilities granted to subsidiaries	<u>100,190</u>	<u>52,760</u>

At 31 December 2003, the guarantees given to the banks in connection with bank facilities granted to the subsidiaries by the Company were utilised to the extent of approximately HK\$99,694,000 (2002: HK\$43,326,000).

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 13) and certain properties held for sale (note 22) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	3,845	4,123
In the second to fifth years, inclusive	<u>3,839</u>	<u>1,899</u>
	<u>7,684</u>	<u>6,022</u>

(b) As lessee

The Group leases certain of its office properties, restaurant premises and staff quarters under operating lease arrangements. Leases are negotiated for terms ranging from 1 to 10 years. Under certain lease agreements for the restaurant premises, contingent rentals in excess of the minimum lease payments are payable if the turnover of such restaurants reaches a pre-determined level.

At 31 December 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	17,269	16,133	—	60
In the second to fifth years, inclusive	24,442	31,024	—	—
After five years	<u>7,277</u>	<u>13,912</u>	—	—
	<u>48,988</u>	<u>61,069</u>	—	<u>60</u>

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36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b) above, the Group's shares of the jointly-controlled entity's own capital commitments were as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for	<u>12,106</u>	<u>—</u>

37. PLEDGE OF ASSETS

Details of the Group's borrowings secured by the assets of the Group are set out in note 27 to the financial statements.

Bank deposits of HK\$13,646,000 (2002: HK\$966,000) were pledged as guarantees for tenders and contracts.

38. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		Group	
		2003	2002
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of materials to a company in which a director of the Company has beneficial interests	(i)	749	2,211
Sales of materials to a jointly-controlled entity	(i)	16,990	—
Service income from a fellow subsidiary	(ii)	35,232	28,302
Service income from related companies	(iii)	3,832	—
Service income from a jointly-controlled entity	(iii)	<u>1,887</u>	<u>—</u>

Notes:

- (i) The sales of materials to related parties were priced at the estimated market value.
- (ii) The service fees were charged at the higher of (i) 8–9% of the turnover of the fellow subsidiary; or (ii) certain minimum guaranteed amounts.
- (iii) The service fees were determined with reference to fees charged to third parties.

39. POST BALANCE SHEET EVENT

On 10 February 2004, the Company (and other vendors) entered into a conditional agreement with Xteam Software International Limited ("Xteam") pursuant to which the Company has agreed to transfer all its interest in its software businesses to Xteam in consideration for the issue of new shares by Xteam to the Company and the other vendors representing, in aggregate, 75% of the enlarged issued share capital of Xteam (on a fully diluted basis). The Xteam shares agreed to be issued to the Company represent approximately 56.29% of the enlarged issued share capital of Xteam (based on the present shareholding structures of the Company and Xteam). The Listing Division of the Stock Exchange has ruled that the transaction constitutes a reverse takeover for Xteam and a spin-off for the Company. The Company and Xteam have applied for such rulings to be reviewed by the Listing Committee of the Stock Exchange. It is uncertain whether the transaction will be able to proceed or not. Any financial effect of the transaction cannot be estimated reliably at present.

40. COMPARATIVE AMOUNTS

Trade receivables of HK\$11,659,000 in the balance sheet as at 31 December 2002 have been reclassified from current assets to non-current assets to conform with the current year's presentation. In the opinion of the directors, this classification would better reflect the financial position of the Group.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2004.

3. INDEBTEDNESS**A. The Beijing Development Group**

As at the close of business on 30 April 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Beijing Development Group has outstanding borrowings of approximately HK\$183.9 million comprising:

1. secured bank overdrafts of approximately HK\$12.5 million;
2. secured bank loans of approximately HK\$30.2 million; and
3. unsecured bank loans of approximately HK\$141.2 million.

The secured bank borrowings were secured by certain of the Beijing Development Group's investment properties, leasehold land and buildings, properties held for sale and bank deposits.

As at 30 April 2004, the Beijing Development Group had a capital commitment of approximately HK\$6.6 million in respect of the Beijing Development Group's shares of the jointly-controlled entity's own capital commitment.

Save as disclosed above and apart from intra-group liabilities, at the close of business of 30 April 2004, the Beijing Development Group did not have any mortgages, charges, debentures or other loan capital, bank loans and overdrafts or other similar indebtedness, liabilities under acceptable credits or guarantees or other material contingent liabilities outstanding.

Save for disclosed in this circular, the Beijing Development Directors are not aware of any material adverse change in the Beijing Development Group's indebtedness, commitments, banking facilities and contingent liabilities since 30 April 2004.

For the purpose of the indebtedness statement, foreign currency amounts have been translated on 30 April 2004.

B. The Xteam Group

As at the close of business on 30 April 2004, being the latest practicable date for ascertaining information regarding this indebtedness statement, the Xteam Group did not have any mortgages, charges or debentures, loan capital, bank overdrafts, loans or other similar indebtedness or any hire purchase commitments, liabilities under acceptances or acceptable credits or any guarantees or other contingent liabilities.

Save as aforesaid and apart from intra-group liabilities, no companies within the Xteam Group had outstanding at the close of business on 30 April 2004 any mortgages, charges or debentures, loan capital, bank overdrafts, loans or other similar indebtedness or any hire purchase commitments, liabilities under acceptances or acceptable credits or any guarantees or other contingent liabilities.

4. WORKING CAPITAL

Upon the completion of the Sale Transaction and after taking into account the present internal financial resources and the present banking facilities available to the Beijing Development Group, in the absence of unforeseen circumstances, the Beijing Development Directors are of the opinion that the Beijing Development Group will have sufficient working capital for its present requirements.

Upon the completion of the Snow Fair Acquisition, the Pantosoft Acquisition and the Acquisition, and after taking into account the present internal financial resources and the present banking facilities available to the Xteam Group, in the absence of unforeseen circumstances, the Xteam Directors are of the opinion that the Xteam Group will have sufficient working capital for its present requirements.

Based on the above, the Beijing Development Directors are not aware of any matter or fact which will render the Enlarged Group not having sufficient working capital for its requirements after completion of the Sale Transaction.

5. MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Beijing Development Group since 31 December 2003, being the date to which the latest published audited consolidated accounts of Beijing Development and its subsidiaries were made up.

APPENDIX I FINANCIAL INFORMATION ON THE BEIJING DEVELOPMENT GROUP

6. PROFORMA STATEMENT OF UNAUDITED ADJUSTED COMBINED ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is a proforma statement of unaudited adjusted combined assets and liabilities of the Enlarged Group based on the audited consolidated balance sheet of the Beijing Development Group as at 31 December 2003, the audited consolidated balance sheet of the Xteam Group as at 31 March 2004, the audited consolidated balance sheet of Astoria as at 31 December 2003 as set out in Appendix III to this circular and the audited consolidated balance sheet of Wisdom Elite as at 31 December 2003 as set out in Appendix IV to this circular, adjusted to reflect the effect of the Sale Transaction.

	Beijing Development Group	Xteam Group	Adjustments	Enlarged Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS				
Fixed assets	136,798	2,477		139,275
Goodwill:				
Goodwill	135,296	13,688	(21,322) <i>(Note 1)</i>	127,662
Negative goodwill	(2,912)	—	(680) <i>(Note 2)</i>	(3,592)
Intangible assets	16,635	1,920		18,555
Interests in associates	16,247	—		16,247
Interests in jointly-controlled entities	44,601	—		44,601
Long term investments	472	—		472
Trade receivables	49,366	—		49,366
	<u>396,503</u>	<u>18,085</u>	<u>(22,002)</u>	<u>392,586</u>
CURRENT ASSETS				
Inventories	56,977	1,747		58,724
Amounts due from customers for contract work	3,112	—		3,112
Properties held for sale	12,728	—		12,728
Trade receivables	172,744	4,199		176,943
Other receivables, prepayments and deposits	89,407	5,954		95,361
Pledged bank balances and deposits	20,511	—		20,511
Cash and bank balances	90,281	9,184	(3,812) <i>(Note 3)</i>	95,653
	<u>445,760</u>	<u>21,084</u>	<u>(3,812)</u>	<u>463,032</u>

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	Beijing Development Group	Xteam Group	Adjustments	Enlarged Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CURRENT LIABILITIES				
Trade and bills payables	81,532	1,315		82,847
Amounts due to customers for contract work	1,022	—		1,022
Tax payable	936	97		1,033
Other payables and accruals	75,097	7,832		82,929
Bank loans	112,702	—		112,702
	<u>271,289</u>	<u>9,244</u>	<u>—</u>	<u>280,533</u>
NET CURRENT ASSETS	<u>174,471</u>	<u>11,840</u>	<u>(3,812)</u>	<u>182,499</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	570,974	29,925	(25,814)	575,085
NON-CURRENT LIABILITIES				
Bank loans	43,233	—		43,233
Long term payables	1,999	—		1,999
	<u>45,232</u>	<u>—</u>	<u>—</u>	<u>45,232</u>
MINORITY INTERESTS	63,567	2,801	8,944	75,312
			<i>(Note 4)</i>	
	<u>462,175</u>	<u>27,124</u>	<u>(34,758)</u>	<u>454,541</u>

Notes:

1. Being the aggregate effects of (a) elimination of goodwill on the acquisition of Shanghai Pantosoft; (b) deemed disposals of Astoria and Wisdom Elite.
2. Being the estimated negative goodwill arising as a result of the Sale Transaction.
3. Being the professional fees incurred by Beijing Development and Xteam in respect of the Snow Fair Acquisition, Pantosoft Acquisition and the Acquisition and the cash consideration payable by Xteam under the Pantosoft Acquisition.
4. Being a net effect of (a) the elimination of the minority interests in the accounts of Xteam in relation to the acquisition of the remaining entire interests in Shanghai Pantosoft under the Snow Fair Acquisition and the Pantosoft Acquisition; (b) the increase in the minority interests in Astoria and Wisdom Elite; and (c) the minority interests arising as a result of the Sale Transaction.

The above unaudited proforma adjusted assets and liabilities statement was prepared assuming that the Sale Transaction had been completed on 31 December 2003 which is for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group at any future date.

AUDITED FINANCIAL STATEMENTS OF XTEAM FOR THE YEAR ENDED 31 MARCH 2004

The following information has been extracted from the audited consolidated financial statements of Xteam for the year ended 31 March 2004 (the date of which the latest audited financial statements were made up). Capitalized terms used in this sub-section have the same meanings as defined in the annual report of Xteam for the year ended 31 March 2004. The reference to page numbers in this sub-section refers to page numbers of the annual report of Xteam for the year ended 31 March 2004.

