



CHINASOFT INTERNATIONAL LIMITED
中軟國際有限公司*
(Incorporated in the Cayman Islands with limited liability)



2005 Third Quarterly Report

* for identification purpose only

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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

- Generated a net profit of approximately RMB28,718,000 for the nine months ended 30th September 2005, representing an approximate increase of 31% as compared to the corresponding period in 2004
- Achieved a turnover of approximately RMB254,801,000 for the nine months ended 30th September 2005, representing an approximate increase of 30.4% as compared to the corresponding period in 2004
- Earnings per share (“EPS”) (basic) was approximately RMB4.05 cents (2004: approximately RMB3.37 cents) and EPS (diluted) was approximately RMB3.89 cents for the nine months ended 30 September 2005, representing an approximate increase of 20.2% in EPS (basic) as compared with that of the corresponding period in 2004
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September 2005

THIRD QUARTER 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 nine months ended 30th September 2005, respectively, with corresponding figures as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	Notes	For the three months ended 30th September		For the nine months ended 30th September	
		2005	2004	2005	2004
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	91,255	79,023	254,801	195,378
Cost of sales		(65,474)	(63,099)	(181,758)	(146,139)
Gross profit		25,781	15,924	73,043	49,239
Other operating income		185	613	440	1,697
Distribution costs		(6,891)	(1,603)	(17,838)	(8,270)
Administrative expenses		(5,207)	(4,929)	(21,522)	(16,090)
Research and development costs		(637)	(286)	(1,911)	(419)
Profit from operations		13,231	9,719	32,212	26,157
Finance costs		(13)	(8)	(39)	(130)
Share of result of an associate		199	–	763	–
Profit before taxation		13,417	9,711	32,936	26,027
Taxation	3	(722)	(184)	(2,039)	(1,719)
Net profit before minority interests		12,695	9,527	30,897	24,308
Minority interests		(2,179)	(258)	(2,179)	(2,386)
Net profit attributable to shareholders		10,516	9,269	28,718	21,922
Dividend	4	–	–	7,394	6,784
Earnings per share					
– Basic (cents)	5	1.44	1.39	4.05	3.37
– Diluted (cents)	5	1.38	N/A	3.89	N/A

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 1st January 2004	33,920	45,080	49	1,074	589	45,399	126,111
Net profit for the period	-	-	-	-	-	21,922	21,922
Dividend for 2003 paid	-	-	-	-	-	(6,784)	(6,784)
Issue of shares under placement	2,875	39,100	-	-	-	-	41,975
At 30th September 2004	<u>36,795</u>	<u>84,180</u>	<u>49</u>	<u>1,074</u>	<u>589</u>	<u>60,537</u>	<u>183,224</u>
At 1st January 2005	36,968	85,185	90	1,250	589	75,313	199,395
Net profit for the period	-	-	-	-	-	28,718	28,718
Dividend for 2004 paid	-	-	-	-	-	(7,394)	(7,394)
Issue of shares under placement	38,083	33,414	-	-	-	-	71,497
At 30th September 2005	<u>75,051</u>	<u>118,599</u>	<u>90</u>	<u>1,250</u>	<u>589</u>	<u>96,637</u>	<u>292,216</u>

Notes:

1. BASIS OF PRESENTATION

The financial statements of the Group have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

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 the provision of solutions services and IT outsourcing services where turnover represents the value of work done during the year, including amounts yet to be invoiced.

	For the three months ended 30th September		For the nine months ended 30th September	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Solutions	67,450	64,324	203,595	157,019
IT outsourcing	14,640	6,880	37,103	25,839
IT consulting and training services	1,795	4,021	5,231	6,619
Standalone software product	7,370	3,798	8,872	5,901
	<u>91,255</u>	<u>79,023</u>	<u>254,801</u>	<u>195,378</u>

3. TAXATION

Pursuant to an approval document issued by the State Bureau of Beijing Haidian District dated 21st 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 income tax exemption for three years followed by three years of 50% tax reduction commencing from the first-profit-making year with effect from 2000.

Beijing Chinasoft is subject to 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.

