



中软国际

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR 2003

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

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This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

HIGHLIGHTS

- Accomplished a net profit of approximately RMB24,117,000 for the year 2003, representing an approximately 24% increase as compared with that of the corresponding period in 2002
- Achieved a turnover of approximately RMB166,055,000 for the year 2003
- The Directors recommend the payment of a final dividend of HK\$0.01 per share for the year 2003

ANNUAL RESULTS

The board of Directors (“Board”) of Chinasoft International Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year 2003, with corresponding figures as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		2003	2002
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	166,055	114,485
Cost of sales		(117,050)	(82,350)
Gross profit		49,005	32,135
Other revenue		765	761
Distribution costs		(5,900)	(4,521)
Administrative expenses		(12,251)	(5,439)
Research and development costs		(160)	(79)
Profit from operations		31,459	22,857
Finance costs		(497)	–
Profit before taxation		30,962	22,857
Taxation	3	(2,735)	–
Net profit before minority interests		28,227	22,857
Minority interests		(4,110)	(3,448)
Net profit attributable to shareholders		24,117	19,409
Dividend	4	–	5,406
Earnings per share			
– basic	5	RMB0.04	RMB0.04
– diluted		RMB0.04	N/A

CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		8,520	5,848
Development costs		3,499	3,228
Loans to employees		953	1,475
		12,972	10,551
Current assets			
Inventories		7,290	3,466
Trade receivables	6	60,801	34,085
Other receivables		14,737	13,945
Amount due from minority shareholder of a subsidiary		2,500	—
Pledge bank deposits		743	—
Bank balances and cash		84,074	34,851
		170,145	86,347
Current liabilities			
Trade payables	7	22,189	13,529
Bill payables		2,948	—
Other payables		4,564	5,227
Provision for taxation		1,163	—
Bank loan		10,000	—
Dividend payable to minority shareholder of a subsidiary		1,500	—
Amount due to a shareholder		50	630
		42,414	19,386
Net current assets		127,731	66,961
Total assets less current liabilities		140,703	77,512
Minority interests		(14,182)	(11,572)
Deferred taxation		(410)	—
Net assets		126,111	65,940
Capital and reserves			
Share capital		33,920	118
Reserves		92,191	65,822
Shareholders' funds		126,111	65,940

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Translation reserve <i>RMB'000</i>	General reserve fund <i>RMB'000</i>	Enterprise expansion fund <i>RMB'000</i>	Accumulated profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st January, 2002	118	42,833	49	–	–	8,937	51,937
Dividend paid	–	(5)	–	–	–	(5,401)	(5,406)
Net profit for the year	–	–	–	–	–	19,409	19,409
Appropriations	–	–	–	970	485	(1,455)	–
At 1st January, 2003	118	42,828	49	970	485	21,490	65,940
Net profit for the year	–	–	–	–	–	24,117	24,117
Capitalisation issues	25,322	(25,322)	–	–	–	–	–
Issue of shares under placement	8,480	45,792	–	–	–	–	54,272
Share issuing expenses	–	(18,218)	–	–	–	–	(18,218)
Appropriations	–	–	–	104	104	(208)	–
At 31st December, 2003	<u>33,920</u>	<u>45,080</u>	<u>49</u>	<u>1,074</u>	<u>589</u>	<u>45,399</u>	<u>126,111</u>

CONSOLIDATED CASH FLOW STATEMENT

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Cash flows from operating activities	10,812	2,031
Cash flows from investing activities	(7,063)	(6,878)
Cash flows from financial activities	45,474	(6,032)
Net increase (decrease) in cash and cash equivalents	49,223	(10,879)
Cash and cash equivalents at the beginning of the year	34,851	45,730
Cash and cash equivalents at the end of the year	84,074	34,851

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.

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Solutions	114,888	86,364
IT outsourcing	45,247	22,824
IT consulting and training services	2,629	1,958
Standalone software products	3,291	3,339
	<u>166,055</u>	<u>114,485</u>

3. TAXATION

Pursuant to an approval document issued by the State Bureau of Beijing Haidian District dated 21st November, 2000, Beijing Chinasoft FE International Information Technology Limited (“Chinasoft FE”), 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.