Consolidated Profit and Loss Account*For the year ended 31 March 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	3	26,823	26,694
Cost of sales and services		<u>(23,176)</u>	<u>(13,463)</u>
Gross profit		3,647	13,231
Other revenue	3	1,687	542
Selling and marketing expenses		(5,087)	(4,035)
General and administrative expenses		(14,203)	(10,371)
Research and development costs		(2,817)	(5,227)
Provision against inventories		(7,976)	(4,267)
Impairment loss in respect of intangible assets		<u>(8,320)</u>	<u>—</u>
Loss from operating activities	5	(33,069)	(10,127)
Finance costs	8	<u>(36)</u>	<u>(200)</u>
Loss before taxation		(33,105)	(10,327)
Taxation	9	<u>(318)</u>	<u>(117)</u>
Loss for the year		(33,423)	(10,444)
Minority interests		<u>(1,424)</u>	<u>(145)</u>
Loss attributable to shareholders	10	<u><u>(34,847)</u></u>	<u><u>(10,589)</u></u>
Loss per share	12		
— Basic		<u>(5.38 cents)</u>	<u>(1.84 cents)</u>
— Diluted		<u>(5.36 cents)</u>	<u>(1.75 cents)</u>

Consolidated Balance Sheet

31 March 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fixed assets	13	2,477	2,063
Goodwill	15	13,688	14,813
Intangible assets	16	1,920	14,881
Current assets			
Inventories	17	1,747	9,036
Accounts receivable	18	4,199	1,635
Prepayments, deposits and other receivables		4,695	11,746
Value added tax refundable		1,259	1,343
Cash and bank balances		<u>9,184</u>	<u>11,931</u>
		<u>21,084</u>	<u>35,691</u>
Current liabilities			
Accounts payable	19	1,315	1,936
Short-term bank loan (unsecured)		—	1,415
Tax payable		97	—
Other payables and accrued expenses		<u>7,832</u>	<u>14,216</u>
		<u>9,244</u>	<u>17,567</u>
Net current assets		11,840	18,124
Non-current liabilities			
Minority interests		<u>2,801</u>	<u>1,377</u>
		<u>27,124</u>	<u>48,504</u>
Share capital	20	6,930	5,883
Reserves		<u>20,194</u>	<u>42,621</u>
		<u>27,124</u>	<u>48,504</u>

Consolidated Statement of Changes in Equity*For the year ended 31 March 2004*

	Share capital <i>HK\$'000</i>	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>
1 April 2002	5,503	36,248	—	(6,191)	35,560
Issue of new shares	380	23,499	—	—	23,879
Adjustment for over- accrued share issue expense in prior year	—	1,058	—	—	1,058
Share issue expenses	—	(1,404)	—	—	(1,404)
Loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(10,589)</u>	<u>(10,589)</u>
31 March 2003 and 1 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	<u>—</u>	<u>—</u>	<u>—</u>	<u>(34,847)</u>	<u>(34,847)</u>
31 March 2004	<u>6,930</u>	<u>71,821</u>	<u>60</u>	<u>(51,687)</u>	<u>27,124</u>

Consolidated Cash Flow Statement*For the year ended 31 March 2004*

	<i>Note</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Operating activities			
Loss before taxation		(33,105)	(10,327)
Adjustment for:			
Bank interest income		(60)	(138)
Gain on disposal of fixed assets		(12)	—
Amortisation of goodwill		1,125	375
Amortisation of intangible assets		4,641	4,625
Depreciation		808	485
Impairment loss in respect of intangible assets		8,320	—
Provision against inventories		7,976	4,267
Provision for bad and doubtful debts		1,217	41
Decrease/(increase) in prepayments, deposits and other receivables		7,051	(9,610)
Decrease in value added tax refundable/payable		84	169
Decrease in other payable and accrued expenses		<u>(6,384)</u>	<u>(3,448)</u>
Operating cash flows before working capital changes		(8,339)	(13,561)
Increase in inventories		(687)	(10,412)
(Increase)/decrease in accounts receivable		(3,781)	7,635
Decrease in accounts payable		<u>(621)</u>	<u>(280)</u>
Cash used in operations		(13,428)	(16,618)
Income tax paid		<u>(221)</u>	<u>(117)</u>
Net cash used in operating activities		<u>(13,649)</u>	<u>(16,735)</u>
Investing activities			
Interest received		60	138
Proceeds from disposal of fixed assets		94	—
Purchase of fixed assets		(1,304)	(326)
Purchase of intangible assets		—	(476)
Acquisition of a subsidiary (net of cash acquired)	22	<u>—</u>	<u>(7,974)</u>
Net cash outflow from investing activities		<u>(1,150)</u>	<u>(8,638)</u>
Financing activities			
Issue of new shares		14,578	22,038
Repayment of short-term bank loan		(1,415)	—
Share issue expenses		<u>(1,111)</u>	<u>(1,404)</u>
Net cash inflow generated from financing		<u>12,052</u>	<u>20,634</u>
Net decrease in cash and cash equivalents		(2,747)	(4,739)
Cash and cash equivalents at beginning of year		<u>11,931</u>	<u>16,670</u>
Cash and cash equivalents at end of year, representing cash and bank balances		<u><u>9,184</u></u>	<u><u>11,931</u></u>

Balance Sheet

31 March 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interests in subsidiaries	14	30,267	53,447
Current assets			
Prepayments, deposits and other receivables		798	324
Cash and bank balances		<u>10</u>	<u>10</u>
		808	334
Current liabilities			
Other payables and accrued expenses		<u>2,983</u>	<u>3,190</u>
Net current liabilities		<u>(2,175)</u>	<u>(2,856)</u>
		<u>28,092</u>	<u>50,591</u>
Share capital	20	6,930	5,883
Reserves	21	<u>21,162</u>	<u>44,708</u>
		<u>28,092</u>	<u>50,591</u>

Notes to the Financial Statements*31 March 2004***1. CORPORATE INFORMATION**

The Company was incorporated in the Cayman Islands on 24 May 2001 as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands. The shares of the Company have been listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) since 11 December 2001.

During the year, the Group was principally engaged in software development and provision of the Chinese Linux operating system with kernel rewritten to cater for Chinese users and software based on the Linux operating platform for various hardware appliances including servers and personal computers in the People’s Republic of China (“PRC”). It also provided technical support and after-sales services to its customers.

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

The financial statements have been prepared in accordance with accounting policies generally accepted in Hong Kong and under the historical cost convention and in compliance with the Companies Ordinance. The principal accounting policies are set out below. The accounting policies and methods of computation used in the preparation of the financial statements for the year ended 31 March 2004 are consistent with those adopted in the 2003 financial statements except for the change in accounting policy as explained below.

(a) Adoption of Statement of Standard Accounting Practice

In the current year, the Group has adopted, for the first time, Hong Kong Financial Reporting Standard (“HKFRS”) — Statement of Standard Accounting Practice (“SSAP”) 12 (Revised) “Income Taxes” issued by the Hong Kong Society of Accountants (“HKSA”). The term HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In prior years, deferred tax was provided using the income statement liability method on all significant differences to the extent it was probable that the liability would crystallise in the foreseeable future. A deferred tax asset was not recognised until its realisation was assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior periods.

(b) Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March. Apart from the subsidiaries acquired as part of the group reorganisation in preparation for the listing of the Group on the GEM, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from their effective date of acquisition to 31 March, or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

(c) Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. In the Company’s balance sheet, the interests in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Goodwill

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

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

(e) Fixed assets

Fixed assets are stated at cost, less provisions for depreciation and any impairment losses. Details are set out in note 13 to the financial statements. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

The gain or loss on retirement or disposal of a fixed asset recognised 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.

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.

(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.

(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 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.

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 year in which they are incurred.

(q) Contributions to pension and retirement schemes

Contributions to pension and retirement schemes are charged to the profit and loss account in the year to which they relate.

(r) Contingencies

Contingent liabilities are not recognised 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.

3. 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.

Revenue recognised during the year is as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sales of computer software	8,060	21,596
Income from provision of system integration and related services	18,763	4,500
Income from provision of software development and related services	—	598
	<u>26,823</u>	<u>26,694</u>
Other revenue		
Bank interest income	60	138
Gain on disposal of fixed assets	12	—
Gain on disposal of listed investments	87	—
PRC tax subsidy	782	363
Sundry income	746	41
	<u>1,687</u>	<u>542</u>
Total revenue recognised	<u>28,510</u>	<u>27,236</u>

4. SEGMENTAL INFORMATION

No analysis of the Group's turnover and its contribution to loss before taxation by principal activities for the year ended 31 March 2004 is presented as 100% (2003: 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.

5. LOSS FROM OPERATING ACTIVITIES

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

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amortisation of goodwill	1,125	375
Amortisation of intangible assets	4,641	4,625
Auditors' remuneration		
— current year provision	324	420
— overprovision in prior year	—	(109)
Bad and doubtful debts	1,217	41
Cost of inventories sold	17,666	9,126
Depreciation of fixed assets	808	485
Operating lease rentals in respect of land and buildings	1,760	1,202
Staff costs:		
Wages and salaries (including directors' emoluments)	10,496	6,789
Contributions to retirement/pension schemes and other benefits	683	309
	<u> </u>	<u> </u>

6. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	1,270	540
Salaries and allowances	1,534	1,672
Retirement/pension contributions	32	53
Bonuses	427	101
	<u> </u>	<u> </u>
	<u>3,263</u>	<u>2,366</u>

Emoluments of the directors fell within the following band:

	2004	2003
	<i>No. of</i>	<i>No. of</i>
	<i>directors</i>	<i>directors</i>
Nil–HK\$1,000,000	<u>9</u>	<u>9</u>

All the above were paid to five (2003: four) executive directors and four (2003: five) non-executive directors.

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Executive director A	820	717
Executive director B	663	463
Executive director C	557	349
Executive director D	195	297
Executive director E*	308	—
Non-executive director F	230	120
Non-executive director G	210	100
Non-executive director H	170	60
Non-executive director I	110	—
Non-executive director J#	—	260
	<u>3,263</u>	<u>2,366</u>
Total	<u>3,263</u>	<u>2,366</u>

* *appointed during the year*

resigned during the prior year

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

During the year, 2,000,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 20 to the financial statements. No value in respect of the share options granted during the 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 (2003: four) executive directors whose emoluments are detailed above. The emoluments of the remaining highest paid individuals for 2004 and 2003 are analysed as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and allowances	250	251
Retirement/pension contributions	83	14
Bonuses	—	74
	<u>333</u>	<u>339</u>

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

	2004	2003
	<i>No. of</i>	<i>No. of</i>
	<i>individuals</i>	<i>individuals</i>
Nil–HK\$1,000,000	<u>1</u>	<u>1</u>

During the year, 6,000,000 share options were granted to the non-director, highest paid employee in respect of her service to the Group, further details of which are set out in note 20 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest-paid employees' remuneration disclosures.

7. RETIREMENT AND PENSION BENEFITS

The Group has implemented a Mandatory Provident Fund Scheme (“MPF Scheme”) in accordance with the Mandatory Provident Fund Scheme Ordinance in Hong Kong for its employees in Hong Kong. Under the MPF Scheme, the Group 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 year amounted to HK\$683,000 (2003: HK\$309,000).

