

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司\*

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



INTERIM REPORT | 中期報告

2004

\* for identification purpose only

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

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

**HIGHLIGHTS**

- Accomplished a net profit of approximately RMB12,653,000 for the six months ended 30 June, 2004, representing an approximately 60% increase as compared with that of the corresponding period in 2003
- Achieved a turnover of approximately RMB116,355,000 for the six months ended 30 June, 2004, representing an approximately 97% increase as compared with that of the corresponding period in 2003
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June, 2004

**INTERIM RESULTS**

The board of Directors ("Board") of Chinasoft International Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 June, 2004, respectively, with corresponding figures as follows:

**CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)**

	Notes	For the three months ended 30 June,		For the six months ended 30 June,	
		2004	2003	2004	2003
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	<b>57,539</b>	38,949	<b>116,355</b>	59,080
Cost of sales		<b>(37,819)</b>	(29,047)	<b>(83,040)</b>	(42,360)
Gross profit		<b>19,720</b>	9,902	<b>33,315</b>	16,720
Other revenue		<b>1,060</b>	78	<b>1,084</b>	168
Distribution costs		<b>(3,885)</b>	(1,412)	<b>(6,667)</b>	(2,823)
Administrative expenses		<b>(7,530)</b>	(2,317)	<b>(11,161)</b>	(4,090)
Amortized development costs		<b>(93)</b>	(39)	<b>(133)</b>	(79)
Profit from operations		<b>9,272</b>	6,212	<b>16,438</b>	9,896
Finance costs		<b>(86)</b>	–	<b>(122)</b>	–
Profit before taxation		<b>9,186</b>	6,212	<b>16,316</b>	9,896
Taxation	3	<b>(999)</b>	(412)	<b>(1,535)</b>	(675)
Net profit before minority interests		<b>8,187</b>	5,800	<b>14,781</b>	9,221
Minority interests		<b>(992)</b>	(741)	<b>(2,128)</b>	(1,306)
Net profit attributable to shareholders		<b>7,195</b>	5,059	<b>12,653</b>	7,915
Dividend	4	–	–	<b>6,784</b>	–
Earnings per share					
– basic	5	<b>0.0112</b>	0.0101	<b>0.0198</b>	0.0161
– Diluted		<b>0.0112</b>	N/A	<b>0.0196</b>	N/A

**CONSOLIDATED BALANCE SHEET**

	Notes	(Unaudited) 30 June, 2004 RMB'000	(Audited) 31 December, 2003 RMB'000
<b>Non-current assets</b>			
Investments		943	–
Intangible assets		2,195	–
Property, plant and equipment		10,335	8,520
Development costs		5,092	3,499
Loans to employees		442	953
		<u>19,007</u>	<u>12,972</u>
<b>Current assets</b>			
Inventories	12	47,939	7,290
Trade receivables	6	50,734	60,801
Deposits, prepayments and other receivables		39,072	14,737
Amount due from minority shareholder of a subsidiary		–	2,500
Pledged bank deposits		1,025	743
Bank balances and cash		72,999	84,074
		<u>211,769</u>	<u>170,145</u>
<b>Current liabilities</b>			
Trade payables	7	52,208	25,680
Bill payables		21,658	2,948
Other payables		7,395	2,623
Provision for taxation		815	1,163
Bank loan		–	10,000
		<u>82,076</u>	<u>42,414</u>
Net current assets		<u>129,693</u>	<u>127,731</u>
Total assets less current liabilities		148,700	140,703
Deferred taxation		(410)	(410)
Minority interests		(16,310)	(14,182)
Net assets		<u>131,980</u>	<u>126,111</u>
<b>Capital and reserves</b>			
Share capital		33,920	33,920
Reserves		98,060	92,191
Shareholders' funds		<u>131,980</u>	<u>126,111</u>

**UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share capital	Share premium	Translation reserve	General reserve	Enterprise expansion fund	Accumulated profits	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January, 2003	118	42,828	49	970	485	21,490	65,940
Net profit for the period	-	-	-	-	-	7,915	7,915
Capitalisation issues	25,322	(25,322)	-	-	-	-	-
Issue of shares under placement	8,480	45,792	-	-	-	-	54,272
Share issuing expenses	-	(16,960)	-	-	-	-	(16,960)
Exchange difference	-	-	5	-	-	-	5
At 30 June, 2003	<u>33,920</u>	<u>46,338</u>	<u>54</u>	<u>970</u>	<u>485</u>	<u>29,405</u>	<u>111,172</u>
At 1 January, 2004	33,920	45,080	49	1,074	589	45,399	126,111
Net profit for the period	-	-	-	-	-	12,653	12,653
Dividend for 2003 paid	-	-	-	-	-	(6,784)	(6,784)
At 30 June, 2004	<u>33,920</u>	<u>45,080</u>	<u>49</u>	<u>1,074</u>	<u>589</u>	<u>51,268</u>	<u>131,980</u>

**CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**

	Six months ended 30 June,	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities	4,034	5,600
Cash flows from investing activities	(4,828)	(707)
Cash flows from financial activities	(10,281)	39,676
Net increase (decrease) in cash and cash equivalents	(11,075)	44,569
Cash and cash equivalents at the beginning of the period	84,074	34,851
Cash and cash equivalents at the end of the period	72,999	79,420

Notes:

### 1. BASIS OF PRESENTATION

The financial statements of the Group have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the Rules Governing the Listing of Securities on GEM.

### 2. TURNOVER

Turnover, which is stated net of valued-added tax and other sales tax and returns, represents amounts invoiced to customers, except in respect of provision of solutions services and IT outsourcing services where turnover represents the value of work done during the year, including amounts not yet invoiced.

	For the three months ended 30 June,		For the six months ended 30 June,	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Solutions	47,935	30,832	96,087	44,734
IT outsourcing	7,092	7,815	17,756	13,200
IT consulting and training services	2,512	302	2,512	778
Standalone software product	—	—	—	368
	<b>57,539</b>	<b>38,949</b>	<b>116,355</b>	<b>59,080</b>

### 3. TAXATION

Pursuant to an approval document issued by the State Bureau of Beijing Haidian District dated 21 November 2000, Beijing Chinasoft International Information Tech. Ltd. ("Beijing Chinasoft"), a major operating subsidiary of the Group, has been designated as an advanced technology enterprise and is entitled to the three year's exemption from income tax followed by three years of 50% tax reduction commencing from the first-profit-making year with effect from 2000.