Chinasoft FE is subject to the income tax computed at the rate of 7.5% for the three years ended 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 the year as the Group did not have any assessable profit during the year.

During the year, the Group has made provision for deferred taxation arising from the time differences in development cost.

4. DIVIDEND

On 27th May, 2002, the Company declared dividend amounting to HK\$5,100,000 (equivalent to RMB5,406,000) for the year ended 31st December, 2001 to its shareholders. The amount was paid to its shareholders in May 2002.

The Company has recommended the a payment of a final dividend of HK\$0.01 per share for the year ended 31st December, 2003.

5. EARNINGS PER SHARE

The calculation of the basic earnings per share for year ended 31st December, 2003 was based on the net profit of approximately RMB24,117,000 (2002: RMB19,409,000) divided by the weighted average number of ordinary shares issued during year ended 31st December, 2003 of 565,041,096 shares (2002: 480,000,000 shares) as if the sub-division of the Company's shares as described in Appendix VI of the prospectus of the Company dated 10th June, 2003 ("Prospectus") had taken place at the beginning of the relevant periods.

Diluted earnings per share for the year ended 31st December, 2003 was calculated as follows:

	<i>RMB'000</i>
Earnings used in calculation of diluted earning per share	<u>24,117</u>
	<i>No. of Shares</i>
Weighted average number of share used in calculation of basic earnings per share	565,041,096
Effect of potentially dilutive securities outstanding under the share option scheme of the Company	<u>459,283</u>
Weighted average number of share used in calculation of diluted earning per share	<u>565,500,379</u>
Diluted earnings per share for the year ended 31st December, 2003	<u>RMB0.04</u>

Diluted earnings per share is not presented for years ended 31st December, 2002 as there were no potential dilutive securities in existence during that year.

6. TRADE DEBTORS

Aged analysis of trade debtors are as follows:

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 90 days	31,906	25,127
91 - 180 days	8,691	5,971
181 - 365 days	14,865	2,261
1 - 2 years	5,339	726
	<u>60,801</u>	<u>34,085</u>

7. TRADE CREDITORS

Aged analysis of trade creditors are as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
0 - 90 days	14,873	7,878
91 - 180 days	5,385	3,572
181 - 365 days	1,881	2,029
1 - 2 years	–	50
2 - 3 years	50	–
	<u>22,189</u>	<u>13,529</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 years ended 31st December, 2003 and 2002, the Group had the following transactions with the following related parties:

	<i>Notes</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Purchases of computer hardware and software products			
– 中國計算機軟件與技術服務總公司 (China National Computer Software & Technology Service Corporation) (“CS&S”)	<i>(a)</i>	9,137	2,618
– 中國軟件網絡技術股份有限公司 (Chinasoft Network Technology Company Limited) (“CNTC”) and its subsidiaries	<i>(b) & (c)</i>	376	2,700
– 中軟總公司計算機培訓中心 (CS&S Computer Technology Training Centre)	<i>(b)</i>	378	–
Sales of standalone software products			
– CS&S	<i>(a)</i>	7,488	2,564
Property management fee			
– 北京中軟仕園物業管理有限公司 (Beijing Chinasoft Shiyuan Property Management Co. Ltd.)	<i>(b)</i>	484	–
Rental expenses			
– CS&S	<i>(a)</i>	715	507
Provision of solution services			
– CS&S	<i>(a)</i>	<u>–</u>	<u>640</u>

All transactions were carried out in accordance with the terms of the relevant agreements, except the transactions relating to provision of solution services which was carried out at cost plus a percentage markup.