8. FINANCE COSTS

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank charges and interest	24	22
Foreign exchange loss	<u>12</u>	<u>178</u>
	<u>36</u>	<u>200</u>

9. TAXATION

The amount of taxation in the consolidated profit and loss account represents:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax (<i>Note (a)</i>)	—	—
Overseas taxation (<i>Note (b)</i>)	<u>318</u>	<u>117</u>
	<u>318</u>	<u>117</u>

- (a) No provision for profits tax has been made as no income was earned in or derived from Hong Kong during the year.
- (b) No provision for profits tax has been provided in respect of the Cayman Islands or the British Virgin Islands as there were no assessable profits for the year in those jurisdictions. Overseas taxation represents tax charges on the assessable profits of certain subsidiaries operating in the PRC calculated at the applicable rates.

A reconciliation of tax expense to loss before taxation is as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation	<u>(33,105)</u>	<u>(10,327)</u>
Tax at applicable Hong Kong tax rates of 17.5% (2003: 16%)	(1,142)	(881)
Tax at applicable PRC tax rates (15%)	(3,987)	(705)
Tax effect of expenses that are not deductible in determining taxable profits	3,444	782
Tax effect of income that is not taxable in determining taxable profits	(85)	(19)
Unused tax losses carried forward	<u>2,088</u>	<u>940</u>
	<u>318</u>	<u>117</u>

Details of the estimated deferred taxation full potential liability/(asset) are as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Excess of tax allowances over depreciation	(2)	3
Tax losses	<u>(3,705)</u>	<u>(1,617)</u>
	<u>(3,707)</u>	<u>(1,614)</u>

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

10. LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company amounted to HK\$35,966,000 (2003: HK\$2,670,000).

11. DIVIDEND

No dividend has been paid or declared by the Company in respect of the current year (2003: Nil).

12. LOSS PER SHARE

The basic loss per share is calculated based on the Group's loss attributable to shareholders of HK\$34,847,000 (2003: HK\$10,589,000) and on the weighted average of 648,122,801 (2003: 574,075,967) ordinary shares in issue during the year.

The diluted loss per share is based on 649,648,509 (2003: 604,696,820) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighed average of 1,525,708 (2003: 30,620,853) ordinary shares deemed to be issued if all outstanding options had been exercised at the date they were granted.

13. FIXED ASSETS

	Leasehold improvements <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group						
Cost						
1 April 2003	86	2,330	48	558	664	3,686
Additions	242	207	—	21	834	1,304
Disposals	—	—	—	—	(147)	(147)
31 March 2004	<u>328</u>	<u>2,537</u>	<u>48</u>	<u>579</u>	<u>1,351</u>	<u>4,843</u>
Depreciation						
1 April 2003	28	1,014	18	294	269	1,623
Charge for the year	95	432	24	102	155	808
On disposals	—	—	—	—	(65)	(65)
31 March 2004	<u>123</u>	<u>1,446</u>	<u>42</u>	<u>396</u>	<u>359</u>	<u>2,366</u>
Net book value						
31 March 2004	<u>205</u>	<u>1,091</u>	<u>6</u>	<u>183</u>	<u>992</u>	<u>2,477</u>
31 March 2003	<u>58</u>	<u>1,316</u>	<u>30</u>	<u>264</u>	<u>395</u>	<u>2,063</u>

14. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares/registered capital, at cost	24,263	24,263
Amounts due from subsidiaries	38,672	31,098
Amounts due to subsidiaries	(590)	(1,914)
Less: Provision	<u>(32,078)</u>	<u>—</u>
	<u>30,267</u>	<u>53,447</u>

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

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	British Virgin Islands/ Hong Kong	100 Ordinary shares of US\$1 each	69%	Investment holding
Indirectly held				
Xteam Software (China) Co. Limited	People's Republic of China	US\$2,000,000	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	35.19%	Investment holding
Shanghai Pantosoft Company Limited	People's Republic of China	HK\$10,000,000	35.19%	Sale of computer software and provision of related services
Top Hero Investments Limited	British Virgin Islands/ Hong Kong	1 Ordinary share of US\$1 each	100%	Investment holding

15. GOODWILL

HK\$'000

Group Cost

1 April 2003 and 31 March 2004 15,188

Amortisation

1 April 2003 375

Charge for the year 1,125

31 March 2004 1,500

Net book value

31 March 2004 13,688

31 March 2003 14,813

16. INTANGIBLE ASSETS

	Internet platform <i>HK\$'000</i>	Trademarks <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group				
Cost				
1 April 2003 and 31 March 2004	<u>3,255</u>	<u>2,371</u>	<u>16,823</u>	<u>22,449</u>
Amortisation				
1 April 2003	1,085	362	6,121	7,568
Charges for the year	1,085	119	3,437	4,641
Impairment	<u>1,085</u>	<u>—</u>	<u>7,235</u>	<u>8,320</u>
31 March 2004	<u>3,255</u>	<u>481</u>	<u>16,793</u>	<u>20,529</u>
Net book value				
31 March 2004	<u>—</u>	<u>1,890</u>	<u>30</u>	<u>1,920</u>
31 March 2003	<u>2,170</u>	<u>2,009</u>	<u>10,702</u>	<u>14,881</u>

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

17. INVENTORIES

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials and low value consumables	13,612	12,826
Work in progress	125	243
Finished goods	<u>253</u>	<u>234</u>
	13,990	13,303
Less: Provision	<u>(12,243)</u>	<u>(4,267)</u>
	<u>1,747</u>	<u>9,036</u>

The carrying amount of inventories carried at net realisable value included in the above was HK\$62,000 (2003: HK\$234,000).

18. ACCOUNTS RECEIVABLE

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

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0–30 days	1,806	315
31–60 days	297	135
61–90 days	215	36
Over 90 days	<u>3,207</u>	<u>1,258</u>
	5,525	1,744
Less: Provision	<u>(1,326)</u>	<u>(109)</u>
	<u>4,199</u>	<u>1,635</u>

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

19. ACCOUNTS PAYABLE

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

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0–30 days	470	210
31–60 days	32	—
61–90 days	3	24
Over 90 days	<u>810</u>	<u>1,702</u>
	<u>1,315</u>	<u>1,936</u>

20. SHARE CAPITAL AND SHARE OPTIONS**(i) Share capital**

	Number of shares	Nominal value <i>HK\$</i>
Authorised share capital (HK\$0.01 each)		
31 March 2003 and 2004	<u>1,000,000,000</u>	<u>10,000,000</u>
Issued and fully paid (HK\$0.01 each)		
1 April 2002	550,253,233	5,502,532
Issue of new shares	32,408,705	324,087
Issue of new shares for acquisition of a Subsidiary (<i>note 22</i>)	<u>5,666,000</u>	<u>56,660</u>
31 March 2003 and 1 April 2003	588,327,938	5,883,279
Issue of new shares	<u>104,680,000</u>	<u>1,046,800</u>
31 March 2004	<u>693,007,938</u>	<u>6,930,079</u>

During the year, the Company entered into two placing agreements with Christfund Securities Limited to place 51,680,000 and 53,000,000 new ordinary shares at HK\$0.118 and HK\$0.16, respectively, on 21 July 2003 and 23 September 2003. The board of directors consider the placements a good opportunity to raise further capital for the Company while at the same time broadening its shareholder and capital base.

(ii) **Share options**

(a) *Pre-IPO Share Option Scheme*

As at 31 March 2004, there were 80,000,000 (2003: 91,000,000) outstanding share options granted under the Pre-IPO Share Option Scheme, adopted by the Company on 30 May 2001. During the year, 11,000,000 (2003: 15,000,000) outstanding share options were lapsed due to the resignation of an employee. Details of the outstanding share options granted under the Pre-IPO Share Option Scheme as at 31 March 2004 are summarised as follows:

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

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 year.

(b) *Share Option Scheme*

On 21 November 2001, the shareholders of the Company adopted a share option scheme ("Share Option Scheme"), the principal terms of which were set out on pages 199 to 208 of the Prospectus. Under the terms of the Share Option Scheme, the Board 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 19 December 2003, 63,000,000 share options were granted under the Share Option Scheme.

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

Name of grantee	Dated granted	Exercise period	No. of shares eligible for subscription under the share option	Exercise price
<i>Directors</i>				
Mr. Cheng Shu Wing	19 December 2003	19 December 2003 to 18 December 2013	1,000,000	HK\$0.14
Mr. Wang Shi Yu	19 December 2003	19 December 2003 to 18 December 2013	1,000,000	HK\$0.14
<i>Employees, advisers and consultants</i>				
	19 December 2003	19 December 2003 to 18 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 year.

21. RESERVES

The details of movements in the Group's reserves are set out in the consolidated statement of changes in equity on Page 32.

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			
1 April 2002	25,381	(1,156)	24,225
Issue of new shares	23,499	—	23,499
Adjustment for over accrued share issue expenses	1,058	—	1,058
Share issue expenses	(1,404)	—	(1,404)
Loss for the year	—	(2,670)	(2,670)
31 March 2003 and 1 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)
31 March 2004	<u>60,954</u>	<u>(39,792)</u>	<u>21,162</u>

Distributable reserves of the Company at 31 March 2004, determined in accordance with section 34 of the Companies law (2001 Second Revision) of the Cayman Island, amounted to approximately HK\$21,162,000 (2003: HK\$44,708,000).

The share premium account of the Group as set out on Page 32 differs from the Company's share premium account above owing to merger accounting being used by the Company upon its listing in 2001.

22. ACQUISITION OF A SUBSIDIARY

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

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:		
Fixed assets	—	713
Intangible assets	—	67
Accounts receivables	—	1,139
Prepayments, deposits and other receivables	—	1,229
Inventories	—	2,686
Bank balances and cash	—	5,717
Accounts payable	—	(2,066)
Short-term bank loan (unsecured)	—	(1,415)
Other payables and accrued expenses	—	(6,171)
Minority interests	—	(933)
	<u>—</u>	<u>966</u>
Net assets	<u>—</u>	<u>966</u>

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

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration paid	—	13,691
Bank balances and cash acquired	—	(5,717)
	<u>—</u>	<u>7,974</u>
Net outflow of cash and cash equivalents	<u>—</u>	<u>7,974</u>

23. OPERATING LEASE COMMITMENTS

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

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Expiring:		
Within one year	1,477	1,148
In the second to fifth years, inclusive	535	904
	<u>2,012</u>	<u>2,052</u>

24. CAPITAL COMMITMENTS

On 10 February 2004, the Group entered into several share purchase agreements as follows subject to, inter alia, approval by the Listing Division of the Stock Exchange of Hong Kong Limited and the shareholders of the Company:

- (a) 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.
- (b) The Company entered into two share purchase agreements to acquire a total of 31 shares of Snow Fair from its minority shareholders, MC Capital B.V. and Cosmo Town Limited for total considerations of approximately HK\$4,921,000, to be satisfied by the allotment of 33,938,000 new shares of the Company. 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 (Hong Kong) Limited (“Beijing Development”) pursuant to which the Company has agreed to purchase 680 shares of Astoria Innovations Limited (“Astoria”), representing 68% interest in Astoria, and 100 shares of Wisdom Elite Limited (“Wisdom”), representing 100% interest in Wisdom. Astoria and Wisdom are subsidiaries of Beijing Development and are engaged in the software business. The considerations will be satisfied by the Company issuing new shares to Beijing Development.

