



CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)



Third Quarterly Report 2003

*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

- Accomplished a net profit of approximately RMB13,607,000 for the nine months ended 30th September, 2003, representing an approximately 69% increase as compared to the corresponding period in 2002
- Achieved a turnover of approximately RMB99,040,000 for the nine months ended 30th September, 2003, representing an approximately 32% increase as compared to the corresponding period in 2002
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September, 2003

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, 2003, respectively, with corresponding figures as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	<i>Notes</i>	For the three months ended 30th September,		For the nine months ended 30th September,	
		2003	2002	2003	2002
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	39,960	21,910	99,040	75,189
Cost of sales		(27,874)	(16,919)	(70,234)	(60,178)
Gross profit		12,086	4,991	28,806	15,011
Other revenue		220	126	388	301
Distribution costs		(1,844)	(1,393)	(4,667)	(2,703)
Administrative expenses		(2,821)	(802)	(6,911)	(3,145)
Research and development costs		(41)	–	(120)	–
Profit from operations		7,600	2,922	17,496	9,464
Finance costs		(210)	–	(210)	–
Profit before taxation		7,390	2,922	17,286	9,464
Taxation	3	(626)	–	(1,301)	–
Net profit before minority interests		6,764	2,922	15,985	9,464
Minority interests		(1,072)	(439)	(2,378)	(1,421)
Net profit attributable to shareholders		5,692	2,483	13,607	8,043
Dividend	4	–	–	–	5,406
Earnings per share – basic	5	RMB0.009	RMB0.005	RMB0.025	RMB0.017

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital RMB'000	Share premium RMB'000	Translation reserve RMB'000	General reserve RMB'000	Enterprise expansion fund RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1st January, 2002	118	42,833	49	-	-	8,937	51,937
Dividend paid	-	(5)	-	-	-	(5,401)	(5,406)
Net profit for the period	-	-	-	-	-	8,043	8,043
Appropriation	-	-	-	970	485	(1,455)	-
At 30th September, 2002	<u>118</u>	<u>42,828</u>	<u>49</u>	<u>970</u>	<u>485</u>	<u>10,124</u>	<u>54,574</u>
At 1st January, 2003	118	42,828	49	970	485	21,490	65,940
Net profit for the period	-	-	-	-	-	13,607	13,607
Capitalisation issues	25,322	(25,322)	-	-	-	-	-
Issue of shares under placement	8,480	45,792	-	-	-	-	54,272
Share issuing expenses	-	(16,960)	-	-	-	-	(16,960)
Exchange difference	-	-	5	-	-	-	5
At 30th September, 2003	<u>33,920</u>	<u>46,338</u>	<u>54</u>	<u>970</u>	<u>485</u>	<u>35,097</u>	<u>116,864</u>

Notes:

1. BASIS OF PRESENTATION

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

2. TURNOVER

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

	For the three months ended 30th September,		For the nine months ended 30th September,	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Solutions	29,149	16,860	73,883	58,209
IT outsourcing	9,186	4,762	22,386	16,120
IT consulting and training services	201	32	979	604
Standalone software product	1,424	256	1,792	256
	39,960	21,910	99,040	75,189

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 ending 31st December 2005 and at the rate of 15% on its taxable profit thereafter.

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

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

4. Dividend

On 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 then shareholders in May 2002.

5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and nine months ended 30th September, 2003 was based on the net profit of approximately RMB5,692,000 and approximately RMB13,607,000 (three months and nine months ended 30th September, 2002: net profit of approximately RMB2,483,000 and RMB8,043,000) divided by the weighted average number of shares issued during the three months ended 30th September, 2003 of 640,000,000 shares (2002: 480,000,000 shares) and nine months ended 30th September, 2003 of 539,780,000 shares (2002: 480,000,000 shares) as if the sub-division of the Company's shares as described in Appendix IV 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 is not presented for the three months and nine months ended 30th September, 2003 and 2002 as there were no potential dilutive securities in existence during the relevant periods.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September, 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results