Pursuant to an approval document issued by the Guangzhou Science and Technology Bureau dated 31st March 2004, 中軟國際(廣州)信息技術有限公司 ("Chinasoft Guangzhou"), a subsidiary of the Group, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, pursuant to another approval document issued by the Guangzhou National Tax Bureau dated 2nd June 2004, Chinasoft Guangzhou was entitled to a income tax exemption for two years followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2003.

No provision for Hong Kong profits tax has been made for the relevant periods as the Group did not have any assessable profit arising in Hong Kong during the relevant periods.

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

4. DIVIDEND

On 23rd March 2005, the Company declared final dividends amounting to HK\$6,975,000 (equivalent to RMB7,393,500) for the year ended 31st December 2004 to its shareholders. The dividends were distributed to the Company's shareholders on 5th May 2005.

5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and nine months ended 30th September 2005 was based on the net profit of approximately RMB10,516,000 and approximately RMB28,718,000, respectively (for the three months and nine months ended 30th September 2004 net profit was approximately RMB9,269,000 and RMB21,922,000, respectively) divided by the weighted average number of shares issued during the three months ended 30th September 2005, namely 732,372,453 shares (2004: 668,750,000 shares) and nine months ended 30th September 2005, namely 709,124,151 shares (2004: 649,583,000 shares).

The calculation of diluted earnings per share for the three months and the nine months ended 30 September 2005 was based on the net profit of RMB10,516,000 for the three months ended 30 September 2005 and RMB28,718,000 for the nine months ended 30 September 2005 divided by the weighted average number of shares used in calculation of the diluted earnings per share for the three months and the nine months ended 30 September 2005, namely 764,242,453 shares and 739,154,151 shares respectively.

Diluted earnings per share is not presented for the three months and nine months ended 30th September 2004 as there were no potential dilutive securities in existence during the relevant periods.

INTERIM DIVIDEND

The directors of the Company (“Directors”) do not recommend the payment of an interim dividend for the nine months ended 30th September 2005 (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results

The Group’s turnover increased from approximately RMB195,378,000 to RMB254,801,000 during the nine month period under review, representing an approximate increase of 30.4% as compared with the corresponding period of last year. Such increase was mainly attributable to the increase in the provision of e-Tobacco and e-Audit solutions services and the post acquisition turnover of the newly acquired Chinasoft Resources Information Technology Services Limited (IT Outsourcing Services).

The Group recorded a gross profit of approximately RMB73,043,000 with the gross profit margin maintained at approximately 28.7%, which is a slight increase of approximately 3.5% as compared with the corresponding period of last year.

Other operating income of approximately RMB440,000 was mainly derived from interest on bank deposits.

The distribution costs for the nine months ended 30th September 2005 was approximately RMB17,838,000, representing an approximate increase of 115.7% as compared with the corresponding period of last year. The increase in distribution cost was mainly due to an increase in the Group’s sales of 30.4% and the expansion of the sales and distribution team.

The administrative expenses for the nine months ended 30th September 2005 was approximately RMB21,522,000, representing an approximate increase of 33.7% as compared with the corresponding period of last year. The increase in administrative expenses was due to an increase in headcount, depreciation and amortization of intangible assets and expansion of the research and marketing team which is essential for the further expansion the Group’s business and development.

The net profit attributable to shareholders of the Group during the nine months ended 30th September 2005 was approximately RMB28,718,000, a 31% increase when compared with the corresponding period of last year. Such increase was attributable to the Group's continuous efforts in marketing by expanding the sales and marketing team to enhance market penetration and to open up new markets, thereby maintaining the Group's good quality, branding and reliability, and consistent policy in achieving external growth through the acquisition of high growth companies.

On 26th September 2005, the Group signed an agreement with Microsoft and IFC in Beijing for the issue of redeemable convertible preferred shares worth US\$20 million by the Company to Microsoft and IFC subject to the fulfillment of conditions. Through such strategic investments, the Group will further strengthen its capital base and cash flows and enhance its technical expertise and corporate governance.