25. RELATED PARTY TRANSACTIONS

During the year, the Company paid financial advisory services fees of HK\$200,000 (2003: Nil) to a company controlled by a director of the Company. Such fees were agreed by both parties in the normal course of business.

26. COMPARATIVE AMOUNTS

The comparative figure for provision against inventories for the year ended 31 March 2003 has been reclassified from cost of sales and services to show as a separate item in the consolidated profit and loss account as, in the opinion of the directors, such presentation provides a more appropriate presentation of the Group’s operating results.

27. APPROVAL OF THE AUDITED FINANCIAL STATEMENTS

The audited financial statements were approved and authorised for issue by the board of directors on 21 June 2004.

Set out below is the text of the Accountants' report of Astoria Innovations Limited and its subsidiary for the period from 20 January 2003 (being the date of incorporation of Astoria Innovations Limited) to 31 December 2003.



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

30 June 2004

The Directors
Beijing Development (Hong Kong) Limited

Dear Sirs,

We set out below our report on the financial information regarding Astoria Innovations Limited (“Astoria”) and its subsidiary (hereinafter collectively referred to as the “Astoria Group”) for the period from 20 January 2003 to 31 December 2003 (the “Relevant Period”), prepared on the basis set out in Section 1 below, for inclusion in Appendix III of the circular of Beijing Development (Hong Kong) Limited and Appendix V of the circular of Xteam Software International Limited both dated 30 June 2004.

Astoria was incorporated with limited liability in the British Virgin Islands under the International Business Companies Act on 20 January 2003. Astoria has not carried on any business since the date of its incorporation, save for the establishment of the subsidiary, 北京北控三興信息技術有限公司 (Beijing Enterprises Sanxing Information Technology Co., Ltd.) (“the Subsidiary”), a company registered in the People’s Republic of China (the “PRC”).

As of the date of this report, Astoria directly owns 100% of the equity interest in the Subsidiary. The Subsidiary is a wholly foreign owned enterprise established in the PRC on 29 August 2003 with registered capital of RMB3,000,000 and is engaged in the development and sale of re-employment and e-government information management systems.

No audited financial statements have been prepared for Astoria since its date of incorporation. The 2003 financial statements of the Subsidiary were audited by 北京金晨會計師事務所 (Beijing Jinchen Certified Public Accountants), registered in the PRC. For the purpose of this report, we have, however, undertaken an independent audit of the results and cash flows of the Astoria Group for the Relevant Period and of the consolidated balance sheet of the Astoria Group as at 31 December 2003 (the “Summaries”) in accordance with the Auditing Guideline “Prospectuses and the reporting accountant” issued by the Hong Kong Society of Accountants.

The directors of the respective companies now comprising the Astoria Group are responsible for the preparation of the respective financial statements on which the Summaries are based. In preparing the Summaries 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 the Summaries and to report our opinion to you.

In our opinion, the Summaries prepared on the basis set out in Section 1 below give, for the purpose of this report, a true and fair view of the consolidated results and cash flows of the Astoria Group for the Relevant Period and of the consolidated balance sheet of the Astoria Group as at 31 December 2003.

1. BASIS OF PREPARATION

The Summaries have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Astoria Group in arriving at the financial information described in this report are set out below as follows:

Basis of consolidation

The consolidated financial statements include the financial statements of Astoria and its subsidiary for the period from 20 January 2003 (date of incorporation of Astoria) to 31 December 2003. The results of the subsidiary established during the period are consolidated from the date of establishment. All significant intercompany transactions and balances within the Astoria Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies Astoria controls, directly or indirectly, so as to obtain benefits from its activities.

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.

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.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, 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, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Astoria Group's cash management.

For the purpose of the consolidated balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Astoria Group and when the revenue can be measured reliably. Revenue from the rendering of services is recognised when the services are rendered.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of the PRC subsidiary are translated into Hong Kong dollars using the net investment method. The profit and loss account of the PRC subsidiary is translated into Hong Kong dollars at the weighted average exchange rates for the period and its balance sheet is translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Any resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of the PRC subsidiary are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the PRC subsidiary which arise throughout the period are translated into Hong Kong dollars at the weighted average exchange rates for the period.

3. RESULTS

The following is the consolidated results of the Astoria Group for the Relevant Period:

	<i>Notes</i>	From 20 January 2003 to 31 December 2003 HK\$
TURNOVER	(a)	6,965,573
Cost of sales		<u>(476,823)</u>
Gross profit		6,488,750
Selling and distribution costs		(54,395)
Administrative expenses		<u>(522,025)</u>
NET PROFIT FOR THE PERIOD	(c)	<u><u>5,912,330</u></u>

Notes:

(a) Turnover

Turnover represents the value of services rendered in respect of the development and sale of information management systems.

(b) Segment information

During the Relevant Period, substantially all the revenue and results were derived from the development and sale of information management systems in the PRC and, therefore, no business nor geographical segmental analysis is presented.

(c) Net profit for the period

The Astoria Group's net profit for the period is arrived at after charging/(crediting):

	From 20 January 2003 to 31 December 2003 HK\$
Cost of services provided	476,823
Minimum lease payments under operating leases for land and buildings	240,566
Research and development costs	299,926
Auditors' remuneration	60,000
Staff costs (including directors' remuneration as set out in note (d)):	
Wages and salaries	548,436
Foreign exchange gains, net	<u><u>(22,463)</u></u>

(d) Directors' remuneration and five highest paid employees

Details of the directors' remuneration are as follows:

	From 20 January 2003 to 31 December 2003 HK\$
Fees	
Other emoluments:	
Salaries, allowances and benefits in kind	54,632
Performance related bonuses	<u>55,472</u>
	<u><u>110,104</u></u>

Each of the directors' remuneration fell within the range of zero to HK\$1,000,000 for the Relevant Period. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

The five highest paid employees during the Relevant Period include two directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three non-director, highest paid employees for the Relevant Period are as follows:

	From 20 January 2003 to 31 December 2003 HK\$
Salaries, allowances and benefits in kind	64,542
Performance related bonuses	<u>64,717</u>
	<u><u>129,259</u></u>

Each of the non-director, highest paid employees' remuneration fell within the range of zero to HK\$1,000,000 for the Relevant Period.

(e) Tax

No provision for Hong Kong profits tax has been made as there were no assessable profits arising in Hong Kong during the Relevant Period.

In accordance with the relevant tax rules and regulations in the PRC, Astoria's subsidiary enjoyed income tax exemptions during the Relevant Period.

There was no unprovided deferred tax in respect of the Relevant Period and as at the balance sheet date.

4. CONSOLIDATED BALANCE SHEET

The following is the consolidated balance sheet of the Astoria Group as at the end of the Relevant Period:

	<i>Notes</i>	As at 31 December 2003 HK\$
CURRENT ASSETS		
Trade receivables	(a)	2,682,132
Cash and bank balances		<u>6,722,788</u>
		<u>9,404,920</u>
CURRENT LIABILITIES		
Trade payables	(b)	26,018
Other payables and accruals	(c)	<u>3,458,772</u>
		<u>3,484,790</u>
		<u><u>5,920,130</u></u>
CAPITAL AND RESERVES		
Issued capital	(d)	7,800
Retained profits		<u>5,912,330</u>
		<u><u>5,920,130</u></u>

Notes:

(a) Trade receivables

An aged analysis of the Astoria Group's trade receivables, based on the payment due date and net of provisions, is as follows:

	As at 31 December 2003 HK\$
Current and within 3 months	<u><u>2,682,132</u></u>

(b) Trade payables

An aged analysis of the Astoria Group's trade payables, based on the invoice date, is as follows:

	As at 31 December 2003 HK\$
Within 3 months	<u>26,018</u>

(c) Other payables and accruals

	As at 31 December 2003 HK\$
Other payables and accruals	616,572
Amount due to a holding company	<u>2,842,200</u>
	<u>3,458,772</u>

The balance with the holding company is unsecured, interest-free and has no fixed terms of repayment.

(d) Share capital

	As at 31 December 2003 HK\$
Authorised: 50,000 ordinary shares of US\$1 each	<u>390,000</u>
Issued and fully paid: 1,000 ordinary shares of US\$1 each	<u>7,800</u>

On incorporation, Astoria issued 1,000 ordinary shares of US\$1 each at par value.

5. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The following is the consolidated statement of changes in equity of the Astoria Group for the Relevant Period:

	Issued share capital HK\$	Retained profits HK\$	Total HK\$
Issue of shares	7,800	—	7,800
Net profit for the period	<u>—</u>	<u>5,912,330</u>	<u>5,912,330</u>
At 31 December 2003	<u>7,800</u>	<u>5,912,330</u>	<u>5,920,130</u>

6. CONSOLIDATED CASH FLOW STATEMENT

The following is the consolidated cash flow statement of the Astoria Group for the Relevant Period:

<i>Section</i>	From 20 January 2003 to 31 December 2003 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES	
Net profit for the period	5,912,330
Increase in trade receivables	(2,682,132)
Increase in trade payables	26,018
Increase in other payables and accruals	<u>3,458,772</u>
Net cash inflow from operating activities	<u>6,714,988</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issue of share capital	4(d) <u>7,800</u>
Net cash inflow from financing activities	<u>7,800</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>6,722,788</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	<u><u>6,722,788</u></u>

7. OPERATING LEASE ARRANGEMENTS

The Astoria Group leases its office properties under operating lease arrangements. The lease is negotiated for a term of 17 months.

At 31 December 2003, the Astoria Group had total future minimum lease payments under a non-cancellable operating lease falling due as follows:

	As at 31 December 2003 HK\$
Within one year	<u><u>481,132</u></u>

8. SUBSEQUENT EVENTS

No significant events took place subsequent to 31 December 2003 up to the date of this report.

9. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Astoria or its subsidiary in respect of any period subsequent to 31 December 2003.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

Set out below is the text of the Accountants' report of Wisdom Elite Holdings Limited and its subsidiary for the period from 26 August 2002 (being the date of incorporation of Wisdom Elite Holdings Limited) to 31 December 2003.



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

30 June 2004

The Directors
Beijing Development (Hong Kong) Limited

Dear Sirs,

We set out below our report on the financial information regarding Wisdom Elite Holdings Limited (“Wisdom Elite”) and its subsidiary (hereinafter collectively referred to as the “Wisdom Elite Group”) for the period from 26 August 2002 to 31 December 2003 (the “Relevant Period”), prepared on the basis set out in Section 1 below, for inclusion in Appendix IV of the circular of Beijing Development (Hong Kong) Limited and Appendix VI of the circular of Xteam Software International Limited both dated 30 June 2004.

Wisdom Elite was incorporated with limited liability in the British Virgin Islands under the International Business Companies Act on 26 August 2002. Wisdom Elite has not carried on any business since the date of its incorporation, save for the investment in a subsidiary, 北京北控偉仕軟件工程技術有限公司 (Beijing Enterprises VST Software Technology Co., Ltd.) (the “Subsidiary”), a company registered in the People’s Republic of China (the “PRC”).