Notes:

- (a) A minority shareholder of a subsidiary.
 - (b) CS&S has equity interests in these companies.
 - (c) A director of CNTC, Mr. Cui Hui, is also a director of the Company. Besides, Mr. Cui Hui and Dr. Chen Yuhong are also senior vice presidents of CNTC.
- (ii) Pursuant to an agreement entered into between CS&S and Chinasoft FE on 10th May, 2002 (the “Agreement”), CS&S has granted to Chinasoft FE 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 Chinasoft FE for a period of 25 years.
 - (iii) Under a trademark licence agreement (“Licence Agreement”) dated 3rd June, 2002 made between CS&S and Chinasoft FE, CS&S granted to Chinasoft FE a non-exclusive right for no consideration to use the trademarks as defined on Licence Agreement in the PRC for 10 years.
 - (iv) Pursuant to an trademark licence agreement entered into between CS&S and the Company on 20th December, 2003 (“Trademark Licence Agreement”), subject to the registration of the trademark with the Trademark Bureau of the PRC, CS&S has granted to the Company an exclusive right to use the trademark as defined on the Trademark Licence Agreement for consideration of RMB2,000,000 for a period of 25 years. The amount has been paid to CS&S and recognized as amount due from minority shareholders of a subsidiary on 31st December, 2003.

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 year ended 31st December, 2003 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 products <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Turnover	114,888	45,247	2,629	3,291	166,055
Segment result	35,177	9,131	1,407	3,290	49,005
Unallocated corporate revenue					765
Unallocated corporate expenses					(18,311)
Finance costs					(497)
Profit before taxation					30,962
Taxation					(2,735)
Net profit before minority interests					28,227
Minority interests					(4,110)
					24,117

(ii) Segment information about these businesses for the year ended 31st December, 2002 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 products <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Turnover	86,364	22,824	1,958	3,339	114,485
Segment result	23,110	4,643	1,044	3,338	32,135
Unallocated corporate revenue					761
Unallocated corporate expenses					(10,039)
Profit before taxation					22,857
Taxation					-
Net profit before minority interests					22,857
Minority interests					(3,448)
					19,409

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 INFORMATION

The remuneration for the employees of the Group amounted to approximately RMB14,769,000, including the directors' emoluments of approximately RMB1,165,000 during year ended 31st December, 2003 (2002: approximately RMB3,872,000, including the directors' emoluments of approximately RMB448,000). The increase in employee remuneration resulted from the increase in number of employees from 145 to 238 and the increase in bonus to individual staff during the year.

FINAL DIVIDEND

The Directors recommend the payment of a final dividend of HK\$0.01 per share for the year ended 31st December, 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results

The Group has continued a substantial growth in the operational results for the year ended 31st December, 2003. For year ended 31st December, 2003, the Group generated revenue of approximately RMB166,055,000 and a profit of approximately RMB24,117,000, representing a 45% and 24% growth in revenue and net profit respectively. 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 attending various seminars to promote the Group's solutions, particularly the e-Tobacco, e-Park and e-Audit. As a results, new large contracts were made during the year with the State Tobacco Control Bureau, Dalian ETDA and the National Audit Office of the PRC. The increase in outsourcing revenue generated from information technology was due to the growing demand of outsourcing procurement of information technology hardware and software by the large-scale telecommunications clients of the Group. By compared with last period, the increase in gross profit margin for year 2003 from approximately 28% to 30% was due to large and high gross profit margin of solution contracts such as e-Tobacco in the State Tobacco Control Bureau, e-Park in Dalian ETDA and e-Audit in State Audit Office of the PRC were signed and completed during the current year. The distribution costs for the year were approximately RMB5,900,000, an increase of approximately 31% from the last period. The increase in distribution cost was mainly due to the expansion of the Group's sales and marketing team. The administrative expenses for the year was approximately RMB12,251,000, an increased of

approximately 125% from the last year. The increase in administrative expenses was mainly due to the adjustment of the salary of the personnel in administration and additional preliminary expenses and rental expenses incurred for the Hong Kong, Guangzhou and Hangzhou new offices during the current year.

Financial Resources and liquidity

As at year ended 31st December, 2003, shareholders' funds of the Group amounted to approximately RMB126,111,000. Current assets amounted to approximately RMB170,145,000, of which approximately RMB84,817,000 were cash and bank deposits. The Group had no non-current liabilities and its current liabilities amounted to approximately RMB42,414,000, mainly its trade and bill payables, accruals, bank loan and current account with related companies. The net asset value per share was RMB0.2. The Group expresses its gearing ratio as a percentage of bank borrowing and long-term debts over total assets. As at 31st December, 2003, the Group had a gearing ratio of approximately 5%. The bank loan of RMB10,000,000 taken out during the current year was mainly used for the financing general working capital of Chinasoft FE.