Beijing Chinasoft is subject to the income tax computed at the rate of 7.5% for the three years ending 31st December 2005 and at the rate of 15% on its taxable profit thereafter.

No provision for Hong Kong Profits Tax has been made for the relevant periods as the Group did not have any assessable profit during the Relevant Periods.

There were no significant unprovided deferred taxation during the relevant periods and as at the respective balance sheet dates.



#### 4. DIVIDEND

On 26 March 2004, the Company declared final dividend amounting to HK\$6,400,000 (equivalent to RMB6,784,000) for the year ended 31 December 2003 to its shareholders. The amount was paid to its shareholders in 25 May 2004.

#### 5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and six months ended 30th June, 2004 was based on the net profit of approximately RMB7,195,000 and approximately RMB12,653,000 (three months and six months ended 30 June, 2003: net profit of approximately RMB5,059,000 and RMB7,915,000) divided by the weighted average number of shares issued during the three months ended 30 June, 2004 of 640,000,000 shares (2003: 499,341,000 shares) and six months ended 30 June, 2004 of 640,000,000 shares (2003: 489,724,000 shares) as if the sub-division of the Company's shares as described in Appendix VI of the prospectus of the Company dated 10 June, 2003 ("Prospectus") had taken place at the beginning of the relevant periods.

The calculation of diluted earning per share for the three months and six months ended 30 June, 2004 was based on the net profit of RMB7,195,000 for the three months ended 30 June, 2004 and RMB12,653,000 for the six months ended 30 June, 2004, respectively divided by the weighted average number of shares used in calculation of diluted earnings per share for the three months and six months ended 30 June, 2004 of 642,571,142 and 643,769,067 respectively.

Diluted earnings per share is not presented for the three months and six months ended 30 June, 2003 as there were no potential dilutive securities in existence during the relevant periods.

#### 6. TRADE DEBTORS

Aged analysis of trade debtors are as follows:

	(Unaudited) 30 June, 2004 RMB'000	(Audited) 31 December, 2003 RMB'000
0 - 90 days	28,858	31,906
91 - 180 days	10,114	8,691
181 - 365 days	9,613	14,865
Over 365 days	2,149	5,339
	50,734	60,801

## 7. TRADE CREDITORS

Aged analysis of trade creditors are as follows:

	(Unaudited) 30 June, 2004 RMB'000	(Audited) 31 December, 2003 RMB'000
0 - 90 days	41,766	15,248
91 - 180 days	5,795	5,553
181 - 365 days	2,663	1,881
Over 365 days	1,984	50
	<u>52,208</u>	<u>22,732</u>

## 8. CAPITAL COMMITMENTS

The Group had no capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for in the financial statements.

## 9. RELATED PARTY TRANSACTIONS

- (i) During the relevant periods in 2004 and 2003, the Group had the following transactions with the following related parties:

	For the three months ended 30 June,		For the six months ended 30 June,	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
China National Computer Software & Technology Service Corporation ("CS&S") (Note a) – Rental expenses (Note b)	<u>316</u>	<u>212</u>	<u>631</u>	<u>423</u>

Notes:

- (a) A director of CS&S is also a director of Beijing Chinasoft.
- (b) The transactions were carried out in accordance with the relevant agreements.
- (ii) Pursuant to an agreement entered into between CS&S and Beijing Chinasoft on 10 May 2002 (the "Agreement"), CS&S has granted to Beijing Chinasoft an exclusive right for no consideration to use the trademark as defined on the Agreement in the PRC for a period pending registration of such trademark with the Trademark Bureau of the PRC. Under the Agreement, CS&S has agreed to enter into a further trademark licence agreement pursuant to which CS&S will grant an exclusive licence to Beijing Chinasoft for a period of 25 years.

- (iii) Under a trademark licence agreement (“Licence Agreement”) dated 3 June 2002 made between CS&S and Beijing Chinasoft, CS&S granted to Beijing Chinasoft a non-exclusive right for no consideration to use the trademarks as defined on Licence Agreement in the PRC for 10 years.

The directors of the Company are of the opinion that the above transactions were conducted under normal commercial terms in the usual course of business.

## 10. SEGMENT INFORMATION

### (A) Business segments

For management purposes, the Group is currently organised into four operating divisions – solutions, IT outsourcing, IT consulting and training services and sale of standalone software product. These divisions are the basis on which the Group reports its primary segment information.

- (i) Segment information about these businesses for the six months ended 30 June 2004 is presented below:

#### Income statement

	Solutions <i>RMB'000</i>	IT outsourcing <i>RMB'000</i>	IT consulting and training services <i>RMB'000</i>	Standalone software product <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Turnover	96,087	17,756	2,512	-	116,355
Segment result	29,315	2,217	1,783	-	33,315
Unallocated corporate revenue					1,084
Unallocated corporate expenses					(17,961)
Finance costs					(122)
Profit before taxation					16,316
Taxation					(1,535)
Net profit before minority interests					14,781

- (ii) Segment information about these businesses for the six months ended 30 June 2003 is presented below:

### Income statement

	Solutions <i>RMB'000</i>	IT consulting and training outsourcing <i>RMB'000</i>	IT consulting and training services <i>RMB'000</i>	Standalone software product <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Turnover	44,734	13,200	778	368	59,080
Segment result	13,287	2,568	498	367	16,720
Unallocated corporate revenue					168
Unallocated corporate expenses					(6,992)
Profit before taxation					9,896
Taxation					(675)
Net profit before minority interests					9,221

No business segment information for the assets, liabilities, capital contributions, depreciation and other non-cash expenses of the Group is shown as all the assets and liabilities are shared by the business segments and cannot be separately allocated.

### (B) Geographical segments

No geographical segments information of the Group is shown as the operating business of the Group is solely carried out in the PRC and the Group's assets are substantially located in the PRC.

## 11. EMPLOYEE AND OTHER INFORMATION

The remuneration for the employees of the Group amounted to approximately RMB8,712,892, including the directors' emoluments of approximately RMB634,000 during the six months ended 30 June, 2004 (2003: approximately RMB5,340,000, including the directors' emoluments of approximately RMB280,000). The increase in employee remuneration resulted from the increase in number of employees from 145 to 264 and the increase in bonus to individual staff during the period.