As of the date of this report, Wisdom Elite directly owns 100% of the equity interest in the Subsidiary. The Subsidiary is a wholly foreign owned enterprise established in the PRC with registered capital of RMB2,000,000 and is engaged in the development and sale of social security and tax information management systems.

No audited financial statements have been prepared for Wisdom Elite since its date of incorporation. The 2003 financial statements of the Subsidiary were audited by 北京金晨會計師事務所 (Beijing Jinchen Certified Public Accountants), registered in the PRC. For the purpose of this report, we have, however, undertaken an independent audit of the results and cash flows of the Wisdom Elite Group for the Relevant Period and of the consolidated balance sheet of the Wisdom Elite Group as at 31 December 2003 (the “Summaries”) in accordance with the Auditing Guideline “Prospectuses and the reporting accountant” issued by the Hong Kong Society of Accountants.

The directors of the respective companies now comprising the Wisdom Elite Group are responsible for the preparation of the respective financial statements on which the Summaries are based. In preparing the Summaries 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 the Summaries and to report our opinion to you.

In our opinion, the Summaries prepared on the basis set out in Section 1 below give, for the purpose of this report, a true and fair view of the consolidated results and cash flows of the Wisdom Elite Group for the Relevant Period and of the consolidated balance sheet of the Wisdom Elite Group as at 31 December 2003.

1. BASIS OF PREPARATION

The Summaries have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Wisdom Elite Group in arriving at the financial information described in this report are set out below as follows:

Basis of consolidation

The consolidated financial statements include the financial statements of Wisdom Elite and its subsidiary for the period from 26 August 2002 (date of incorporation of Wisdom Elite) to 31 December 2003. The results of the subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Wisdom Elite Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies Wisdom Elite controls, directly or indirectly, so as to obtain benefits from its activities.

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.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period 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 that asset.

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture, fixtures and equipment	33%–50%
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Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any estimated costs necessary to make the sales.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, 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, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Wisdom Elite Group's cash management.

For the purpose of the consolidated balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Wisdom Elite Group and when the revenue can be measured reliably, on the following bases:

- (a) from the rendering of services, when the services are rendered; and
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of the PRC subsidiary are translated into Hong Kong dollars using the net investment method. The profit and loss account of the PRC subsidiary is translated into Hong Kong dollars at the weighted average exchange rates for the period and its balance sheet is translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Any resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of the PRC subsidiary are translated into Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of the PRC subsidiary which arise throughout the period are translated into Hong Kong dollars at the weighted average exchange rates for the period.

3. RESULTS

The following is the consolidated results of the Wisdom Elite Group for the Relevant Period:

	<i>Notes</i>	From 26 August 2002 to 31 December 2003 HK\$
TURNOVER	(a)	27,101,776
Cost of sales		<u>(3,644,523)</u>
Gross profit		23,457,253
Interest income		6,340
Other revenue		3,260,493
Selling and distribution costs		(42,642)
Administrative expenses		<u>(2,911,880)</u>
NET PROFIT FOR THE PERIOD	(c)	<u><u>23,769,564</u></u>

Notes:

(a) Turnover

Turnover represents the value of services rendered in respect of the development and sale of information management systems.

(b) Segment information

During the Relevant Period, substantially all the revenue and results were derived from the development and sale of information management systems in the PRC and, therefore, no business nor geographical segmental analysis is presented.

(c) Net profit for the period

The Wisdom Elite Group's net profit for the period is arrived at after charging/(crediting):

	From 26 August 2002 to 31 December 2003 HK\$
Cost of services provided	3,644,523
Depreciation	76,973
Minimum lease payments under operating leases for land and buildings	344,162
Auditors' remuneration	60,000
Staff costs:	
Wages and salaries	1,819,883
Interest income	<u><u>(6,340)</u></u>

(d) **Directors' remuneration and five highest paid employees**

No director received any fees or emoluments in respect of their services rendered during the Relevant Period. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

Details of the remuneration of the five non-director, highest paid employees for the Relevant Period are as follows:

	From 26 August 2002 to 31 December 2003 HK\$
Salaries, allowances and benefits in kind	328,302
Performance related bonuses	<u>71,698</u>
	<u><u>400,000</u></u>

Each of the non-director, highest paid employees' remuneration fell within the range of zero to HK\$1,000,000 for the Relevant Period.

(e) **Tax**

No provision for Hong Kong profits tax has been made as there were no assessable profits arising in Hong Kong during the Relevant Period.

In accordance with the relevant tax rules and regulations in the PRC, Wisdom Elite's subsidiary enjoyed income tax exemptions during the Relevant Period.

There was no unprovided deferred tax in respect of the Relevant Period and as the balance sheet date.

4. CONSOLIDATED BALANCE SHEET

The following is the consolidated balance sheet of the Wisdom Elite Group as at the end of the Relevant Period:

	<i>Notes</i>	As at 31 December 2003 HK\$
NON-CURRENT ASSETS		
Fixed assets	(a)	<u>508,895</u>
CURRENT ASSETS		
Inventories	(b)	4,321,308
Trade receivables	(c)	1,094,340
Other receivables, prepayments and deposits	(d)	14,573,534
Cash and bank balances		<u>8,996,032</u>
		<u>28,985,214</u>
CURRENT LIABILITIES		
Trade payables	(e)	746,092
Other payables and accruals	(f)	<u>3,090,881</u>
		<u>3,836,973</u>
NET CURRENT ASSETS		<u>25,148,241</u>
		<u><u>25,657,136</u></u>
CAPITAL AND RESERVES		
Issued capital	(g)	780
Reserves		<u>25,656,356</u>
		<u><u>25,657,136</u></u>

Notes:

(a) Fixed assets

	Furniture, Fixtures and equipment <i>HK\$</i>
Cost:	
Additions during the period and at 31 December 2003	585,868
Accumulated depreciation:	
Provided during the period and at 31 December 2003	<u>(76,973)</u>
Net book value:	
At 31 December 2003	<u><u>508,895</u></u>

(b) Inventories

	As at 31 December 2003 <i>HK\$</i>
Materials, at cost	<u><u>4,321,308</u></u>

(c) Trade receivables

An aged analysis of the Wisdom Elite Group's trade receivables, based on the payment due date and net of provisions, is as follows:

	As at 31 December 2003 <i>HK\$</i>
Current and within 3 months	<u><u>1,094,340</u></u>

(d) Other receivables, prepayments and deposits

	As at 31 December 2003 <i>HK\$</i>
Prepayments	1,782,588
Deposits and other receivables	4,404,553
Due from a fellow subsidiary	<u>8,386,393</u>
	<u><u>14,573,534</u></u>

The balance with the fellow subsidiary is unsecured, interest-free and has no fixed terms of repayment.

(e) Trade payables

An aged analysis of the Wisdom Elite Group's trade payables, based on the invoice date, is as follows:

	As at 31 December 2003 HK\$
Within 3 months	<u>746,092</u>

(f) Other payables and accruals

	As at 31 December 2003 HK\$
Other payables and accruals	2,232,311
Due to a holding company	<u>858,570</u>
	<u>3,090,881</u>

The balance with the holding company is unsecured, interest-free and has no fixed terms of repayment.

(g) Share capital

	As at 31 December 2003 HK\$
Authorised: 50,000 ordinary shares of US\$1 each	<u>390,000</u>
Issued and fully paid: 100 ordinary shares of US\$1 each	<u>780</u>

On incorporation, Wisdom Elite issued 100 ordinary shares of US\$1 each at HK\$1,887,572 (Section 5 below) as consideration for the investment in the Subsidiary.

5. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The following is the consolidated statement of changes in equity of the Wisdom Elite Group for the Relevant Period:

	Issued share capital HK\$	Share premium HK\$	Retained profits HK\$	Total HK\$
Issue of shares	780	1,886,792	—	1,887,572
Net profit for the period	<u>—</u>	<u>—</u>	<u>23,769,564</u>	<u>23,769,564</u>
At 31 December 2003	<u>780</u>	<u>1,886,792</u>	<u>23,769,564</u>	<u>25,657,136</u>

6. CONSOLIDATED CASH FLOW STATEMENT

The following is the consolidated cash flow statement of the Wisdom Elite Group for the Relevant Period:

	From 26 August 2002 to 31 December 2003 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES	
Net profit for the period	23,769,564
Adjustments for:	
Interest income	<i>Section 3(c)</i> (6,340)
Depreciation	<i>Section 4(a)</i> <u>76,973</u>
Operating profit before working capital changes	23,840,197
Increase in inventories	(4,321,308)
Increase in trade receivables	(1,094,340)
Increase in other receivables, prepayments and deposits	(14,573,534)
Increase in trade payables	746,092
Increase in other payables and accruals	<u>3,090,881</u>
Cash generated from operations	7,687,988
Interest received	<u>6,340</u>
Net cash inflow from operating activities	<u>7,694,328</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of fixed assets	<i>Section 4(a)</i> (585,868)
Acquisition of a subsidiary	<i>Note (a)</i> <u>1,887,572</u>
Net cash inflow from investing activities	<u>1,301,704</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>8,996,032</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	<u><u>8,996,032</u></u>

Notes:

(a) Acquisition of a subsidiary

	From 26 August 2002 to 31 December 2003 HK\$
Net assets acquired:	
Cash and bank balances	<u>1,887,572</u>
Satisfied by:	
Issue of shares	<u>1,887,572</u>
An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:	
Cash and bank balances acquired	<u>1,887,572</u>

7. OPERATING LEASE ARRANGEMENTS

The Wisdom Elite Group leases its office properties under operating lease arrangements. The lease is negotiated for a term of two years.

At 31 December 2003, the Wisdom Elite Group had total future minimum lease payments under a non-cancellable operating lease falling due as follows:

	As at 31 December 2003 HK\$
Within one year	501,108
In the second to fifth years, inclusive	<u>125,277</u>
	<u>626,385</u>

8. SUBSEQUENT EVENTS

No significant events took place subsequent to 31 December 2003 up to the date of this report.

9. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Wisdom Elite or its subsidiary in respect of any period subsequent to 31 December 2003.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

Set out below is the text of the Accountants' report of the Becom Software Business for the period from 7 November 2001 to 31 December 2003. The transfer of the Becom Software Business will mainly include the transfer of the personnel and the business contracts in progress. The assets and liabilities of the Becom Software Business will not be transferred to the Wisdom Elite Group.



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

30 June 2004

The Directors
Beijing Development (Hong Kong) Limited

Dear Sirs,

We set out below our report on the financial information regarding the software business (“Becom Software Business”) of Becom Software Co., Ltd. (“Becom”) for the period from 7 November 2001 to 31 December 2001 and each of the two years ended 31 December 2003 (the “Relevant Periods”), prepared on the basis set out in Section 1 below, for inclusion in Appendix V of the circular of Beijing Development (Hong Kong) Limited and Appendix VII of the circular of Xteam Software International Limited both dated 30 June 2004.