The Group recorded an increase in trade receivables in 2003 as compared to 31st December, 2002 mainly due to the substantial increase in sales during the year end of the 2002 interim in relation to the Group's solutions services, particularly the e-Tobacco, e-Park and e-Audit as a results of the Group's continuous efforts in marketing. As a result of the SARS outbreak in Beijing, the payment application process by the Group's customers was affected as a result of longer collection period. However, the Group has stringent a credit policy to minimise its credit exposure including credit control, negotiations and discussion with customers, issue of reminders and letters threatening legal action. The Directors believe that trade receivables will be reduced at the beginning of 2004.

During the year ended 31st December, 2003, as all the Group's sales and purchases were substantially denominated in Renminbi, the Board of Directors considers that the potential foreign exchange exposure of the Group is limited.

As at 31st December, 2003, except a bank deposit pledged with a bank of approximately RMB743,000 for trade facilities granted to the Group by the suppliers, the Group did not have any material investment in assets and assets pledged.

As at 31st December, 2003, except bills discounted with recourse of approximately RMB3,689,000, the Group did not have any material contingent liabilities.

No subsequent events occurred after 31st December, 2003, which may have a significant effect, on the assets and liabilities or future operations of the Group.

USE OF PROCEEDS FROM THE LISTING

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

During the year ended 31st December, 2003, 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 proceeds stated in the Prospectus up to 31st December, 2003 <i>HK\$' million</i>	Actual amount used up to 31st December, 2003 <i>HK\$' million</i>	Unused balance <i>HK\$' million</i>
Development of new and enhancement of the Group's existing solutions	3.00	3.00	—
Development of new standalone software products and enhancement of the Group's existing solutions	3.00	3.00	—
Development of business of IT consulting and training business	0.50	0.50	—
Development of business of IT outsourcing	0.75	0.75	—
Sales and marketing	1.70	1.70	—
	<u>8.95</u>	<u>8.95</u>	<u>—</u>

All unused proceeds from listing have been deposited at bank to prepare for future use as set out in the business development plan in the Prospectus.

BUSINESS REVIEW

During 2003, the e-government market in the PRC remained in rapid growth. According to the survey by CCID, Investment in e-government for 2003 amounted to RMB32.91 billion, representing an increase of 17.6% as compared with a total of RMB27.984 billion in 2002. For the second quarter of 2003, there had been a certain extent of contraction in the e-government market due to the impact of SARS. The market saw a substantial adjustment during the second half of year which reflected that besides the adverse effect upon the market, SARS also made the government and society understand the importance of information development.

During the reporting period, on the foundation of continual and rapid business growth, the Group had achieved solid progress in a number of areas, namely: (1) the successful development of e-tobacco solution; (2) gaining of customers' confidence in the Group's e-Audit solution; (3) further enhancement of the competitive edge of the e-Park solution; (4) e-government supporting platform software of the Group being accredited as a first-class brand name in the PRC; (5) the Group was recognised as the "Major Software Enterprise within the State Planning"; (6) jointly set up a strategic alliance with Internet Securities System ("ISS"); (7) wholly owned subsidiaries were set up in Guangzhou and Hangzhou. All these point to our further strengthening of the comprehensive business and a significant step being made in the development of the Group's business of a first-class brand name in PRC.

Successful development of e-tobacco solution and creation of new profit growth

Tobacco industry in the PRC is under a centralized organization with integrated leadership, vertical management and specialized control and operation. The State Tobacco Control Bureau is responsible for the nationwide supervision of the monopolized tobacco sale; integration of the agricultural, manufacturing and trading sectors; centralized management of production, supply and distribution; as well as domestic and external trade of tobacco products in the PRC. The State Tobacco Control Bureau has set up various levels of tobacco control bureau and tobacco companies in all provinces, cities and counties across the country. There are more than 500,000 workforce and more than 3 million tobacco retail shops within the whole organization. Total tax revenue from the industry in 2002 amounted to RMB145.9 billion.