BUSINESS REVIEW

- Sales revenue increased 30.4% as compared with the corresponding period in the preceding year and orders at hand amounted to as high as RMB90,000,000
- Signed an agreement to issue redeemable convertible preferred shares to Microsoft and IFC for US\$20,000,000
- Completed the promotion of the "Tobacco Production and Operation Decision Making Management System" and basically passed the acceptance inspection
- The first phase promotion of "e-Audit" was expanded to Shijiazhuang of Hebei Province and Jinshan District of Shanghai
- Provided training in "e-Audit" to several audit offices
- Engaged by the State Audit Office to draft a feasibility report for the second phase of "e-Audit"
- Contracted in the network audit project for Capital Airport
- Won the bidding for the first phase project of the data center system of Guizhou Huangguoshu (Tobacco) Group Co. Ltd. (貴州黃果樹煙草集團公司)
- Won the bidding for the marketing information system of the database of Yuxi Hongta (玉溪紅塔)

- Successfully acquired 20% of the equity interest in China National Tobacco Material E-Commerce Co. Ltd. (北京中烟物資電子商務有限公司)
- Successfully formed Wuhan Chinasoft International Information Technology Company Limited (武漢中軟信息技術有限公司)
- Named as a top ten e-Government IT manufacturer
- Rated the number one brand name of the e-Government application platforms in China by CCID for the third time

Sales revenue increased 30.4% as compared with the corresponding period in the preceding year and orders at hand amounted to as high as RMB90,000,000

During the reporting period, the sales revenue increased 30.4% as compared with the corresponding period in the preceding year, indicating that the Group was still able to maintain a fast pace of growth. Within this financial year, the Group's orders at hand remained at approximately RMB100,000,000 and the existing orders are expected to be completed this year or in the second half of the next year.

Signed an agreement to issue redeemable convertible preferred shares to Microsoft and IFC for US\$20,000,000

During the reporting period, the Group entered into a strategic investment agreement with Microsoft and International Finance Corporation (IFC) in Beijing on 26th September 2005 for subscription by Microsoft and IFC for redeemable convertible preferred shares with the total amount of investment of US\$20,000,000. Completion of the subscription is subject to fulfillment of various conditions including approval by shareholders of the Company. In addition, the Chinasoft-Microsoft online laboratory officially commenced operation simultaneously. The signing ceremony of the strategic investment agreement was held in Beijing Hotel and various officials of Beijing's municipal government, the State Reform and Development Commission and the Ministry of Information Industry were invited to attend the ceremony. According to the strategic investment agreement, Microsoft and IFC will invest in the Group up to the limits of US\$20 million and US\$15 million respectively through subscribing for redeemable convertible preferred shares. Microsoft and IFC has each agreed to make an initial cash investment of US\$10 million, amounting to US\$20 million in total. Subject to the achievement of revenue targets by the Company, these two investors are entitled to further invest US\$15 million in the Company in the future.

Based on this cooperation, the Group will be able to capitalize on the advantages of Microsoft's technology and its global market and, together with the Group's edge in the local China market, extensive user-base and excellence in industry application software and solution, enter into the international and China markets to become one of China's largest software service providers and information technology outsourcing service providers and world class outsourcing business provider. The Group's internationalization process will also be accelerated.

In addition, the Chinasoft-Microsoft online laboratory established by the Group and Microsoft officially commenced operation. The laboratory mainly undertook the research and development of software and testing in China outsourced by Microsoft. The laboratory was one of the first batch of outsourcing working environments certified in China by Microsoft. The network of the laboratory will be able to directly access the network of the headquarters of Microsoft in the USA, enabling the Group to enhance software development service quality, efficiency and the ability to undertake software outsourcing business from external parties.

IFC, being a member of the World Bank and a strategic partner of the Group, will provide the Group with the funds necessary for the Group's current development. Furthermore, the joining of IFC, being a company well-known around the world for its management, will enhance the level of the Group's management standards.