The Group has achieved a substantial growth in the operational results for the nine months period ended 30th September 2003. 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-Audit and the e-Park projects. As a result, new contracts were made during the first nine months of 2003 with the National Audit Office, the Dalian ETDA and the Guangzhou ETDA of the PRC. For the three months ended 30th September, 2003, the Group generated revenue of approximately RMB39,960,000 and a net profit of approximately RMB5,692,000. This represents a growth of 129% in net profit compared to the same period in the previous year. For the nine months ended 30th September, 2003, the Group generated revenue of approximately RMB99,040,000 and a net profit of approximately RMB13,607,000, representing a 69% growth in net profit. Of which, the revenue increased in IT outsourcing was due to the increase in demand and procurement of outsourced IT hardware and software from the large-sized telecom customers of the Group, whilst the revenue increased in standalone software product was due to our successful promotion of the software products to the tobacco market in the PRC. By compared with last period, the increase in gross profit margin for the nine months ended 30th September, 2003 from 20% to 29% was due to high gross profit margin of solution contracts such as e-Park in Dalian ETDA and e-Audit in State Audit Office were signed and completed during that period. The distribution costs for the period were approximately RMB4,667,000, an increase of approximately 73% from the last period. The increase in distribution costs was mainly due to the expansion of the Group's sales and marketing team from 28 to 48 personnel during the period. The administrative expenses for the period was approximately RMB6,911,000, an increase of approximately 120% from the last period. The increase in administrative expenses was mainly due to the further expansion of human resources from 16 to 27 personnel in administration and additional rental expenses incurred for the new Hong Kong office during the current period.

BUSINESS REVIEW

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 for the State Tobacco Control Bureau; (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) a wholly owned subsidiary was set up in Guangzhou. All these point to our further strengthening of the e-government business and a significant step being made in the development of the Group's business in PRC.

Successful development of e-tobacco solution and obtained sales order from the State Tobacco Control Bureau

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 R&D 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 digitalisation 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" is a decision controlling system for regulating the tobacco market and strengthening the monopolized tobacco sale through data integration of the industry. The "Tobacco Production and Operation Decision Management Subsystem" has been recognized by the experts of the State Tobacco Control Bureau. The Group believes that by obtained sales order of e-tobacco from the State Tobacco Control Bureau, the Group will achieve new force of profit growth.

Gaining of customers' confidence in the Group's e-Audit solution

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 CS&S is recognized for its technology and service quality, and that the Group had gained customers' confidence in its "e-Audit solution". CS&S 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 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 Economic and Technology Development Zone, Dalian Development Zone, Guangzhou Development Zone, Suzhou Industrial Park, Beijing Economic and Technology Development Zone, Harbin Economic and Technology Development Zone, Guangzhou Nansha Development Zone and Langfang Economic and Technology Development Zone. According to the PRC Economic and Technology Special Regions and Development Zones Yearbook 2000-2001, Tianjin Economic and Technology Development Zone, 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 Chinasoft 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. 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.

Establishment of wholly-owned subsidiary in Guangzhou

In strengthening the sales 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) was 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) is expected to increase the future business scale and profitability of the Group.

FUTURE PROSPECTS

e-government construction in the PRC is in an unprecedented prosperous development trend. The IT industry was fully supported by the state government's policies and the environment for e-government continues to improve. The e-government construction in the PRC has passed the introductory stage and moved on to the implementation stage. Solid results has been seen but the PRC still falls behind other advanced western countries regarding e-government development. In other word, there is great potential for further growth and the e-government construction in the PRC will be more focused on practicability and large scale projects. In the years ahead, investment in the building of e-government in the PRC will gradually reach its peak as the huge potentials of the e-government market in the PRC gradually unfolds. Given such business 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:

- to capture the business opportunities in e-government and explore new domains in the e-government industry for accelerating business growth;
- upon its successful development of e-tobacco for the State Tobacco Control Bureau in the tobacco industry, establish its dominant position in the tobacco industry by fully capitalizing on the Group's technological and brand advantages;
- to continue to step up the research and development and marketing of e-Park solution so as to enlarge the market share and consolidate the competitive advantages;
- 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 China and further secure the Group's favourable position in the high-end consultancy market of e-government in the PRC; and
- to continue to seek investment opportunities to form strategic alliances and/or business collaborations in respect of technology and marketing with well-known IT corporations and system integrators/consultants.

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 Chinasoft 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.

DIRECTORS' INTERESTS IN SHARES

During the period, share options to subscribe for in 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 2 June 2003 with details as set out below:

Exercise Period		Exercise Price per share	Number of Shares exercisable
Begins	Ends		
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 30th September, 2003.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the nine months ended 30th September, 2003, none of the Directors was granted options to subscribe for shares of the Company. Save as disclosed above, as at 30th September, 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		Exercise Price per share	Number of Shares exercisable
Begins	Ends		
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 30th September, 2003.

SUBSTANTIAL SHAREHOLDERS

So far as known to the Directors, as at 30th September, 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 30th September, 2003, or substantial shareholders as recorded in the register required to be kept by the Company under section 336 of the SFO.

COMPETING INTERESTS

Mr. Cui Hui, and executive Director, was interested in approximately 1.34% of the issued share capital of CNTC and also served as a director of CNTC. 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 30th September, 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 2 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 nine months ended 30th September, 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 nine months ended on 30th September, 2003.

On behalf of the Board

Chen Yuhong

Managing Director

14 November, 2003, Beijing