The depreciation and amortisation charge of the Group during the six months ended 30 June, 2004 amounted to RMB1,110,000 (2003: RMB720,000)

## 12. INVENTORIES

The substantial increase in inventories valuation was due to substantial increase in signed contracts in hand of RMB100,000,000 (coming sales revenue).

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June, 2004 (2003: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### *Results*

The Group has achieved a substantial growth in the operational results for the six months ended 30 June 2004. The increase in net profit was attributable to the Group's continuous efforts in marketing through the expansion of the sales and marketing team to develop relationships with prospective customers and in promoting the Group's solutions, in particular the e-tobacco and e-Audit through maintaining the Group's good quality, branding and reliability. As a result new contracts with large contract sum were made during the first half of 2004 with the State Tobacco Control Bureau (國家煙草專賣局) and the National Audit Office of the PRC. For the three months ended 30 June, 2004, the Group generated revenue of approximately RMB57,539,000 and a net profit of approximately RMB7,195,000. This represents a growth of 42% in net profit compared with the same period in the previous year. For the six months ended 30 June, 2004, the Group generated revenue of approximately RMB116,355,000 and a profit of approximately RMB12,653,000, representing a 60% growth in net profit. By compared with the previous period, the gross profit margin for the six months ended 30 June, 2004 maintained at 29% (more or less same as last year) due to large and high gross profit margin of solution contracts such as e-Tobacco in 72 Tobacco factories and retail Sales Outlets and e-Audit in State Audit Office of the PRC were signed and completed during the current period. The distribution costs for the period were approximately RMB6,667,000, an increase of approximately 136% from the previous period. The increase in distribution cost was mainly due to the increase in the Group's sales of 97%. The administrative expenses for the period was approximately RMB1,161,000, an increase of approximately 173% from the previous period. The increase in administrative expenses was mainly due to further expansion of business and development.

### *Financial Resources and liquidity*

As at 30 June, 2004, shareholders' funds of the Group amounted to approximately RMB131,980,000. Current assets amounted to approximately RMB211,769,000, of which approximately RMB72,999,000 were cash and bank deposits. The Group had no non-current liabilities and its current liabilities amounted to approximately RMB82,076,000, mainly consists of trade payables, accruals and current account with a related company. The net asset value per share was RMB0.21. The Group expresses its gearing ratio as a percentage of bank borrowing and long-term debts over total assets. As at 30 June, 2004, the Group had a gearing ratio of nil.

The Group recorded an increase in trade and other receivables as at 30 June, 2004 as compared with the same in December, 2003. This was mainly due to the substantial increase in sales at the end of the 2004 interim period in relation to the sales of Group's solutions services, in particular the e-Tobacco and e-Audit as a result of the Group's continuous efforts in marketing. The Group maintains a stringent credit policy to minimise its credit risk including credit control, negotiations and discussion with customers, issuance of demand letters.

During the six months ending 30 June, 2004, as all the Group's sales and purchases were substantially denominated in Renminbi, the Board considers that potential risk relating to foreign exchange has limited effect on the Group.

### **USE OF PROCEEDS FROM THE PLACING**

The net proceeds raised from the listing of the Company on the GEM on 20 June 2003 was approximately HK\$34,013,000.

As at 30 June, 2004, the Company had incurred the following amount to achieve its business objectives as set out in the Prospectus:

Major area stated in the Prospectus	Intended use of	Actual amount	Unused balance
	proceeds stated in the Prospectus up to 30 June, 2004	used up to 30 June, 2004	
	HK\$' million	HK\$' million	HK\$' million
1. Development of new solutions and enhancement of the Group's existing solutions	5.00	5.00	–
2. Development of new standalone software products and enhancement of the Group's existing solutions	5.00	5.00	–
3. Development of business of IT consulting and training	1.00	1.00	–
4. Development of business of IT outsourcing	1.50	1.50	–
5. Sales and Marketing	2.90	2.90	–
	<u>15.4</u>	<u>15.4</u>	<u>–</u>

All unused proceeds from listing have been deposited at bank for future use as set out in the section headed "Future Plans and Prospects" in the Prospectus.

## BUSINESS REVIEW

During the reporting period, the Group has made numerous achievements among which the more substantial achievements are shown as follows:

1. With a 96.9% increase in sales revenue as compared with the corresponding period last year, the value of uncompleted contracts of the Company amounted to RMB100,000,000;
2. Strategic partnership with the State Tobacco Control Bureau was established and concrete achievements were made in respect of the tobacco business;

3. The first phase of construction of e-Audit project reached the stage of verification and acceptance, deploying national promotional campaign;
4. Standalone software products: starting the ISS securities products agency business;
5. Acquisition of 15% equity interest of Beijing Chinasoft International Information Technology Limited;
6. The Group successfully acquired CS&S Computer Tech Training Centre;
7. The Group successfully acquired Chinasoft Cyber Resources Software Technology (Tianjin) Company Limited;
8. A core professional and technical team was recruited;
9. Promotion of “domestic resident marriage registration information system” was carried out across the country;
10. The Group was accredited as one of the “top ten Chinese technology companies listed overseas in 2004”.

**With a 96.9% increase in sales revenue as compared with the corresponding period last year, the value of uncompleted contracts of the Company amounted to RMB100,000,000**

During the reporting period, the Group realized a sales revenue of RMB116,360,000, representing a 96.9% increase as compared with the corresponding period in 2003. Meanwhile, the value of uncompleted contracts on hand amounted to RMB100,000,000.

The Group has achieved outstanding results during the reporting period. It was mainly attributable to the Group's efforts in maintaining good working relationship with customers and fully developing the potential demands of the customers, particularly the signing of contract with substantial contract sum with customer in the tobacco industry. During the reporting period, the Group entered into contracts with the State Tobacco Control Bureau and its 36 major affiliated tobacco production enterprises and 36 metropolitan business enterprises for the purpose of promoting the Group's “Tobacco Production and Operation Decision Management System for the State Tobacco Control Bureau”.