Completed the promotion of the “Tobacco Production and Operation Decision Making Management System” and basically passed the acceptance inspection

During the reporting period, the State Tobacco Control Bureau has basically completed the acceptance inspection of the “Tobacco Production and Operation Decision Making Management System.” The first and second phase of this project is now basically completed. This project lasted for one and a half years, involving 49 legal person industrial enterprises in the tobacco industry and their 103 production bases; 33 provincial bureaus (companies), 373 business branch companies and their 960 affiliated warehouses. The project completed the development and deployment of the data center and application demonstration of the State Tobacco Control Bureau and established a unified lawful channel for collecting the industry's statistical data in order to form an information platform integrating numerous functions including data collection, examination, inquiry, analysis, policy management and information release. This was an infrastructure project as it laid a solid foundation for “systematic integration, resources integration, and information sharing”.

The first phase promotion of “e-Audit” was expanded to Shijiazhuang of Hebei Province and Jinshan District of Shanghai

The Group continued to promote the Live-Audit Implementation System and Live-Audit Management System for the State Audit Office by entering into business contracts with the audit offices of Shijiazhuang of Hebei Province and Jinshan District of Shanghai.

Provided training in “e-Audit” to various audit departments

As “Project e-Audit” was carried out in depth, the Group continued to promote the Live-Audit Implementation System and Live-Audit Management System in different ways. This time, the Group entered into training contracts with the departments of audit of Nanyang of Henan Province, Shaanxi Province, Yunnan Province and Heilongjiang Province to provide them with training in the Live-Audit Implementation System. By capitalizing on this opportunity, the Group is able to enhance clients’ understanding of the Group’s products so as to build up adequate market support for future promotion. Furthermore, as the training is now an independent project as opposed to an affiliated project in the past, where no extra fee would charge the clients, the training will bring in extra profits to the Group.

Engaged by the State Audit Office to draft a feasibility report for the second phase of “e-Audit”

The Group was asked by the State Audit Office to draft a feasibility report for the second phase of “e-Audit”.

The report set out that the objectives of the phase one construction of “Project e-Audit” was to integrate audit management with the Live Audit System, operate trial network-based audit, improve the facilities of LAN, implement the operation of trial network connection application to lay a foundation for the full scale promotion of the application system in phase two, focus on the implementation of network-based audit and to construct a safe and reliable information system that could achieve the possibility of the sharing of resources between the audit offices across the country. The construction covered ten aspects including application system, network system, security system, computer room and personnel training. As at the end of 2004, various tasks of phase one of the project had been completed. In order to reflect the result and the effectiveness of the construction of this informatization project, the State Audit Office, with the approval of the State Reform and Development Commission, made more efforts in promoting the results of phase one from the second half of 2004 onwards and phase one of the construction project passed the

acceptance inspection of the State Reform and Development Commission in September 2005. At present, the audit management system developed by the Group for phase one of "Project e-Audit" has already been implemented in the State Audit Office, 25 subsidiary audit bureaus, 18 special audit offices and part of the audit bodies of provincial and prefecture levels and over 35,000 sets of the Live Audit Implementation System have been sold to the audit bodies of various levels across the country. The results of phase one of "e-Audit" has clearly demonstrated its use and effectiveness.

The construction objective of phase two of "Project e-Audit" was to launch the full-scale promotion of, expand and improve the application system constructed for phase one, implement the audit-based computer network in a network environment and complete the construction of a preliminary network-based audit system for important bodies in the sectors of finance, customs, banking, etc. and complete the construction of preliminary information network security system to enable the sharing of resources between audit bodies at the provincial level or above across the country. This phase is to realize the construction objective of a "budget-tracking + network-checking" audit model and "Three Shifts", to substantially enhance the efficiency, quality and level of audit, and to develop a style of modern audit with Chinese characteristics to lay a foundation for China's GAIS (Government Audit Information System). The construction cycle will last from 2006 to 2008.

With an advantageous position in the audit sector and as the general integration provider of phase one of "Project e-Audit", the Group is confident in becoming the general integration provider and service provider of phase two of "Project e-Audit".