During the reporting period, the Group had completed the overall framework design of e-tobacco solution and had completed the research and development of "Tobacco Production and Operation Decision Management Subsystem for the State Tobacco Control Bureau of the PRC". The e-tobacco used in the tobacco industry is a system solution for moving the functions of information dissemination, management, service and communication for the State Tobacco Control Bureau and its subsidiaries online. The "Tobacco Production and Operation Decision Management Subsystem for the State Tobacco Control Bureau of the PRC" is a decision controlling system for regulating the tobacco market and strengthening the monopolized tobacco sale through data integration of the industry. It has been recognized by the experts of the State Tobacco Control Bureau, and has been installed and implemented in 36 major tobacco production enterprises and 36 major metropolitan business enterprises in the PRC. The Group is confident that e-tobacco will become a new force of profit growth of the Group, and will actively participate in the promotion work conducted by the State Audit Office at the provincial level of the whole country.

Gaining of customers' confidence in our e-Audit solution and expanding our scale of business

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. After the consultancy period for the first phase of the e-Audit project, the Group had successfully signed a number of first phase contracts including the audit office automation module, the specialized application module for audit management both based on business intelligence. All these demonstrate the Group is recognized for its technology and service quality, and that the Group had gained customers' confidence in its “e-Audit solution”. the Group regards the e-Audit solution project as an excellent opportunity to contribute to the digitalization of the national audit system.

Further enhancement of competitive edge of the e-Park solution

During the reporting period, the Group successfully undertook the e-government construction project for Dalian Development Zone, the e-government construction project for Guangzhou Economic Development Zone, modern logistics planning and design project for Suzhou Industrial Park and digitalization planning and design project for Nansha Development Zone. Customers of the Group's e-Park solution include Tianjin ETDA, Dalian Development Zone, Guangzhou Development Zone, Suzhou Industrial Park, Beijing ETDA, Harbin ETDA, Guangzhou Nansha Development Zone and Langfang ETDA. According to the PRC Economic and Technology Special Regions and Development Zones Yearbook 2000-2001, Tianjin ETDA, Dalian Development Zone and Guangzhou Development Zone are the top three state level economic and technology development zones of the PRC in terms of total economic output. The outstanding results achieved by the e-Park solution demonstrates that it has commanded a leading position and its competitive edge has been further enhanced.

e-government supporting platform software of the Group being accredited as a “first-class brand name in the PRC”

CCID, an IT research authority in the PRC, had released the “Market Report on e-government Supporting Platform Software in 2002” (the “CCID Report”) in September 2003 in which the Group was being accredited as a first-class brand name in the PRC.

e-government supporting platform software is an essential software for building up an e-government system. It facilitates information sharing and workflow coordination between the upper and lower level of government entities and among various departments of the same administrative level, integration of department functions as well as provision of one-stop services for the public. Although the purchase amount of the supporting platform software accounts for a minor proportion in the total purchase amount of e-government software, e-government supporting platform software serves an important function as an operational platform for the e-government application systems and plays strategic role in enhancing the Company's competitive advantage as an e-government solution provider. Moreover, sales of the e-government supporting platform is increasing rapidly and there is still ample room for growth. According to the forecast by CCID, e-government supporting platform market is entering a stage of rapid development in the next three years with an annual growth rate of about 60%, and the total market size of the PRC will reach RMB1.179 billion in 2005.

A report from CCID commented on the Group's ResourceOne as "advance in technology", "meeting market demand" and "by means of its quick development framework and quick development supporting tools, satisfying the needs of clients, simplifying the structure of newly developed application software system, minimizing the risks of software development and reducing the volume of work in software development through the provision of powerful application system integration, data integration, content integration, interface integration and process consolidation, the provision of thesaurus and fully developed application software and solutions". The findings of the CCID report showed that the Group, with its 15.7% market share, was ranked No. 1 among the e-government supporting platform application software products in the PRC. The CCID report also showed that ResourceOne had achieved a leading position among similar products in the PRC in terms of technical functions and market share.