**Strategic partnership with the State Tobacco Control Bureau was established and concrete achievements were made in respect of the tobacco business**

In accordance with the “2003-2004 Research Report on the Development of Software Industry in the PRC” issued by the PRC Software Industry Association, the investment in tobacco IT in the PRC in 2003 amounted to RMB2.3billion. According to the development strategy of the informationization of tobacco industry in the PRC, the tobacco industry in the PRC will further pursue the building of informationization by utilizing IT technology and modern management measures in order to enhance the modernization of the tobacco industry.

Since the tobacco industry lacked integration planning and investment diversification for the building of informationization in the past, resulting in an incompatibility among the systems due to difference in software platforms and technical standards. The resultant isolation of information became a main hindrance to the healthy development of the building of informationization of the tobacco industry. Since the “Tobacco Production and Operation Decision Management System for the State Tobacco Control Bureau” developed by the Group holds a significant position in the overall planning for the informationization of the tobacco sector, the Group plays a very important role in both the macro-management and scientific decision by senior management and the corporate micro-production and operation management. Combined with the excellent performance by the Group in the building of informationization in the tobacco industry, the Group was designated as the strategic partner in the informationization of the State Tobacco Control Bureau, assisting the State Tobacco Control Bureau in planning and building an integration of information platform, data centre, code standard and transmission channel; achieving system integration and information sharing; eliminating the impediment factors affecting the building of informationization in the tobacco sector step by step; and promoting a healthy development in the building of informationization.

During the reporting period, the Group has entered into business contracts with the State Tobacco Control Bureau and its 36 major affiliated tobacco production enterprises and 36 metropolitan business enterprises for the purpose of promoting the “Tobacco Production and Operation Decision Management System for the State Tobacco Control Bureau” developed by the Group.

These companies include:

- Yuxi Hongta Group
- Shanghai Tobacco (Group) Co.
- Nanjing Cigarette Factory
- Honghe Cigarette Factory
- Ningbo Cigarette Factory
- Zhangjiakou Cigarette Factory
- Qujing Cigarette Factory
- Chuncheng Cigarette Factory
- Zhaotong Cigarette Factory
- Wuhu Cigarette Factory
- Bengbu Cigarette Factory
- Huaiyin Cigarette Factory
- Yanji Cigarette Factory
- Lanzhou Cigarette Factory
- Baoji Cigarette Factory
- Longyan Cigarette Factory
- Sichuan Shifang Cigarette Factory
- Chengdu Cigarette Factory
- Chongqing Tobacco Industrial Company Limited
- Nanchang Cigarette Factory
- Guiyang Cigarette Factory
- Changde Cigarette Factory
- Guangzhou No. 2 Cigarette Factory
- Changsha Cigarette Factory
- Hangzhou Cigarette Factory
- Xiamen Cigarette Factory
- Liuzhou Cigarette Factory
- Zunyi Cigarette Factory
- Henan Xinzheng Tobacco (Group) Co.
- Kunming Cigarette Factory
- General Tobacco Group
- Yizhong Tobacco Group
- Wuhan Cigarette Factory
- Xuzhou Cigarette Factory

- Xuchang Cigarette Factory
- Anhui Tobacco Company, Hefei Branch
- Dalian Tobacco Company
- Fujian Tobacco Company, Fuzhou Branch
- Fujian Tobacco Company, Xiamen Branch
- Gansu Tobacco Company
- Guangdong Tobacco Company, Guangzhou Branch
- Guangxi Zhuang Autonomous Region Tobacco Company, Nanning Branch
- Guizhou Tobacco Company, Guiyang Branch
- Hainan Tobacco Company, Haikou Branch
- Hebei Tobacco Company, Shijiazhuang Branch
- Henan Tobacco Company, Zhengzhou Branch
- Heilongjiang Tobacco Company, Harbin Branch
- Hubei Tobacco Company, Wuhan Branch
- Hunan Tobacco Company, Changsha Branch
- Jilin Tobacco Company, Changchun Branch
- Jiangsu Tobacco Company, Nanjing Branch
- Jiangxi Tobacco Company, Nanchang Branch
- Inner Mongolia Autonomous Region Tobacco Company, Hohhot Branch
- Ningxia Hui Autonomous Region Tobacco Company, Yinchuan Branch
- Qinghai Tobacco Company, Xining Branch
- Shandong Jinan Tobacco Co. Ltd
- Shandong Qingdao Tobacco Co. Ltd
- Shanxi Tobacco Company, Taiyuan Branch
- Shaanxi Tobacco Company, Xian Branch
- Liaoning Tobacco Company, Shenyang Branch
- Sichuan Tobacco Company, Chengdu Branch
- Tibet Tobacco Company
- Xinjiang Uygur Autonomous Region Tobacco Company, Urumqi Branch
- Yunnan Tobacco Company, Kunming Branch
- Zhejiang Tobacco Company, Hangzhou Branch
- Zhejiang Tobacco Company, Ningbo Branch
- Beijing Tobacco Company
- Jilin Tobacco Company
- Shenzhen Tobacco Company
- Tianjin Tobacco Company
- Chongqing Tobacco Company

During the reporting period, the Group entered into “The First Phase of Project Work Building Contract of the informationization for the State Tobacco Control Bureau” with the State Tobacco Control Bureau. The contract involves various functions of the office automation for the State Tobacco Control Bureau, including document transmission, online approvals, information portals and online tenders. The project is another significant informationization work launched by the State Tobacco Control Bureau following the “Tobacco Production and Operation Decision Management System for the State Tobacco Control Bureau”.

During the reporting period, the Group launched the second phase of promotional campaign for the “Tobacco Production and Operation Decision Management Subsystem for the State Tobacco Control Bureau”, that was to promote the “Tobacco Production and Operation Decision Management Subsystem for the State Tobacco Control Bureau” to the 47 non-major cigarette manufacturing enterprises and 334 branch companies of municipal and county levels.

The “Tobacco Production and Operation Decision Management Subsystem” is established as a command system for regulating the tobacco market and strengthening the monopolized tobacco sale through integration of business data in the industry. The contents of the promotion project mainly include (1) the installation of the “Tobacco Production and Operation Decision Management Subsystem for the State Tobacco Control Bureau” developed by the Group in the State Tobacco Control Bureau and its affiliated tobacco production enterprises and business enterprises; (2) the establishment of a nationwide Internet data system for the realization of interconnection among the State Tobacco Control Bureau and its affiliated tobacco production enterprises and business enterprises in the PRC; (3) the provision of IT technical trainings and operational trainings of the system to the users.