Contracted in the network-based audit project for Capital Airport

Capital Airport, located in Shunyi District, northeast of Beijing, was constructed in the 1950s. At present, the member airports are wholly-owned and controlled by Capital Airports Holding Company (hereinafter referred to as CCAH), namely the airports in Beijing, Tianjin Binhai, Nanchang Changbei, Wuhan Tianhe, Chongqing Jiangbei, Guiyang Longdongbao, Jiujiang, Ganzhou, Jingtangshan, Jingdezhen, Engshi, Xiangfan, Tongren, Xingyi, Liping and the control tower in Yichang. CCAH is committed to the provision of safe, high-quality and comprehensive air transportation service to domestic and foreign customers with its business domain covering operation, management, construction, consultation, investment and financing, hotels and tourism, etc. Beijing Capital International Airport Company Limited, its affiliate, is a company listed on the Stock Exchange.

This project will build up reliable network connection between the State Audit Office's special office in Beijing, Tianjin and Hebei and CCAH so that the respective special offices may collect timely data to analyse the operation and management, external investment and financial status of CCAH and perform timely supervision of the truthfulness, lawfulness and effectiveness of the accounting process of CCAH, thereby combining dynamic audit with static audit and audit in the course of event and the audit in the aftermath.

The online audit implemented by the State Audit Office's special office in Beijing, Tianjin and Hebei and CCAH has three specific goals:

1. to achieve highly effective data collection;
2. to achieve non-live audit; and
3. to achieve realtime audit.

By implementing this project, the Group will gain experience in network-based audit and consolidate its leading position in the audit sector.

Won the bidding for phase one of the data center system project of Guizhou Huangguoshu (Tobacco) Group Co. Ltd. (貴州黃果樹烟草集團公司)

The objective of establishing the data center system for Guizhou Huangguoshu (Tobacco) Group Co. Ltd. ("Huangguoshu") is to facilitate the integration of Huangguoshu's data and to build a central database and data applications on the foundation of the industry's existing information network. These facilities should enable Huangguoshu to fully, timely and accurately acquire the industry's information on cigarettes, specification, production volume, sales volume, inventory, price, costs, profit, flow, personnel, education, security and community union, as well as basic data such as the performance of contracts.

Through this project, Huangguoshu can completely centralize its data and provide data sharing amongst departments and applications and can also apply basic data.

After the construction of the system is completed, the central database will become the regional data centre and data hub of Guizhou's cigarette industry. The basic information codes, basic business standards and basic business benchmarks within the industry can be maintained, thereby laying the foundation for comprehensive integrations of the information system and supply chain and management of Guizhou's cigarette industry.

Won the bidding for the marketing information system of the database of Yuxi Hongta (玉溪紅塔)

Yunan Yuxi Hongta is a leading company in domestic tobacco industry and in particular, it is known for the construction of informatization in the industry. The database marketing system that is now being constructed by the Group for Yunan Yuxi Hongta will reach following goals: to use the up-to-date information technology and computer application technology with the excellent combination of other internal business systems and functional systems of Hongta Group to construct a platform of information treatment and analysis for attracting and retaining clients and turning potential clients into actual clients. By collecting client market investigation information, client information and client operation strategic resources, the system can further gather basic information about the market and clients, etc. to build a fast, comprehensive and accurate channel of client service and market analysis and to establish a perfect client satisfaction assessment system. The completed system will be one of the basis for client management and analyzing client consumption trend and market development trend, enhancing client loyalty and satisfaction, consolidating market share in each local area and identifying the clients that generate the maximum profits.

This system is mainly composed of the following segments:

- client and market analysis model
- client relationship model
- bonus points programme and promotion activity management model
- promotion scheme and advertising article management model
- front-end member website model

Successfully acquired 20% of the equity interest in China National Tobacco Material E-Commerce Co. Ltd. (北京中烟物資電子商務有限公司)

China National Tobacco Material E-Commerce Co. Ltd. (北京中烟物資電子商務有限公司) (CTME) has three investors at present in addition to the Group, all of which are wholly-owned enterprises of the State Tobacco Control Bureau.

CTME is mainly involved in the operation of an e-Commerce website of tobacco materials in China, which includes the trading of all tobacco-related accessory materials except cigarettes and tobacco, including: cigarette trademark and printing, aluminium foil, packaging paper (接裝紙), small label (口花), BOPP, film, cigarette glue, cigarette-used perfume, packaging seal and white cardboard, etc. The domestic segment of the materials which may be traded on the website in future is expected to approach RMB50,000,000,000-60,000,000,000.