Becom Software Business is part of the business of Becom, which was incorporated with limited liability in the People’s Republic of China (the “PRC”) as a wholly foreign owned enterprise on 7 November 2001. Becom is engaged in the provision of management information system services. Becom Software Business is mainly related to the development and sale of educational information management systems.

As discussed further in Section 1 below, no accounts have previously been prepared for Becom Software Business on a stand-alone basis as Becom Software Business has not been reported upon as a distinct business within Becom. Financial information relating to Becom Software Business was included in the audited financial statements of Becom, which were prepared in accordance with the relevant accounting principles and financial regulations applicable to Becom in the PRC and were audited by 北京金晨會計師事務所 (Beijing Jinchen Certified Public Accountants), registered in the PRC, for the Relevant Periods.

For the purpose of this report, the management of Becom has prepared the summaries of the results and cash flows of Becom Software Business for the Relevant Periods and of the assets and liabilities of Becom Software Business as at 31 December 2001, 2002 and 2003 (the “Summaries”) in accordance with accounting principles generally accepted in Hong Kong. We have undertaken an independent audit of the Summaries in accordance with the Auditing Guideline “Prospectuses and the reporting accountant” issued by the Hong Kong Society of Accountants.

The management of Becom is responsible for the preparation of the financial information on which the Summaries are based. In preparing the Summaries 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 the Summaries and to report our opinion to you.

The Summaries do not necessarily reflect the results, cash flows and the financial position of Becom Software Business that would have been recorded had it been operated as a stand-alone entity during the Relevant Periods because during the Relevant Periods, Becom Software Business was part of Becom and was not operated separately. Accordingly, we are not expressing an opinion as to whether the Summaries present fairly the results, cash flows and the financial position of Becom Software Business had it operated as a stand-alone entity.

In our opinion, the Summaries prepared on the basis set out in Section 1 below give, for the purpose of this report, a true and fair view of the results and cash flows of Becom Software Business for the Relevant Periods and of the assets and liabilities of Becom Software Business as at 31 December 2001, 2002 and 2003.

1. BASIS OF PREPARATION

Becom Software Business is part of the business of Becom. No accounts have previously been prepared for Becom Software Business on a stand-alone basis as Becom Software has not been reported upon as a distinct business within Becom. The Summaries are prepared based on amounts extracted from the books and records of Becom. Accordingly, the Summaries do not necessarily reflect the results, cash flows and financial position of Becom Software Business that would have been recorded had it been operated as a stand-alone entity during the Relevant Periods.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in arriving at the financial information described in this report which conforms with accounting principles generally accepted in Hong Kong are set out below as follows:

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.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period 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 that asset.

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the lease terms
Furniture, fixtures and equipment	19%

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.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any estimated costs necessary to make the sale.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, 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, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the business's cash management.

For the purpose of the assets and liabilities, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at each period end between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the period end are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Employee benefits

Certain employees are required to participate in a central pension scheme operated by the PRC government. Contributions are made based on a certain percentage of the covered payroll and are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme. The employer contributions vest fully with the employees when contributed into the scheme.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the business and when the revenue can be measured reliably, on the following bases:

- (a) from the rendering of services, when the services are rendered; and
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the period end are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

3. PROFIT AND LOSS ACCOUNT

The following is a summary of the profit and loss account of Becom Software Business for the Relevant Periods, prepared on the basis set out in Section 1 above:

		Year ended 31 December 2003 HK\$	Year ended 31 December 2002 HK\$	Period from 7 November to 31 December 2001 HK\$
	<i>Notes</i>			
TURNOVER	(a)	23,726,238	23,322,681	943,396
Cost of sales		<u>(10,077,575)</u>	<u>(17,572,367)</u>	<u>(169,136)</u>
Gross profit		13,648,663	5,750,314	774,260
Interest income		25,860	59,238	20,263
Other revenue and gains		1,376,578	354,577	—
Selling and distribution costs		(1,362,220)	(1,140,216)	—
Administrative expenses		<u>(2,041,571)</u>	<u>(2,029,058)</u>	<u>(450,500)</u>
PROFIT BEFORE TAX	(c)	11,647,310	2,994,855	344,023
Tax	(e)	<u>—</u>	<u>—</u>	<u>(22,021)</u>
NET PROFIT FOR THE YEAR/ PERIOD		<u>11,647,310</u>	<u>2,994,855</u>	<u>322,002</u>

Notes:

(a) Turnover

Turnover represents the value of services rendered in respect of the development and sale of information management systems.

(b) Segment information

During the Relevant Periods, substantially all the revenue and results were derived from the development and sale of information management systems in the PRC and, therefore, no business nor geographical segmental analysis is presented.

(c) Profit before tax

The profit before tax is arrived at after charging/(crediting):

	Year ended 31 December 2003 HK\$	Year ended 31 December 2002 HK\$	Period from 7 November to 31 December 2001 HK\$
Cost of services provided	10,077,575	17,572,367	169,136
Depreciation	281,072	170,391	462
Minimum lease payments under operating leases for land and building	746,798	814,035	—
Research and development costs:			
Current year expenditure	2,705,439	2,185,464	—
Less: Government grants released ⁺	<u>(1,339,623)</u>	<u>—</u>	<u>—</u>
	<u>1,365,816</u>	<u>2,185,464</u>	<u>—</u>
Auditors' remuneration	9,434	—	—
Staff costs including directors' remuneration as set out in note (d):			
Wages and salaries	3,483,021	1,864,337	44,283
Pension scheme contributions	<u>487,623</u>	<u>261,007</u>	<u>6,200</u>
	<u>3,970,644</u>	<u>2,125,344</u>	<u>50,483</u>
Interest income	(25,860)	(59,238)	(20,263)
Gain on disposal of fixed assets	<u>—</u>	<u>(108)</u>	<u>—</u>

⁺ Certain government grants have been received for the research and development of management information systems for the education sector in Beijing, the PRC. The government grants released have been deducted from the research and development costs to which they relate. There are no unfulfilled conditions or contingencies relating to these grants.

(d) Directors' remuneration and five highest paid employees

Details of the director's remuneration are as follows:

	Year ended 31 December 2003 HK\$	Year ended 31 December 2002 HK\$	Period from 31 December 2001 HK\$
Fees	—	—	—
Other emoluments:			
Salaries, allowances and benefits in kind	340,350	350,717	132,254
Pension scheme contributions	<u>3,481</u>	<u>1,840</u>	<u>—</u>
	<u>343,831</u>	<u>352,557</u>	<u>132,254</u>

Each of the directors' remuneration fell within the range of zero to HK\$1,000,000 for the Relevant Periods. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

The five highest paid employees during the Relevant Periods include one (2002: two; 2001: two) director, details of whose remuneration are set out above. Details of the remuneration of the remaining four (2002: three; 2001: three) non-director, highest paid employees for the Relevant Periods are as follows:

	Year ended 31 December 2003 HK\$	Year ended 31 December 2002 HK\$	Period from 7 November to 31 December 2001 HK\$
Salaries, allowances and benefits in kind	566,450	317,591	99,057
Pension scheme contributions	<u>7,421</u>	<u>3,538</u>	<u>—</u>
	<u>573,871</u>	<u>321,129</u>	<u>99,057</u>

Each of the non-director, highest paid employees' remuneration fell within the range of zero to HK\$1,000,000 for the Relevant Periods.

(e) Tax

No provision for Hong Kong profits tax has been made as there were no assessable profits arising in Hong Kong during the Relevant Periods.

In accordance with the relevant tax rules and regulations in the PRC, Becom enjoyed income tax exemptions for the years ended 31 December 2002 and 2003; and it is subject to income tax rate of 15% for the period ended 31 December 2001.

	Year ended 31 December 2003 HK\$	Year ended 31 December 2002 HK\$	Period from 7 November to 31 December 2001 HK\$
PRC tax charge	<u>—</u>	<u>—</u>	<u>22,021</u>

A reconciliation of the tax expense for the period ended 31 December 2001 applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	%	HK\$
Profit before tax		<u>344,023</u>
Tax at the statutory tax rate	15%	51,603
Tax loss of other business of Becom		(47,168)
Expenses not deductible for tax		<u>17,586</u>
Tax charge at the effective rate	6%	<u>22,021</u>

There was no unprovided deferred tax in respect of the Relevant Periods and as at the end of each of the Relevant Periods.

4. ASSETS AND LIABILITIES

The following is a summary of the assets and liabilities of Becom Software Business as at the end of each of the Relevant Periods, prepared on the basis set out in Section 1 above:

		As at 31 December		
		2003	2002	2001
	<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
NON-CURRENT ASSETS				
Fixed assets	(a)	<u>1,167,665</u>	<u>952,695</u>	<u>73,462</u>
CURRENT ASSETS				
Inventories	(b)	56,777	174,810	—
Trade receivables	(c)	27,177,262	9,660,385	943,396
Other receivables, prepayments and deposits	(d)	20,862,005	21,252,676	1,200,513
Cash and bank balances		<u>3,232,708</u>	<u>6,175,335</u>	<u>26,493,034</u>
		<u>51,328,752</u>	<u>37,263,206</u>	<u>28,636,943</u>
CURRENT LIABILITIES				
Trade payables	(e)	5,459,908	4,311,067	—
Tax payable		—	—	22,021
Other payables and accruals		<u>3,770,456</u>	<u>2,286,091</u>	<u>64,496</u>
		<u>9,230,364</u>	<u>6,597,158</u>	<u>86,517</u>
NET CURRENT ASSETS		<u>42,098,388</u>	<u>30,666,048</u>	<u>28,550,426</u>
NET ASSETS		<u><u>43,266,053</u></u>	<u><u>31,618,743</u></u>	<u><u>28,623,888</u></u>

Notes:

(a) Fixed assets

	Leasehold improvements <i>HK\$</i>	Furniture, fixtures and equipment <i>HK\$</i>	Total <i>HK\$</i>
Cost:			
Additions	—	73,924	73,924
At 31 December 2001 and 1 January 2002	—	73,924	73,924
Additions	503,016	549,896	1,052,912
Disposals	—	(3,396)	(3,396)
At 31 December 2002 and 1 January 2003	503,016	620,424	1,123,440
Additions	273,895	222,147	496,042
At 31 December 2003	<u>776,911</u>	<u>842,571</u>	<u>1,619,482</u>
Accumulated depreciation:			
Provided during the period	—	462	462
At 31 December 2001 and 1 January 2002	—	462	462
Provided during the year	91,175	79,216	170,391
Disposals	—	(108)	(108)
At 31 December 2002 and 1 January 2003	91,175	79,570	170,745
Provided during the year	137,856	143,216	281,072
At 31 December 2003	<u>229,031</u>	<u>222,786</u>	<u>451,817</u>
Net book value:			
At 31 December 2001	<u>—</u>	<u>73,462</u>	<u>73,462</u>
At 31 December 2002	<u>411,841</u>	<u>540,854</u>	<u>952,695</u>
At 31 December 2003	<u>547,880</u>	<u>619,785</u>	<u>1,167,665</u>

(b) Inventories

	As at 31 December		
	2003 <i>HK\$</i>	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Materials, at cost	<u>56,777</u>	<u>174,810</u>	<u>—</u>

(c) Trade receivables

	As at 31 December		
	2003 HK\$	2002 HK\$	2001 HK\$
Due from third parties	5,357,239	4,902,103	—
Due from a holding company	—	—	943,396
Due from fellow subsidiaries	19,441,724	4,147,414	—
Due from a related company	<u>2,378,299</u>	<u>610,868</u>	<u>—</u>
	<u>27,177,262</u>	<u>9,660,385</u>	<u>943,396</u>

The credit period granted to customers varies with sales contracts and longer credit period is usually granted to related parties. An aged analysis of trade receivables is regularly prepared and closely monitored in order to minimise any related credit risk.