### **The first phase of construction of e-Audit project reach the stage of verification and acceptance, deploying national promotional campaign**

The e-Audit solution is one of the “12 e-solutions” planned for the e-government market, and is the first e-solution initially approved by the State Planning Commission. The application systems developed by the first phase of e-Audit project included the Audit Management System (i.e. OA System) and the Live Audit Implementation System (i.e. AO System). As the principal consultant, principal integrator and principal service provider, the Group has completed the basic testing for the first phase of e-Audit project, and has entered into the stage of system verification and acceptance.

The e-Audit solution developed by the Group was well received by the relevant heads and professionals of the Audit Office. Due to the excellent performance by the Group, the State Audit Office has designated the Group to centralize its promotion of Audit Management System (i.e. OA System) and Live Audit Implementation System (i.e. AO System) in audit authorities on country level.

The major contents of this centralized promotion are as follow:

1. Installation of Audit Management System (i.e. OA System) and Live Audit Implementation System (i.e. AO System) developed by the Group; integration with the original system; provision of trainings to the clients; and provision of maintenance services for system operation;
2. Construction of technical environment for system operation and the upgrade and reconstruction of the existing IT system based on the clients' needs;
3. Realization of data interconnection within the nationwide audit system based on the nationwide data internet system.

### **Announcing the establishment of a Strategic Alliance with ISS and starting the ISS securities products agency business**

Software Industry Association in the PRC has forecasted that the size of the information securities market in the PRC for the year 2004 will increase by 30-35% where compared with that in the year 2003, with a total market value of over RMB20 billions. The e-government information security remains a main battlefield of the information securities in the PRC.

Internet Securities Systems (ISS, NASDAQ: ISSX) is one of the largest accommodable internet securities system solution providers in the world, specializing in the provision of top-notch securities and protective solutions for the information transmission among the enterprises. ISS has become the most trusted securities consultant among the majority of the top 50 enterprises around the globe and 21 largest U.S. commercial banks, 9 largest telecommunication companies as well as the governmental authorities of 35 countries in the world.

During the reporting period under review, the Group co-organized a press conference with the theme of "Co-found a free and safe network" with ISS, announcing the establishment of a strategic alliance to the media both in Beijing and Hong Kong. The Group also launched a series of road shows in four cities including Beijing, Hangzhou, Guangzhou and Chengdu.

During the reporting period under review, the Group started setting up the nationwide sales and technological service centers in four cities, namely Beijing, Hangzhou, Guangzhou and Cheungdu. The functions of each center include: (1) managing the sales channels; (2) as a consultancy and training center for securities technology; (3) as an emergency call center and backup database.

The Group jointly set up a strategic alliance with ISS, and was also granted the exclusive right to sell all Internet network securities products of ISS in the PRC. This business will serve as a new source of business growth of the Group. Through this strategic cooperation, the Group can provide clients with a wide range of products, including hardware, solutions and authoritative Internet securities solutions of ISS. This enables a full coverage of the products and services of the Group, and benefits the Group's development and promotion of a safer e-government solution at the same time.

#### **Acquisition of 15% equity interest of Beijing Chinasoft International Information Technology Limited**

Beijing Chinasoft International Information Technology Limited (hereinafter referred to as Beijing Chinasoft), a Sino-foreign joint venture incorporated in China on 25 April 2004 whose 85% and 15% equity interest are respectively held by the Group and China Computer Software and Technology Service Corporation (hereinafter referred to as Chinasoft Corporation). In March 2004, Chinasoft Corporation transferred its 15% equity interest in Beijing Chinasoft to China Computer Software and Technology Service (Hong Kong) Limited (hereinafter referred to as Chinasoft Hong Kong). Following this transfer, Beijing Chinasoft changed into a wholly-foreign owned enterprise.

In order to strengthen the Group's control of the company and enhance the operating income, the Group acquired 15% equity interest in Beijing Chinasoft held by Chinasoft Hong Kong at the consideration of issuing 57,500,000 shares to Chinasoft Hong Kong as the main operating income of the Group. After completion of the acquisition, the Group will hold 100% equity interest of Beijing Chinasoft.

The Directors are of the view that by the issuance of shares as aforesaid, the Group can undergo the acquisition without adversely affecting its working capital. As the Company held 85% equity interest in the registered capital of Beijing Chinasoft before the acquisition, the net financial result of Beijing Chinasoft was reflected in the financial result of the Company. After the acquisition, the results of Beijing Chinasoft will be consolidated into the financial results of the Company.

The Directors expect the acquisition to bring a positive effect on the base of the Group's profitability. Beijing Chinasoft reported the audited post-tax net profits (adjusted according to the prevailing Hong Kong GAAP) of approximately RMB23,000,000 (equivalent to approximately HK\$21,600,000) as at 31 December 2002, and the audited after tax net profits (adjusted according to the prevailing Hong Kong GAAP) was approximately RMB27,400,000 (equivalent to approximately HK\$25,700,000). As at 31 March 2004, the audited post-tax net profits (adjusted according to the Hong Kong GAAP) was approximately RMB7,700,000 (equivalent to approximately HK\$7,200,000) as at 31 March 2004.

### **Information training: successfully acquiring the CS&S Computer Tech. Training Centre**

During the reporting period under review, the Group acquired CS&S Computer Tech. Training Centre (hereinafter collectively the "CS&ST") at a consideration of RMB500,000. In the meantime, the Group obtained the exclusive right to use the trademark of CS&S for 25 years at a consideration of RMB2 million for enhancing the IT consultancy and training service operations of the Group.

CS&ST is the first established computer training entity with international advanced level in the PRC. It has a history of 24 years. The clients of CS&S include enterprises, governments and individual students. Its major clients are Nortel Networks, Motorola, Coca Cola (China), Beijing Planning and Development Commission (北京計劃發展委員會) and the Jiangsu Provincial Government. The number of various individual students trained by CS&S Centre has amounted to more than 400,000. Currently, the center is the authorized PRC training partners of multi-national IT enterprises such as Sun, Microsoft, HP-Compaq, IBM and Lotus, for developing the internationally recognized IT training businesses. In the meantime, the center is also the authorized examination center of two international examination companies, namely Prometric and VUE. After receiving the trainings in the center and passing the international exam, students will be granted an internationally recognized certificate by the relevant companies. CS&S Centre is the first authorized Java training center for Sun in the PRC. It became the authorized Java training and promotion center for Sun in 1999 and has been responsible for the regional promotion of Java training projects in the PRC. The centre passed the certification of ISO-9001 International Quality System on 28 September 1999, becoming the first computer technology training center recognized by ISO-9001 International Quality System.