Being Recognized as "Major Software Enterprise within the State Planning"

Upon strictly appraised by the State Development and Reform Commission, Ministry of Information Industry, State Administration of Taxation, State Foreign Economic and Trade Commission, by virtue of the excellent performance in the areas of e-government supporting platform and solution achieved by Chinasoft International, the Company was recognized as the "Major Software Enterprise within the State Planning" in December, 2003. As the "Major Software Enterprise within the State Planning", the Group not only enjoys a tax incentive granted by the State, but also becomes one of the best software enterprises in the PRC, so as to further establish its dominant position as a leading e-government and solution provider in the PRC.

Strategic Alliance by Chinasoft International and ISS

The Group jointly set up a strategic alliance with Internet Securities Systems (ISS, NASDAQ:ISSX), one of the largest internet securities systems providers in the world. The Group was granted the exclusive right to sell all internet securities products of ISS in the PRC. This business will become a new source of business growth of the Group. Through this strategic cooperation, the Group will provide the 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 of the Group, and in the meantime, benefits the Group's development and promotion of a safer e-government solution.

Establishment of wholly-owned subsidiaries in Guangzhou and Hangzhou

In strengthening the sales and development service network of the Group, Chinasoft International (Guangzhou) Information Technology Company Limited (中軟國際(廣州)信息技術有限公司) and Chinasoft International (Hangzhou) Information Technology Company Limited (中軟國際(杭州)信息技術有限公司) were established during the reporting period to enhance the Group's marketing, work implementation of e-government products and solutions and after-sale service in southern China. The establishment of Chinasoft International (Guangzhou) Information Technology Company Limited (中軟國際(廣州)信息技術有限公司) and Chinasoft International (Hangzhou) Information Technology Company Limited (中軟國際(杭州)信息技術有限公司) will enhance the coverage, business scale and profitability of the Group's business.

FUTURE PROSPECTS

In 2004, the e-government market in the PRC will continue to see its rapid growth. A number of major constructions will be launched gradually, including “金保”, “金質”, “金農”, “金水” and “金盾”. Meanwhile, the e-government-related markets, such as information security, e-signature, exploration of information resources, are expected to become more and more prosperous.

To capture the significant development opportunity, the Group will take the following steps in order to achieve its strategic objective of becoming the premier brand in e-government in the PRC:

- Upon the competitive advantage obtained by the Group on the solutions of tobacco industry, to further promote its application solutions throughout the country by fully capitalizing on the Group’s technological and brand advantages, and according to the demand of the IT facilities of the tobacco industry, to upgrade the Group’s e-tobacco solutions by virtue of the newly added application modules.
- To continue to step up the research and development and marketing of e-government solutions such as “e-Audit solution”, “e-Park solution”, etc., so as to enlarge the market share and consolidate the competitive advantages.
- To capture the business opportunities in e-government and explore new domains in the e-government industry, such as “金質”, “金保”, etc.
- By virtue of the opportunity from the cooperation with ISS, to expand the client base in a broader area, and in the meantime, to develop and promote a safer e-government solution.
- To implement a project integrating the sale and service ISS safe product and e-tobacco solution in 36 major tobacco production enterprises and 36 major metropolitan business enterprises in the PRC in order to construct and optimize the technological service network of the Group.
- To strengthen the research and development and marketing of ResourceOne with an ultimate aim of building up the Group’s core competitiveness.
- To continue with the promotion of the idea of “consultation on the basis of training”, make stronger strategic alliance and consolidate the relevant resources to focus on developing a first class e-government consultation and planning team in the PRC and further secure the Group’s favourable position in the high-end consultancy market of e-government in the PRC.
- According to the needs of the Group’s strategic development, to look for suitable acquisition target, and to realize the rapid growth of its business through acquisition and merger.

The Group will, relying on its well-known brand name, advanced technology, excellent management, expanding sales and marketing network and strong client base, strive for outstanding performance and business growth in the years ahead and endeavor to establish the Group as the number one e-government brand name in the PRC. The Group will also commit to enhance its source of income and provide shareholders with considerable return.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the business objectives as stated in the Prospectus with the actual business progress up to 31st December, 2003:

Major area	Major business objective stated in the Prospectus	Actual business progress
1. Strengthen the Group's Solutions	<ul style="list-style-type: none">• Continue to enrich the Group's software component bank by evaluating and upgrading existing components, and development new Solutions.• Conduct feasibility study on upgrade existing e-Park solution (V1.0) including the installation of additional new modules such as the intelligent logistics module, one-stop office function module and customer relationship management module.• Continue to establish new business partners/ strategic alliances with technology companies for joint development of Solutions.	<ul style="list-style-type: none">• The total software components of the Group reached 350 units.• The feasibility study on comprehensive upgrade existing e-Park solution (V1.0) has been completed; studies on national technological strategic projects such as development and applications of the technology of regional e-commerce and logistics public information project in Suzhou Industrial Park have been also finished.• Established strategic alliances with ISS in order to jointly develop network security technology.