The profit-making model of this website is as follows:

1. Membership of the network.
2. Receiving the trading fee for online transactions.
3. At the same time, CTME undertakes to maintain of the network of several companies in the tobacco industry.

After the acquisition by the Group, the company has been renamed as "China National Tobacco Information Co. Ltd." (中煙信息技術有限公司) and will be responsible for the maintenance of the policy making system for the production, operation and management of the tobacco industry.

The acquisition of CTME by the Group mark its continuous aim to strengthen the strategic partnership between the Group and the State Tobacco Control Bureau as well as the tobacco industry. The Group has now entered into the market of internal business process of the tobacco industry.

Successfully formed Wuhan Chinasoft International Information Technology Company Limited (武漢中軟國際信息技術有限公司)

During the reporting period, the Group, China Tobacco Corporation, Hubei Branch ("Hubei Province Company") and Wuhan Chuyan Information Technology Co., Ltd. (武漢楚煙信息技術有限公司) ("Chuyan") formed a joint venture called Wuhan Chinasoft International Information Technology Company Limited (Wuhan Chinasoft International). The Group is the largest shareholder of Hubei Province Company and Chuyan is a wholly-owned subsidiary of Hubei Province Company.

After the formation of Wuhan Chinasoft International, it will become the only business informatization strategic partner of Hubei Province Company, providing packaged services of consulting business solution and maintenance to Hubei Province Company. Wuhan Chinasoft International, being the Group's company in central China will perform the Group's business in this area.

Became a top ten e-Government IT manufacturer

During the reporting period, the fourth session of the e-Government Technology and Application meeting was convened in Beijing, in which the list of the 2005 China e-Government IT Top 100 was disclosed. The Group was placed in eighth place, emerging and entering the top ten with its excellence and outstanding performance in the e-Government domain. It was the fourth time for Chinasoft International to enter the top 100 ranking.

This appraisal was organized by Internet Weekly, a well-known IT journal within the country and before this appraisal, a China e-Government IT Top 100 Survey was held in the past three years and it attracted wide attention from and was highly regarded by the business community, gained a lot of experience and accumulated true and effective data. This year, Internet Weekly selected over 3,000 typical e-Government IT enterprises as the samples of this survey on the basis of the surveys from the preceding three years.

Rated the number one brand name in e-Government application platforms in China by CCID for the third time

Armed with the Group's most competitive e-Government middleware, Resource One, the Group was rated number one in various items for the products of the e-Government application support platform in 2004 by CCID Consulting (賽迪顧問):

- continued to rank first in market share;
- ranked first in the platform products used by existing clients;
- ranked first in market share of the audit sector;
- ranked first in market share of the tobacco industry.

FUTURE PROSPECTS

The Group's business model is shifting from that of a e-Government solution provider to that of a comprehensive IT service provider. The Group will provide three general categories of services (Strategic Business Unit (SBU)) in the professional domain to clients in the future and each service will bring in stable and sustainable income to the Group.

The three categories of services are:

- **Application Development Management (ADM)**

Will mainly be provided to government bodies, including central and local governments and global high-tech enterprises. This service may be divided into:

- Application Development (AD)
- Application Support and Maintains (ASM)
- Testing Services (TS)

- **Enterprise Application Services (EAS)**

The Group will provide various packaged solutions, including the solutions of consultation, implementation, upgrade, transplant, technical support and maintenance. This service will be mainly provided to government-related enterprises and global high-tech enterprises. This service may be divided into:

- Solution Portfolio
- Business Intelligence and Data Warehousing services (BI/DW)
- Enterprise Collaboration and Content Management services (ECCM)
- CRM

- **Business Process Outsourcing (BPO)**

The Group's BPO business will be mainly aimed at providing technical rescue and the business process outsourcing of the business support system to the sectors of finance and retail.

At present, the full-scale maintenance of the first and second phases of the "Tobacco Production and Operation Decision Making Management System" will soon begin. In the future, the Group will provide maintenance and upgrade services to more projects after the promotion of this project is

completed, thereby generating extra profits for the company. Meanwhile, the Group is actively discussing phase three of the promotion scheme, in which the Group has already assumed the role as a high-end consultant for the “Tobacco Production and Operation Decision Making Management System” with the State Tobacco Control Bureau.