### **Successfully acquiring Chinasoft Cyber Resources Software Technology (Tianjin) Company Limited**

Software outsourcing is an important trend in the development of the global software industry. According to the IDC forecast, the global application software outsourcing service market will, on average, increase by 29.2% per annum. Facing the growing international market, the Group acquired 26% of equity interest in Chinasoft Cyber Resources Software Technology (Tianjin) Company Limited (“Cyber Resources”) at a consideration of RMB1,985,200 and became the controlling shareholder of Cyber Resources for strengthening the IT technology outsourcing service business during the reporting period. The Group has agreed with 天津泰達國際創業中心 to acquire 24% of equity interest in Cyber Resources held by it.

Cyber Resources is a leading software outsourcing service provider in the PRC, principally engaged in the provision of protected software development, testing and related technological services for multi-national software enterprises, including IBM, HP, MOTOROLA. Cyber Resources has a strong software development team, which currently comprises more than 160 software engineers and has a well-established project management system. It has passed the ISO9001 certification and CMM second-class certification. For the years ended 31 December, 2002 and 2003, the audited turnover of Cyber Resources amounted to RMB11,590,000 and RMB13,590,000, and the audited net profits amounted to RMB1,750,000 and RMB2,260,000 respectively.

### **A core professional and technical team was recruited**

北京金葉軟體技術開發有限公司, a company registered and incorporated in Beijing with expertise in the provision of tobacco sector solution, has a technical team with diversified practical experience in tobacco sector and in-depth understanding on the demand of tobacco sector.

The Group substantially strengthened its technical development capability by inviting the whole technical team of development and implementation of 北京金葉軟體技術開發有限公司 to participate our Group.

It can be seen from the above that the Group has attached much importance to the constitution of human resources. The Group cultivate its required talents through its effective training mechanism. In the meantime, the Group tries to recruit high calibre talents in relation to the core business in an effort to reinforce the Group’s technician resources so as to reduce the costs of internal training and risks of the Group.



Further, since 北京金葉軟體技術開發有限公司 has conducted business in the tobacco industry for years. The Group is conducting a due diligence review towards this company. In the event that the conditions are mature, the Group may acquire whole or part of its equity interest.

### **Promotion of “domestic resident marriage registration information system” across the country**

Given the promulgation of “Marriage Registration Regulation” and the requirement of development of e-government, and entrusted by the Department of Local Regime and Community Development of the Ministry of Civil Affairs and the information centre of the Ministry of Civil Affairs, the Group modified and developed the software of “domestic resident marriage registration information system” based on its original “foreigner-related marriage registration information system” according to the requirements of the Ministry of Civil Affairs in an effort to help enhance the computerisation of marriage registration.

The main functions of this system cover marriage registration, information inquiry, archive management and comprehensive statistics compilation, which facilitate information inquiry and presentation of marriage status certificates by the registrars.

According to a statistics report on 2003 civil affairs development published by the Ministry of Civil Affairs recently, 8,114,000 couples registered their marriage in the whole country in 2003, an increase by 254,000 couples over the preceding year, of whom 8,036,000 couples were residents of Mainland China and 78,000 couples with either one of the couple is foreigner, overseas Chinese, resident of Hong Kong, Macao or Taiwan, increasing by 5,000 couples over the preceding year; the rate of marriage amounted to 1.26%, up 0.04 percentage point as compared with the preceding year.

With the help of the Ministry of Civil Affairs, the Group will promote the “domestic resident marriage registration information system” in over 2,700 prefectures and counties across the country.

By way of these steps, the Group has established its leading position in the industry of marriage registration and at the same time demonstrated the Group’s ability to develop new business sectors and new clients.

### **The Group was accredited as one of the “top ten Chinese technology companies listed overseas in 2004”**

During the reporting period, the Group, together with China Mobile, UT斯達康and 聯想集團, was accredited as one of the “top ten technology companies listed overseas” by “Internet Weekly”.

A comprehensive analysis was made by “Internet Weekly” based on the enterprises’ reputation of the enterprise, healthy operation status, performance, development potential, highlights of business and important events occurred to the enterprise. Principal business revenue, gross profit margin, principal business revenue growth and operating net cash flow per share of the company are chosen as criteria for the selection of the final ten candidates.

The comments on Chinasoft by “Internet Weekly” are as follows: “Chinasoft is committed to developing e-government in the PRC. Not only did it create the first Digitalized Economic Technology Development Zone (Tianjin Development Zone) in the PRC, but also launched the e-Audit solution and the tobacco industry information solution for the the State Audit Office and the State Tobacco Control Bureau respectively in 2003. Apart from strengthening its ability in research and development, Chinasoft also emphasizes the market-driven product strategies and the effective distribution network across the country.”

### **FUTURE PROSPECT**

Due to a consistent increase in the demand for online office working and internal office computerisation from the Chinese government, the domestic e-government market expands continuously. The data from CCID shows that the demand for China’s e-government market in 2004 will reach RMB40 billion, of which investment in software and information service will exceed RMB14 billion. The Directors believe that a huge demand still exists on China’s e-government market.

In the face of this situation, the Group will focus on e-government domain, devoting efforts to maintain the leading position in the governmental businesses eg. tobacco and financial audit industries, to keep long-term cooperative relationship with it and to understand these industries in depth in order to discover new demand at the same time of providing better services. Meanwhile, the Group will continuously develop clients in new domains to explore new profit generating segments.

The Group will further strengthen the development for the Chinasoft e-government platform software – R1 in order to strengthen our technical advantage. Helped by the Chinasoft e-government platform software – R1 platform and combined with the second phase promotion of “Tobacco Production and Operation Decision Management Subsystem for the State Tobacco Control Bureau”, the Group plans to provide an optimized solution with supply chain and logistics integration and consolidated its leading role in the informationization in the tobacco industry.

On the basis of the above-mentioned strategies, the Group will also continue to seek potential Company as the Group’s targets for acquisition to increase the Group’s profitability and to secure the long-term sources of profits for the Company, hence bringing better investment returns to shareholders.