Major area	Major business objective stated in the Prospectus	Actual business progress
2. Development of new standalone software products and enhancement of existing standalone software products	<ul style="list-style-type: none"> • Upgrade ResourceOne (V2.0) by installing and integrating new modules. 	<ul style="list-style-type: none"> • More functional modules will be added to ResourceOne (V2.0): 1) Developed ResourceOne workflow module on the base of standard WFMC model; 2) Upgraded portal function; 3) Launched Resource One component model and developed a set of standards and tools for application system integration; 4) Launched the software management device to provide on-line installation and simple upgrade of components in wide area environment; and 5) Encapsulated Information ResourceOne and developed data transmission channels to provide safe transmission and data routing in a wide area environment for nationwide application system.
	<ul style="list-style-type: none"> • Conduct feasibility study on the development of new standalone software products. 	<ul style="list-style-type: none"> • The feasibility study on development of ResourceOne (V3.0) has been completed.
	<ul style="list-style-type: none"> • Develop simplified version of ResourceOne. 	<ul style="list-style-type: none"> • The study on development of simplified versions for ResourceOne has been completed.

Major area	Major business objective stated in the Prospectus	Actual business progress
3. Development of the business of IT consulting and training and IT outsourcing	<ul style="list-style-type: none"> • Continue to monitor existing customers' systems and provide consulting and training services to them. Improve the existing e-Government training information. Upgrade existing e-government training materials. • Continue to enhance the utilization of the Group's resource by the provision of IT outsourcing. 	<p>provided IT consulting and training services to clients such as Motorola, Nortel and State Environmental Protection Administration; and held training classes for project manager of computer IT system under the commission of Ministry of Information Industry.</p> <ul style="list-style-type: none"> • Continue the provision of IT outsourcing to clients such as Motorola and Nortel.
4. Sales and marketing	<ul style="list-style-type: none"> • Promote e-government solutions to government authorities and enterprises in ETDA's and government authorities. • Seek suitable distributors as the Group's sales offer. • Set up sales offices in the Guangdong. 	<ul style="list-style-type: none"> • Participated in "implementation meeting of business decision making management system project for tobacco rolling industry" to promote the Group's e-tobacco solution for State Tobacco Control Bureau. • Cooperate with various distributors for sale of software products and solutions of the Group. • Established Chinasoft International (Guangzhou) Information Technology Limited and Chinasoft International (Hangzhou) Information Technology Limited in Guangzhou and Hangzhou respectively.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors (including the executive, non-executive and independent non-executive Directors) has entered into a service contract with the Company, in each case with effect from 12th December, 2002. Each service agreement is for an initial term of 2 years from 20th June, 2003, subject to the right of termination as stipulated in the relevant service agreement. The basic annual salary of each of the Directors under the service contract is set out below:

Name of Director	Annual salary (RMB)
<i>Executive Directors</i>	
Chen Yuhong	480,000
Cui Hui	120,000
Duncan Chiu	120,000
Peng Jiang	420,000
<i>Non-executive Directors</i>	
David Chiu	Nil
Liu Zheng	Nil
Chen Qiwei	Nil
<i>Independent Non-executive Directors</i>	
He Ning	64,000
Zheng Zhijie	64,000

Save as disclosed above, there are no existing or proposal service contracts with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at any time during the year or at the end of the year.