As many audit offices have witnessed the effect of “Project e-Audit” after the completion of the trial projects, the follow-up promotion of phase one of the future “Project e-Audit” will bring in continuous income for Group. In the meantime, the Group, as the informatization strategic partner of the State Audit Office, has the confidence to act as the general integration provider and general service provider in phase two of the project.

With the injection of funds by strategic partners, the Group will begin to identify prime companies in the industry within the country as targets of further acquisition by the Group. These targets will mainly belong to the outsourcing sector.

DIRECTORS' INTERESTS IN SHARES

As at 30th September 2005, the following Directors had interests in the shares and underlying shares of the Company and shares in an associated corporation (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”)) of the Company as set out below and recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules:

Long positions in shares of HK\$0.05 each in the capital of the Company (“Shares”)

Name of Director	No. of Shares	Approximate percentage of total issued share capital of the Company
Chen Yuhong	22,967,472	3.14%
Cui Hui	20,000,000	2.73%
Peng Jiang	7,017,838	0.96%

Long positions in equity interest of Shanghai Chinasoft Resources Information Technology Services Limited, an associated corporation of the Company

Name of Director	Amount of equity interest	Percentage of total registered capital
Tang Min	RMB150,000	5%
Cui Hui	RMB150,000	5%

Options to subscribe for Shares

Name of Director	Exercise Price (HK\$)	No. of share options outstanding as at 30th September 2005	Percentage of total issued share capital of the Company	Note
Chen Yuhong	0.58	1,200,000	0.16%	(1)
	0.65	5,000,000	0.68%	(2)
Cui Hui	0.65	500,000	0.07%	(2)
Duncan Chiu	0.65	1,000,000	0.14%	(2)
Peng Jiang	0.58	800,000	0.11%	(1)
	0.65	3,000,000	0.41%	(2)

Notes:

- (1) The above share options were offered on 13th August 2003 under the share option scheme of the Company adopted on 2nd June 2003 (the "Share Option Scheme") and were accepted on 27th August 2003. The share 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) The above share options were offered on 13th May 2004 under the Share Option Scheme and were accepted on 10th June 2004. The share 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
13/05/2004	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 and so far as was known to the Directors, as at 30th September 2005 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 (as defined in Part XV of the SFO) which were 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 were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

As at 30th September 2005, none of the Directors had any direct or indirect interest in any assets which had been, since 31st December 2004 (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 30th September 2005, none of the Directors were materially interested in any subsisting contract or arrangement which was significant in relation to the business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

During the nine months ended 30th September 2005, none of the Directors was granted any options to subscribe for shares of the Company. As at 30th September 2005, none of the Directors had any rights to acquire shares in the Company save as disclosed above.

SHARE OPTION SCHEME

As at 30th September 2005, share options allowing for the subscription of an aggregate of 63,740,000 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 in Shares" above.

Save as disclosed above, no share option have been granted, exercised or have lapsed pursuant to such Share Option Scheme as at 30th September 2005.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the nine months ended 30th September 2005, 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 had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the nine months ended 30th September 2005.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 30th September 2005, the interest of the persons (not being a Director or chief executive of the Company) in the shares of the Company which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in Shares

Name	Nature of interest	Approximate number of Shares <i>(million)</i>	Approximate percentage of total issued share capital of the Company
China National Computer Software & Technology Service Corporation (Hong Kong) Limited ("CS&S (HK)") <i>(Note 1)</i>	Beneficial interest	199.01	27.17%
China National Software and Service Company Limited ("CNSS") <i>(Note 1)</i>	Interest of controlled corporation	199.01	27.17%
Far East Technology International Limited ("Far East") <i>(Note 3)</i>	Beneficial interest	169.89	23.2%
International Finance Corporation <i>(Note 4)</i>	Beneficial interest	97.25	13.28%
Microsoft Corporation <i>(Note 4)</i>	Beneficial interest	97.25	13.28%
Authorative Industries Limited ("Authorative") <i>(Note 5)</i>	Beneficial interest	57.49	7.85%
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)") <i>(Note 2)</i>	Interest of persons acting in concert	199.01	27.17%