## REVIEW OF BUSINESS OBJECTIVES

### COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the business objectives as stated in the prospectus of the Company with the actual business progress of the Group:

	<b>Projected Business Progress</b>	<b>Actual Business Progress</b>
<b>1. Strengthen the Group's Solutions</b>	<ul style="list-style-type: none"> <li>• Launch with the development of "e-Park solution" (V2.0).</li> <li>• Evaluate the existing features of e-government solution.</li> <li>• Continue to establish new business partners/ strategic alliances with technology companies for joint development of Solutions.</li> </ul>	<ul style="list-style-type: none"> <li>• The development of New Digitalized Economic Technology Development Zone Solution (V2.0) completed.</li> <li>• Evaluation of the existing features of e-government solution completed.</li> <li>• A Strategic Alliance was established with ISS in order to develop a more secure e-government solution.</li> </ul>
<b>2. Development of new standalone software products and enhancement of existing standalone software products</b>	<ul style="list-style-type: none"> <li>• Evaluate the features of existing intermediary and application software</li> <li>• Enhance the development of intermediary and application software mainly on aspects of structural design, system integration, testing and customization</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluation of the features of existing intermediary and application software completed.</li> <li>• The development works of the intermediary (V3.0) commenced.</li> </ul>

	<b>Projected Business Progress</b>	<b>Actual Business Progress</b>
<b>3. Development of the business of IT consulting and training and IT outsourcing</b>	<ul style="list-style-type: none"> <li>Continue to monitor existing customers' systems and provide consulting and training services to them.</li> <li>Evaluate the information material on information technology consultation and training.</li> <li>Evaluate the resources of the Group for outside contracting of information technology.</li> </ul>	<ul style="list-style-type: none"> <li>Provision of IT consulting and training services to clients such as the State Tobacco Control Bureau, the State Audit Office, Motorola and Nortel.</li> <li>Completed the acquisition of CS&amp;S Computer Tech. Training Centre.</li> <li>Completed the acquisition of Chinasoft Cyber Resources Software Technology (Tianjin) Company Limited and Chinasoft Training Centre.</li> </ul>
<b>4. Sales and marketing</b>	<ul style="list-style-type: none"> <li>Assign staff to participate in the relevant exhibitions and conferences for the promotion of the Group's e-government solution.</li> <li>Set up sales offices in Hangzhou.</li> </ul>	<ul style="list-style-type: none"> <li>Attended "The First Annual Meeting of Informationization for the PRC Development Zone" for promoting the Digitalized Economic Technology Development Zone Solution</li> <li>As an IBM strategic partner, the Group attended the IBM Software Symposium for promoting the Group's e-Audit solution.</li> <li>Established 中國國際(杭州)資訊技術有限公司 in Hangzhou.</li> </ul>

## DIRECTORS' INTERESTS

As at 30 June, 2004, share options were granted by the Company to certain Directors pursuant to the share option scheme of the Company adopted on 2 June, 2003 with details as set out below:

Name of Directors	Exercise Price (HK\$)	No. of share options outstanding as at the Latest Practicable Date	Percentage of total issued share capital	Note
Chen Yuhong	0.58	1,200,000	0.19%	(1)
	0.65	5,000,000	0.78%	(2)
Cui Hui	0.65	500,000	0.08%	(2)
Duncan Chiu	0.65	1,000,000	0.16%	(2)
Peng Jiang	0.58	800,000	0.13%	(1)
	0.65	3,000,000	0.47%	(2)

Notes:

- (1) These share options were offered on 13 August, 2003 under the Share Option Scheme and accepted on 27 August, 2003. The options are exercisable for a period of ten years from the date of offer, subject to the following conditions:

Exercise Period Commencing	Ending	Number of share options exercisable
13/08/2004	12/08/2013	25% of the total number of share options granted
13/08/2005	12/08/2013	25% of the total number of share options granted
13/08/2006	12/08/2013	25% of the total number of share options granted
13/08/2007	12/08/2013	25% of the total number of share options granted

- (2) These share options were offered on 13 May, 2004 under the Share Option Scheme and accepted on 10 June, 2004. The options are exercisable for a period of ten years from the date of offer, subject to the following conditions:

<b>Exercise Period Commencing</b>	<b>Ending</b>	<b>Number of share options exercisable</b>
13/05/2004	12/05/2014	25% of the total number of share options granted
13/05/2005	12/05/2014	25% of the total number of share options granted
13/05/2006	12/05/2014	25% of the total number of share options granted
13/05/2007	12/05/2014	25% of the total number of share options granted

Save as disclosed above, as at 30 June, 2004, none of the Directors or chief executive of the Company had any interests or short positions in the shares, debentures or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be notified to the Company 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 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 rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange as at 31 December 2003.

As at 30 June, 2004, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2003 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by, or leased to the Company or any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at 30 June, 2004, none of the Directors were materially interested in any subsisting contract or arrangement and which is significant in relation to the business of the Group.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Save as disclosed above, during the six months ended 30 June, 2004, none of the Directors was granted options to subscribe for shares of the Company. As at 30 June, 2004, none of the Directors had any rights to acquire shares in the Company save as disclosed above.

## **SHARE OPTION SCHEME**

As at 30 June, 2004, share options to subscribe for an aggregate of 63,740,000 shares of HK\$0.05 each in the capital of the Company ("Shares") were granted to certain directors and employees of the Group pursuant to the Share Option Scheme with terms on the exercise of the share options granted as set out in Notes (1) and (2) in the section headed "Directors' Interests" above. For the six months ended 30 June, 2004, 52,700,000 share options had been granted to certain directors and employees. For the year ended 31 December, 2003, 11,040,000 share options had been granted to certain directors and employees.

Save as disclosed above, no option has been granted, exercised and lapsed pursuant to such Share Option Scheme as at 30 June, 2004.

## **REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS**

During the six months ended 30 June, 2004, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the directors, the directors of the Company had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the six months ended 30 June, 2004.



## SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at 30 June, 2004, the following persons, not being a Director or chief executive of the Company, had an interest in the Shares or underlying shares of the Company which were notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

### Long positions in Shares

Name	Type of interest	Approximate number of Shares (million)	Approximate percentage of shareholding
Far Fast Technology International Limited ("Far Fast") (Note 1)	Registered and beneficial owner	176.89	27.64%
Chiu Te Ken Deacon (Note 1)	Corporate	176.89	27.64%
Castle Logistics Limited ("Castle Logistics") (Note 2)	Registered and beneficial owner	127.60	19.94%
Authorative Industries Limited ("Authorative") (Note 3)	Registered and beneficial owner	57.49	8.98%
Yue Qianming (Note 3)	Corporate	57.49	8.98%
ITG Venture Capital Limited ("ITG") (Note 4)	Registered and beneficial owner	46.94	7.33%

Name	Type of interest	Approximate number of Shares of Shares (million)	Approximate percentage of shareholding
Zhou Qi (Note 4)	Corporate	46.94	7.33%
Prosperity International Investment Corporation ("Prosperity") (Note 5)	Registered and beneficial owner	39.79	6.22%
Joseph Tian Li (Note 5)	Corporate	39.79	6.22%
China National Computer Software & Technology Service Corporation (Hong Kong) Limited ("CS & S (HK)") (Note 6)	Beneficial owner	57.50	8.98%
China National Computer Software & Technology Service Corporation ("CS & S") (Note 7)	Corporate	57.50	8.98%

*Notes:*

1. Mr. Duncan Chiu and Mr. David Chiu, an executive Director and a non-executive Director of the Company respectively are nominated by Far East. Both Mr. Duncan Chiu and Mr. David Chiu are directors of Far East.

Mr. Chiu Te Ken Deacon is taken to be interested in the Shares held by Far East, a company controlled by him.

2. Castle Logistics is beneficially owned by 10 shareholders of which 3 shareholders are Directors and 7 shareholders are senior management staff of the Group. The abovementioned Directors are Dr. Chen Yuhong, Mr. Cui Hui and Mr. Peng Jiang and the other shareholders namely Mr. Xie Hua, Mr. Chen Yuqing, Dr. Tang Zhenming, Mr. Zhang Chongbin, Mr. Wang Hui, Mr. Chen Pei and Mr. Yu Yongxin are senior management of the Group. These 10 individuals became shareholders of Castle Logistics on 25 April 2000.

Dr. Chen Yuhong and Mr. Cui Hui, both executive Directors, are directors of Castle Logistics.

Castle Logistics is beneficially owned by the senior management of the Group as follows:

<b>Name</b>	<b>Entire issued share capital of Castle Logistics</b>
Mr. Cui Hui	18%
Dr. Chen Yuhong	18%
Mr. Xie Hua	18%
Mr. Chen Yuqing	8%
Dr. Tang Zhenming	8%
Mr. Zhang Chongbin	8%
Mr. Peng Jiang	5.5%
Mr. Wang Hui	5.5%
Mr. Chen Pei	5.5%
Mr. Yu Yongxin	5.5%

3. The entire issued share capital of Authorative is beneficially owned by Mr. Yue Qianming. Mr. Yue Qianming is taken to be interested in the Shares held by Authorative.
4. The entire issued share capital of ITG is beneficially owned by Mr. Zhou Qi. Mr. Zhou Qi is taken to be interested in the Shares held by ITG.
5. The entire issued share capital of Prosperity is beneficially owned by Mr. Joseph Tian Li. Mr. Joseph Tian Li is taken to be interested in the Shares held by Prosperity.
6. CS & S (HK) is taken to be interested in 57,500,000 Shares being the consideration shares which it has conditionally been agreed to be allotted under the agreement entered into with Chinasoft International (Hong Kong) Limited on 24 June, 2004 for the transfer of equity interest in Beijing Chinasoft.
7. CS & S is taken to be interested in the Shares which CS & S (HK), its subsidiary, is interested in.

So far as was known to the Directors, as at 30 June, 2004, the following corporations were interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the following members of the Group and the amount of such person's interest was as follow:-

<b>Name of member of the Group</b>	<b>Name of substantial shareholder</b>	<b>Amount of equity interest</b>	<b>Percentage of shareholding</b>
Beijing Chinasoft	CS&S (HK)	Registered capital in the amount of RMB 7.5 million	15%
Beijing Chinasoft	CS&S (Note)	Registered capital in the amount of RMB 7.5 million	15%

*Note:*

Such interest is held through CS&S (HK), a company which is owned by CS&S as to 95.71%.

Save as disclosed above, as at 30 June, 2004, there was no person known to the Directors who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was or was expected to be, 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 other member of the Group, or had any options in respect of such capital.

Save as disclosed above, the Company had not been notified of any other interests representing 5% or more of the Company's issued share capital as at 30 June, 2004, or any substantial shareholders as recorded in the register required to be kept by the Company under section 336 of the SFO.

## **COMPETING INTERESTS**

Mr. Cui Hui, an executive Director, was interested in approximately 1.34% of the issued share capital of Chinasoft Network Technology Company Limited ("CNTC") and also served as a director of CNTC. In addition, each of Mr. Cui Hui and Dr. Chan Yuhong had been appointed as senior vice president by CNTC since December 2003. Although the Directors are of the view that the principal activities of CNTC do not directly compete with those of the Group currently, the Group and CNTC however are also engaged in the provision of IT outsourcing.

Save as disclosed herein, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

## **SPONSORS' INTERESTS**

As updated and notified by the Company's sponsor, Oriental Patron Asia Limited ("Oriental Patron"), neither Oriental Patron nor its directors, employees or associates had any interests in the share capital of the Company as at 30 June, 2004 pursuant to Rules 6.35 and 18.63 of the GEM Listing Rules.

Pursuant to the agreement dated 9 June 2003 which was entered into between the Company and Oriental Patron, Oriental Patron has received and will receive a fee for acting as the Company's retained sponsor for the period from 20 June 2003 to 31 December 2005 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

## **AUDIT COMMITTEE**

The Company established an audit committee on 2 June, 2003 with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises the two independent non-executive directors, namely Mr. He Ning and Mr. Zeng Zhijie and a non-executive director, Dr. Chen Qiwei.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company from the date of its shares listed on GEM on 20 June, 2003 to 30 June, 2004.

## **BOARD PRACTICES AND PROCEDURES**

The Company had complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures for the six months ended 30 June, 2004.

On behalf of the Board

**Chen Yuhong**

*Managing Director*

30 July 2004, Beijing