DIRECTORS' INTERESTS IN SHARES

During the year, share options to subscribe for 1,200,000 and 800,000 respectively shares of HK\$0.05 each in the capital of the Company were granted to Dr. Chen Yuhong and Mr. Peng Jiang respectively of the Group pursuant to the share option scheme of the Company adopted on 2nd June, 2003 with details as set out below:

Exercise period

Begins	Ends	Exercise price per share	Number of shares exercisable
13/08/2004	12/08/2013	HK\$0.58	25% of the total number of share options granted
13/08/2005	12/08/2013	HK\$0.58	25% of the total number of share options granted
13/08/2006	12/08/2013	HK\$0.58	25% of the total number of share options granted
13/08/2007	12/08/2013	HK\$0.58	25% of the total number of share options granted

Save as disclosed above, the Directors have no interests and 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 (Chapter 571 of the Laws of Hong Kong) (the "SFO") which have been 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 have been required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which have been required, pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange as at 31st December, 2003.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the year ended 31st December, 2003, none of the Directors was granted options to subscribe for shares of the Company. Save as disclosed above, as at 31st December, 2003, none of the Directors had any rights to acquire shares in the Company.

SHARE OPTION SCHEME

The Company has conditionally adopted the share option scheme. A summary of the principle terms and conditions of the share option scheme are set out in the section headed "Share Options" in Appendix IV of the Prospectus.

Share options to subscribe for in aggregate 11,040,000 shares of HK\$0.05 each in the capital of the Company were granted to certain directors and employees of the Group pursuant to the aforesaid share option scheme with details as set out below:

Exercise period

Begins	Ends	Exercise price per share	Number of shares exercisable
13/08/2004	12/08/2013	HK\$0.58	25% of the total number of share options granted
13/08/2005	12/08/2013	HK\$0.58	25% of the total number of share options granted
13/08/2006	12/08/2013	HK\$0.58	25% of the total number of share options granted
13/08/2007	12/08/2013	HK\$0.58	25% of the total number of share options granted

Save as disclosed above, no option has been granted, exercised and lapsed pursuant to such share option scheme up to 31st December, 2003.

SUBSTANTIAL SHAREHOLDERS

So far as known to the Directors, as at 31st December, 2003, the following, not being a Director, have an interest or short position in the equity securities or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group, or substantial shareholders as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in Shares

Name	Types of interests	Number of shares (million)	Approximate percentage of holding
Far Fast Technology International Limited (“Far Fast”) (Note 1)	Corporate	176.89	27.64%
Castle Logistics Limited (“Castle Logistics”) (Note 2)	Corporate	127.60	19.94%
Authorative Industries Limited (“Authorative”) (Note 3)	Corporate	57.49	8.98%
ITG Venture Capital Limited (“ITG”) (Note 4)	Corporate	46.94	7.33%
Prosperity International Investment Corporation (“Prosperity”) (Note 5)	Corporate	39.79	6.22%

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.
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. Castle Logistics has appointed Dr. Chen Yuhong, Mr. Cui Hui and Mr. Peng Jiang as Directors and Mr. Xie Hua, Mr. Chen Yuqing, Dr. Tang Zhenming, Mr. Zhang Chongbin, Mr. Wang Hui, Mr. Chen Pei and Mr. Yu Yongxin to the senior management of the Group. These 10 individuals became shareholders of Castle Logistics on 25th April, 2000.

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

Name	Entire issued share capital of Castle Logistics
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.
4. The entire issued share capital of ITG is beneficially owned by Mr. Zhou Qi.
5. The entire issued share capital of Prosperity is beneficially owned by Mr. Joseph Tian Li.

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 31st December, 2003, or substantial shareholders as recorded in the register required to be kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

COMPETING INTERESTS

Mr. Cui Hui, and executive Director, was interested in approximately 1.34% of the issued share capital of CNTC and also served as a director of CNTC. In addition, Mr. Cui Hui and Dr. Chen Yuhong was appointed as a 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.

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 31st December, 2003 pursuant to Rules 6.35 and 18.63 of the GEM Listing Rules.

Pursuant to the agreement dated 9th 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 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 with written terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 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 during the year ended 31st December, 2003.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures during the year ended 31st December, 2003.

On behalf of the Board

Chen Yuhong

Managing Director

Beijing, 26th March, 2004

This announcement will remain on the “Latest Company Announcements” page on the GEM website for 7 days from the date of its posting.