An aged analysis of the trade receivables, based on the payment due date and net of provisions, is as follows:

	As at 31 December		
	2003 HK\$	2002 HK\$	2001 HK\$
Current and within 3 months	18,260,269	9,137,940	943,396
7–12 months	1,395,041	522,445	—
Over 1 year	<u>7,521,952</u>	<u>—</u>	<u>—</u>
	<u>27,177,262</u>	<u>9,660,385</u>	<u>943,396</u>

(d) Other receivables, prepayments and deposits

	As at 31 December		
	2003 HK\$	2002 HK\$	2001 HK\$
Prepayments	943,397	1,301,736	1,104,006
Deposits and other receivables	994,035	288,627	96,507
Due from a fellow subsidiary	18,867,925	18,867,925	—
Due from other business of Becom	<u>56,648</u>	<u>794,388</u>	<u>—</u>
	<u>20,862,005</u>	<u>21,252,676</u>	<u>1,200,513</u>

The balances with the fellow subsidiary and other business of Becom are unsecured, interest-free and have no fixed terms of repayment.

(e) Trade payables

	As at 31 December		
	2003 HK\$	2002 HK\$	2001 HK\$
Due to third parties	3,124,436	2,222,685	—
Due to a fellow subsidiary	<u>2,335,472</u>	<u>2,088,382</u>	<u>—</u>
	<u>5,459,908</u>	<u>4,311,067</u>	<u>—</u>

An aged analysis of the trade payables, based on the invoice date, is as follows:

	As at 31 December		
	2003	2002	2001
	HK\$	HK\$	HK\$
Within 3 months	3,298,178	4,250,922	—
4–6 months	43,755	60,145	—
7–12 months	2,057,830	—	—
Over 1 year	60,145	—	—
	<u>5,459,908</u>	<u>4,311,067</u>	<u>—</u>

5. CASH FLOW STATEMENTS

The following is a summary of the cash flow statements of Becom Software Business for the Relevant Periods, prepared on the basis set out in Section 1 above:

<i>Section</i>	Year ended 31 December 2003 HK\$	Year ended 31 December 2002 HK\$	Period from 7 November to 31 December 2001 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	11,647,310	2,994,855	344,023
Adjustments for:			
Interest income	3(c) (25,860)	(59,238)	(20,263)
Gain on disposal of fixed assets	3(c) —	(108)	—
Depreciation	3(c) 281,072	170,391	462
Operating profit before working capital changes	11,902,522	3,105,900	324,222
Decrease/(increase) in inventories	118,033	(174,810)	—
Increase in trade receivables	(17,516,877)	(8,716,989)	(943,396)
Increase in other receivables, prepayments and deposits	(347,069)	(389,850)	(1,200,513)
Increase in trade payables	1,148,841	4,311,067	—
Increase in other payables and accruals	1,484,365	2,221,595	64,496
Cash generated from/(used in) operations	(3,210,185)	356,913	(1,755,191)
Interest received	25,860	59,238	20,263
PRC taxes paid	—	(22,021)	—
Net cash inflow/(outflow) from operating activities	(3,184,825)	394,130	(1,734,928)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	4(a) (496,042)	(1,052,912)	(73,924)
Proceeds from disposal of fixed assets	—	3,396	—
Net cash outflow from investing activities	(496,042)	(1,049,516)	(73,924)
CASH FLOWS FROM FINANCING ACTIVITIES			
Funds allocated to Becom Software Business	—	—	28,301,886
Funds transferred to a fellow subsidiary	—	(18,867,925)	—
Funds transferred from/(to) other business of Becom	737,740	(794,388)	—
Net cash inflow/(outflow) from financing activities	737,740	(19,662,313)	28,301,886
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(2,942,627)	(20,317,699)	26,493,034
Cash and cash equivalents at beginning of year/period	6,175,335	26,493,034	—
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u>3,232,708</u>	<u>6,175,335</u>	<u>26,493,034</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	<u>3,232,708</u>	<u>6,175,335</u>	<u>26,493,034</u>

6. OPERATING LEASE ARRANGEMENTS

Office properties were leased under operating lease arrangements. The leases are negotiated for terms of one to three years.

At the respective period end date, there were total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		
	2003	2002	2001
	HK\$	HK\$	HK\$
Within one year	482,077	79,901	—
In the second to fifth years, inclusive	<u>441,905</u>	<u>—</u>	<u>—</u>
	<u><u>923,982</u></u>	<u><u>79,901</u></u>	<u><u>—</u></u>

7. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in this report, there were the following material transactions with related parties during the Relevant Periods:

	<i>Notes</i>	Year ended	Year ended	Period from
		31 December	31 December	7 November to
		2003	2002	31 December
		HK\$	HK\$	HK\$
Service income from a holding company	(i)	—	—	943,396
Service income from fellow subsidiaries	(i)	13,922,415	14,023,941	—
Service income from a related company	(i)	2,840,942	745,871	—
Purchases from fellow subsidiaries	(ii)	<u>341,316</u>	<u>3,850,420</u>	<u>—</u>

Notes:

(i) The service fees were determined with reference to fees charged to third parties.

(ii) The purchases from fellow subsidiaries were made with reference to the estimated market value.

8. SUBSEQUENT EVENTS

No significant events took place subsequent to 31 December 2003 up to the date of this report.

9. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Becom or Becom Software Business in respect of any period subsequent to 31 December 2003.

Yours faithfully,
Ernst & Young
Certified Public Accountants
 Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Old Main Board Listing Rules for the purposes of giving information with regard to Beijing Development. The Beijing Development Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Beijing Development Directors and the chief executive of Beijing Development in the Beijing Development Shares, underlying shares and debentures of Beijing Development or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to Beijing Development and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to Beijing Development and the Stock Exchange were as follows:

(1) Beijing Development Directors' interests in shares of associated corporations

Mr. Ng Kong Fat, Brian, a Beijing Development Director, has personal interests in 1,462,000 ordinary shares of HK\$1 each in the share capital of BD Ah Yat Abalone Group Limited, representing 21.5% of its issued share capital. BD Ah Yat Abalone Group Limited is an associated corporation (within the meaning of Part XV of the SFO) of Beijing Development.

In addition to the above, Mr. Ng Kong Fat, Brian has non-beneficial personal equity interests in certain subsidiaries held for the benefit of Beijing Development solely for the purpose of complying with the minimum company membership requirement.

(2) Beijing Development Directors' interests in options to subscribe for shares of Beijing Enterprises, Beijing Development's holding company, under the share option scheme of Beijing Enterprises

Name of Director	Number of shares which may be issued pursuant to the options granted	
	Note (a)	Note (b)
Mr. E Meng	50,000	450,000

Notes:

- (a) These options were granted on 3 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 1 September 1998.

- (b) These options were granted on 23 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 1 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 1 January 2007 and, if not otherwise exercised, will lapse on 1 January 2009.

(3) Beijing Development Directors' interest in share options of Beijing Development

Name of directors		Number of share options as at the Latest Practicable Date
Mr. Ng Kong Fat, Brian	(a)	2,300,000
	(b)	<u>1,200,000</u>
		<u><u>3,500,000</u></u>
Mr. E Meng	(a)	1,600,000
	(b)	<u>1,200,000</u>
		<u><u>2,800,000</u></u>
Mr. Zhao Jifeng	(c)	<u><u>2,800,000</u></u>

Notes:

- (a) These options were granted on 19 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 1 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 26 June 2006.
- (b) These options were granted on 18 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 18 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 17 January 2007.
- (c) These options were granted on 2 October 2003 at an exercise price of HK\$1.05 per share. The options can be exercised in three equal portions. The first portion is exercisable at any time commencing on 2 October 2003, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 1 October 2008.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of Beijing Development had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of Beijing Development or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to Beijing Development and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to Beijing Development and the Stock Exchange.

None of the Beijing Development Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Beijing Development Group taken as a whole.

Up to the Latest Practicable Date, none of the Beijing Development Directors had any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Beijing Development Group, or are proposed to be acquired or disposed of by or leased to any member of the Beijing Development Group since 31 December 2003, being the date to which the latest published audited financial statements of Beijing Development were prepared.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Beijing Development Directors or chief executive of Beijing Development, the following persons (not being a Beijing Development Director or chief executive of Beijing Development) had an interest or short position in the Beijing Development Shares or underlying shares of Beijing Development which would fall to be disclosed to Beijing Development under provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Number of Beijing Development Shares held <i>(shares)</i>	Percentage of shareholding <i>(%)</i>
Idata Finance Trading Limited (“IFTL”)	275,675,000	55.81
Beijing Enterprises <i>(Note)</i>	275,675,000	55.81
Beijing Holdings Limited (“BHL”) <i>(Note)</i>	275,675,000	55.81
Illumination Holdings Limited	58,618,368	11.87

Note: IFTL is a direct wholly-owned subsidiary of Beijing Enterprises. Beijing Enterprises is held indirectly as to 65.45% by BHL. Accordingly, Beijing Enterprises and BHL are deemed to be interested in the Beijing Development Shares owned by IFTL and BHL is deemed to be interested in the Beijing Development Shares owned by Beijing Enterprises.

Name of subsidiaries	Name of shareholder	Percentage of interests in subsidiary
(i) members of the Beijing Development Group		
B E Information	Cosmos Vantage	20%
Astoria	Liu Jun	11%
	Cai Tianhong	10.1%
	Chen Daqing	10.1%
Ah Yat Seafood Market Pte. Ltd.	Sinogolden Trading Company Pte. Ltd.	10%
	Wong Keong Fook	10%
BD Ah Yat Abalone Group Limited	Ng Kwong Fung	21.5%
Beijing Singapore Investments Pte. Ltd.	Thio Seng Tji	10%
北京市電信通系統集成有限公司 (Beijing Teletron System Integration Co., Ltd.)	石萍 (Shi Ping)	12.5%
	王娟 (Wang Juan)	12.5%
	孫立新 (Sun Lixin)	12.5%
	魏健 (Wei Jian)	11.5%
北京電信通智能科技有限公司 (Beijing Teletron Intelligent System Co., Ltd.)	北京市電信通經貿發展有限公司 (Beijing Teletron Economy Development Co., Ltd.)	20%
北京捷通瑞奇信息技術有限公司 (Beijing Jetrich Information Technology Co., Ltd.)	北京教育信息網服務中心有限公司 (Beijing Education Information Services Center Co., Ltd.)	15%
湖南教育信息服務有限公司 (Hunan Education Information Services Co., Ltd.)	湖南省教育信息管理中心 (Hunan Education Information Management Center)	40%
(ii) entities which will become subsidiaries of Beijing Development upon completion of the Sale Transaction		
Name of entities	Name of shareholder	Percentage of interests in subsidiary
Xteam	Cosmos Vantage	14.02%
Snow Fair	Cosmos Town	22%
Pantosoft	Fortune Leo	49%

Save as disclosed above, the Beijing Development Directors and the chief executive of Beijing Development are not aware of any person (other than a Beijing Development Director, chief executive or any member of the Beijing Development Group) who, as at the Latest Practicable Date, had an interest or short position in the shares or underlying shares of Beijing Development which would fall to be disclosed to Beijing Development under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of any member of the Enlarged Group, or any options in respect of such capital.

4. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given opinion or advice, which are contained or referred to in this circular:

Name	Qualification
Ernst & Young	Certified public accountants
Kingston	licenced corporation under the SFO to conduct type 6 (advising on corporate finance) regulated activities

Each of Ernst & Young and Kingston has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, Ernst & Young and Kingston had no shareholding interest in any member of the Beijing Development Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Beijing Development Group.

As at the Latest Practicable Date, Ernst & Young and Kingston were not interested, directly or indirectly, in any assets which had since 31 December 2003 (being the date to which the latest published audited accounts of Beijing Development were made up) been acquired or disposed of by or leased to any member of the Beijing Development Group or which are proposed to be acquired or disposed of by or leased to any member of the Beijing Development Group.

5. LITIGATION

As at the Latest Practicable Date, no member of the Beijing Development Group was engaged in any litigation or arbitration of material importance to the Beijing Development Group and no litigation or claim of material importance to the Beijing Development Group was known to the Beijing Development Directors to be pending or threatened by or against any member of the Beijing Development Group.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Beijing Development Directors were not aware of any material adverse change in the financial or trading position of the Beijing Development Group since 31 December 2003 (being the date to which the latest published audited financial statements of Beijing Development were made up).

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Beijing Development Directors had any existing or proposed service contract with any member of the Beijing Development Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

There is no variation of the aggregate of the remuneration payable to and benefits in kind receivable by the Beijing Development Directors in consequence of the Sale Transaction.

8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by Beijing Development or any of its subsidiaries within the two years preceding the date of this circular and are or may be material:

- (a) an agreement entered into between Beijing Development and Mr. He and Mr. Li on 20 December 2002 pursuant to which Beijing Development has acquired, in aggregate, a 60% interest in the issued share capital of Wisdom Elite for HK\$21,204,000;
- (b) an agreement entered into between Beijing Development and Beijing Enterprises on 14 April 2003 pursuant to which Beijing Development has acquired the entire issued share capital of Business Net Limited together with all the benefits and interests of and in the shareholder's loan of RMB19 million for HK\$40,000,000;
- (c) an agreement entered into by B E Information and Cosmos Vantage on 7 October 2003 pursuant to which B E Information has acquired 49% of the issued share capital of Beijing Enterprises Jetrich Holdings Limited from Cosmos Vantage in consideration for B E Information issuing 200 new shares to Cosmos Vantage;
- (d) an agreement entered into by B E Information and Mr. He and Mr. Li on 7 October 2003 pursuant to which B E Information acquired 40% of the issued share capital of Wisdom Elite from Mr. He and Mr. Li in consideration for B E Information issuing 40 new shares to each of Mr. He and Mr. Li; and
- (e) the Deed.

9. GENERAL

- (a) The registered office of Beijing Development is situated at Mezzanine Floor, Yardley Commercial Building, 3 Connaught Road West, Sheung Wan, Hong Kong.
- (b) The share registrar of Beijing Development is Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (c) The secretary of Beijing Development is Mr. Wong Kwok Wai, Robin, who is a fellow member of the Association of Chartered Certified Accountants and an associate member of The Hong Kong Society of Accountants.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the registered office of Beijing Development in Hong Kong at Mezzanine Floor, Yardley Commercial Building, 3 Connaught Road West, Sheung Wan, Hong Kong from the date of this circular up to and including 21 July 2004:

- (a) all the material contracts of Beijing Development mentioned in paragraph 8 above;
- (b) the letter from the Independent Board Committee as set out in page 26 of this circular;
- (c) the letter from Kingston as set out in pages 27 to 43 of this circular;

- (d) the written consents of Ernst & Young and Kingston referred to in this appendix;
- (e) the accountants' report on the Astoria Group as set out in Appendix III to this circular;
- (f) the accountants' report on the Wisdom Elite Group as set out in Appendix IV to this circular;
- (g) the accountants' report on the Becom Software Business as set out in Appendix V to this circular;
- (h) the memorandum and articles of association of Beijing Development;
- (i) the annual report of Beijing Development for the two years ended 31 December 2003; and
- (j) the annual report of Xteam for the two years ended 31 March 2004.

NOTICE OF THE EGM



北京發展(香港)有限公司
BEIJING DEVELOPMENT (HONG KONG) LIMITED

(incorporated in Hong Kong with limited liability under the Companies Ordinance)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “Meeting”) of the shareholders of Beijing Development (Hong Kong) Limited (the “Company”) will be held at Chater Room II, Basement 1, The Ritz-Carlton, 3 Connaught Road Central, Hong Kong at 11:30 a.m. on Thursday, 22 July 2004 for the following purpose:

1. to consider as special business and, if thought fit, passing (with or without amendments) the following resolution as an ordinary resolution:

“THAT

- (a) the deed for the sale and purchase of shares in Astoria Innovations Limited and Wisdom Elite Holdings Limited (the “Deed”) entered into among the Company, Xteam Software International Limited (“Xteam”), Cosmos Vantage Limited, He Yingkai, Li Jicheng, Prime Technology Group Limited, B E Information Technology Group Limited, E-Tron Limited, Zheng Xiaohua, Cai Tianhong, Chen Daqing, Liu Jun, Yang Xiping and Upwise Investments Limited on 10 February 2004, pursuant to which, among others, E-Tron Limited and Prime Technology Group Limited, both being subsidiaries of the Company, have conditionally agreed to sell to Xteam a 51% shareholding interest in Astoria Innovations Limited and the entire issued share capital of Wisdom Elite Holdings Limited, respectively (a copy of the Deed has been produced to the meeting marked “A” and has been initialed by the chairman of the meeting for the purpose of identification), the terms thereof, the execution and delivery thereof by the Company and the performance and implementation of the transactions contemplated thereunder be and are hereby confirmed, approved and ratified;
- (b) any one director of the Company be and is hereby authorised for and on behalf of the Company to do all such further acts and things and execute all such further documents and take all steps which in his opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of, and all transactions contemplated under, the Deed and to approve any changes and amendments thereto as such director may consider necessary, desirable or expedient; and
- (c) the affixing of the common seal of the Company to any instrument or document in the presence of any one director of the Company as may be required for any of the above purposes be and is hereby confirmed and approved.”

By order of the Board
Wong Kwok Wai, Robin
Company Secretary

Hong Kong, 30 June 2004

NOTICE OF THE EGM

Registered office:

Mezzanine Floor
Yardley Commercial Building
3 Connaught Road West
Sheung Wan
Hong Kong

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy (or at most two proxies) to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company.
2. A form of proxy for use at the Meeting is enclosed herewith.
3. To be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be lodged with the Company's share registrar, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before either the time appointed for holding the Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the Meeting or any adjournment thereof if the shareholder so desires.



北京發展（香港）有限公司
BEIJING DEVELOPMENT (HONG KONG) LIMITED

(incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock code: 154)

**Form of proxy for use by shareholders at the extraordinary general meeting
to be held on 22 July 2004**

I/We⁽¹⁾ _____
of _____
being the registered holder(s) of⁽²⁾ _____ ordinary shares of HK\$1.00 each
in the capital of Beijing Development (Hong Kong) Limited (the “Company”), HEREBY APPOINT the Chairman of
the Meeting or⁽³⁾ _____ of _____

as my/our proxy to attend and act for me/us at the extraordinary general meeting (the “Meeting”) of the Company to be held at Chater Room II, Basement 1, The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on Thursday, 22 July 2004 at 11:30 a.m. (or at any adjournment thereof) for the purposes of considering and, if thought fit, passing the resolution as set out in the notice convening the Meeting and at such Meeting (and at any adjournment thereof) to vote for me/us and in my/our name(s) in respect of the resolution as hereunder indicated, or if no such indication is given, as my/our proxy thinks fit:

Ordinary Resolution	For ⁽⁴⁾	Against ⁽⁴⁾	Abstain ⁽⁴⁾
1. To approve the execution and delivery of the Deed ⁽⁵⁾ and the performance and implementation of the transactions contemplated under the Deed.			

Dated this _____ day of _____ 2004 Signature⁽⁶⁾ _____

Notes:

- (1) Full name(s) and address(es) to be inserted in **BLOCK CAPITALS**. The name of all joint holders should be stated.
- (2) Please insert the number of ordinary shares of the Company registered in your name(s) and to which this form of proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all the ordinary shares of the Company registered in your name(s).
- (3) If any proxy other than the Chairman of the Meeting is preferred, strike out the words “the Chairman of the Meeting or” and insert the name and address of the proxy desired in the space provided. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALED BY THE PERSON WHO SIGNS IT.**
- (4) **IMPORTANT: IF YOU WISH TO VOTE FOR A RESOLUTION, TICK THE RELEVANT BOX UNDER THE COLUMN MARKED “FOR”, IF YOU WISH TO VOTE AGAINST A RESOLUTION, TICK THE RELEVANT BOX UNDER THE COLUMN MARKED “AGAINST”, IF YOU WISH TO ABSTAIN, TICK THE RELEVANT BOX UNDER THE COLUMN MARKED “ABSTAIN”.** Failure to tick the box will entitle your proxy to cast your vote(s) or abstain at his discretion. Your proxy will also be entitled to vote or abstain at his discretion on any resolution properly put to the Meeting as well as those referred to in the notice convening the Meeting.
- (5) These terms are defined in the notice convening the Meeting.
- (6) This form of proxy must be signed by you or your attorney duly authorized in writing or, in the case of a corporation, must be either under its common seal or under the hand of any officer or attorney duly authorized.
- (7) In the case of joint holders of any ordinary share any one of such joint holders may attend and vote at the Meeting either personally or by proxy in respect of such ordinary share but if more than one of such joint holders are present at the Meeting personally or by proxy, the vote(s) tendered by the senior holder, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which their names stand in the register of members in respect the joint holding.
- (8) To be valid, this form of proxy together with the power of attorney (if any) or other authority (if any) under which it is signed or a notarially certified copy thereof must be deposited at the Company’s share registrar, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or the adjourned meeting.
- (9) The proxy need not be a member of the Company but must attend the Meeting in person to represent you.
- (10) Completion and return of the form of proxy will not preclude you from attending and voting in person at the Meeting if you so wish. In the event of your attending the meeting, this form of proxy will be deemed to be revoked.