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of total issued share capital of the Company
Yang Haimo (Note 5)	Interest of controlled corporation	57.49	7.85%
Prosperity International Investment Corporation ("Prosperity") (Note 6)	Beneficial interest	39.79	5.43%
Joseph Tian Li (Note 6)	Interest of controlled corporation	39.79	5.43%
ITG Venture Capital Limited ("ITG") (Note 7)	Beneficial interest	36.94	5.04%
Zhou Qi (Note 7)	Interest of controlled corporation	36.94	5.04%

Notes:

1. CNSS is taken to be interested in the Shares in which CS&S (HK), its subsidiary in which it holds approximately 99.3% of the total voting rights, is interested. The number of Shares in which CS&S (HK) is interested includes 23,248,302 Shares which may be issued to itself pursuant to an acquisition agreement between Chinasoft (HK) and CS&S (HK) dated 28th April 2005 subject to fulfillment of a condition and the exercise of a cash option.
2. Chinasoft (HK) and CS&S (HK) are parties to agreements to acquire interests in the Company which include provisions imposing restrictions with respect to the disposal of interests acquired, and Chinasoft (HK) is taken to be interested in the Shares in which CS&S (HK) is interested pursuant to section 318 of the SFO.
3. 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.
4. International Finance Corporation and Microsoft Corporation were each interested in 97,250,000 Shares which could be issued to each of them upon the conversion of the 97,250,000 Series A Preferred Shares agreed to be subscribed for by each of them pursuant to a subscription agreement with the Company dated 26th September 2005 subject to the satisfaction of condition precedents set forth in the subscription agreement.

5. Mr. Yang Haimo controls the exercise of more than one-third of the voting power at general meetings of Authorative, and is thus taken to be interested in the Shares held by Authorative.
6. 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.
7. 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.

Save as disclosed above, as at 30th September 2005, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

COMPETING INTERESTS

As at 30th September 2005, Mr. Cui Hui, an executive Director was interested in approximately 1.34% of the issued share capital of CNSS. Mr. Cui Hui also served as a director of CNSS. In addition, Madam Tang Min and Dr. Chen Yuhong had been appointed as a director of CNSS since August 2000 and April 2004, respectively. Although the Directors are of the view that the principal activities of CNSS do not directly compete with those of the Group currently, the Group and CNSS are both engaged in the provision of information technology outsourcing.

Save as disclosed herein, as at 30th September 2005 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 competed or might compete with the business of the Group.

SPONSOR'S INTEREST

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 30th September 2005 pursuant to Rules 6.36 and 18.75 of the GEM Listing Rules.

Pursuant to the agreement dated 9th June 2003 entered into between the Company and Oriental Patron, Oriental Patron received and will continue to receive a fee for acting as the Company's retained sponsor for the period from 20th June 2003 to 31st 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 2nd June 2003 and amended its written terms of reference to comply with the requirements in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules. The primary duties of the audit committee are to review and to supervise the financial reporting process and internal control system of the Group. The audit committee is comprised of two independent non-executive Directors, Mr. He Ning and Mr. Zeng Zhijie, and a non-executive Director, Dr. Chen Qiwei.

The audit committee of the Company has reviewed the results of the Group for the nine months ended 30th September 2005.

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

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any listed securities of the Company during the nine months ended 30th September 2005.

CORPORATE GOVERNANCE

The Company had complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules for the nine months ended 30th September 2005.

On behalf of the Board

Dr. Chen Yuhong

Managing Director

10th November 2005, Beijing

Executive Directors:

Madam Tang Min (*Chairman*)

Dr. Chen Yuhong (*Managing Director*)

Mr. Cui Hui

Mr. Peng Jiang

Mr. Duncan Chiu

Non-executive Directors:

Mr. David Chiu

Mr. Liu Zheng

Dr. Chen Qiwei

Independent Non-executive Directors:

Mr. He Ning

Mr. Zeng Zhijie

Mr. Peter Au Yeung Shiu Kau