



中软国际

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8216)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR 2004

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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 RMB35,533,000 for the year 2004, representing an approximately 47% increase as compared with that of the corresponding period in 2003
- Achieved a turnover of approximately RMB293,896,000 for the year 2004
- The Directors recommend the payment of a final dividend of HK\$0.01 per share for the year 2004

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 2004, with corresponding figures as follows:

CONSOLIDATED INCOME STATEMENT

		2004	2003
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	293,896	166,055
Cost of sales		<u>(212,294)</u>	<u>(117,050)</u>
Gross profit		81,602	49,005
Other operating income		802	765
Distribution costs		(9,883)	(5,900)
Administrative expenses		(29,550)	(12,251)
Amortisation of intangible assets		(702)	(160)
Amortisation of goodwill		<u>(977)</u>	<u>–</u>
Profit from operations		41,292	31,459
Finance costs		(104)	(497)
Share of result of an associate		1,249	–
Release of negative goodwill of an associate		<u>19</u>	<u>–</u>
Profit before taxation		42,456	30,962
Taxation	3	<u>(3,917)</u>	<u>(2,735)</u>
Profit before minority interests		38,539	28,227
Minority interests		<u>(3,006)</u>	<u>(4,110)</u>
Net profit for the year		<u>35,533</u>	<u>24,117</u>
Dividend	4	<u>6,784</u>	<u>–</u>
Earnings per share	5		
Basic		<u>RMB0.0537</u>	<u>RMB0.0427</u>
Diluted		<u>RMB0.0532</u>	<u>RMB0.0426</u>

CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	2004 RMB'000	2003 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		11,682	8,520
Intangible assets		14,909	3,499
Goodwill		27,226	–
Interest in an associate		1,658	–
Loans to employees		–	953
		<hr/> 55,475 <hr/>	<hr/> 12,972 <hr/>
Current assets			
Inventories		34,485	7,290
Trade and other receivables	6	163,955	75,460
Amount due from a related company		1,978	2,500
Loans to employees		310	78
Pledged bank deposits		1,093	743
Bank balances and cash		74,029	84,074
		<hr/> 275,850 <hr/>	<hr/> 170,145 <hr/>
Current liabilities			
Trade and other payables	7	100,321	26,753
Bills payable		28,414	2,948
Amount due to a shareholder		50	50
Dividend payable to shareholder		498	–
Dividend payable to minority shareholder of a subsidiary		–	1,500
Bank loans – unsecured		–	10,000
Taxation payable		1,426	1,163
		<hr/> 130,709 <hr/>	<hr/> 42,414 <hr/>
Net current assets		<hr/> 145,141 <hr/>	<hr/> 127,731 <hr/>
Total assets less current liabilities		<hr/> 200,616 <hr/>	<hr/> 140,703 <hr/>
Non-current liabilities			
Deferred tax liabilities		1,221	410
Minority interests		–	14,182
		<hr/> 199,395 <hr/>	<hr/> 126,111 <hr/>
Capital and reserves			
Share capital		36,968	33,920
Reserves		162,427	92,191
		<hr/> 199,395 <hr/>	<hr/> 126,111 <hr/>

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 1 January 2003	118	42,828	49	970	485	21,490	65,940
Capitalisation issue of shares	25,322	(25,322)	–	–	–	–	–
New issue of shares	8,480	45,792	–	–	–	–	54,272
Expenses incurred in connection with the issue of new shares	–	(18,218)	–	–	–	–	(18,218)
Net profit for the year	–	–	–	–	–	24,117	24,117
Appropriations	–	–	–	104	104	(208)	–
At 31 December 2003	33,920	45,080	49	1,074	589	45,399	126,111
New issue of shares	3,048	41,446	–	–	–	–	44,494
Exchange differences arising from translation of overseas operations and net gain not recognised in the consolidated income statement	–	–	41	–	–	–	41
Net profit for the year	–	–	–	–	–	35,533	35,533
Appropriation	–	–	–	176	–	(176)	–
Dividend for 2003 paid	–	(1,341)	–	–	–	(5,443)	(6,784)
At 31 December 2004	<u>36,968</u>	<u>85,185</u>	<u>90</u>	<u>1,250</u>	<u>589</u>	<u>75,313</u>	<u>199,395</u>
Attributable to an associate:							
At 31 December 2004	<u>–</u>	<u>–</u>	<u>–</u>	<u>176</u>	<u>–</u>	<u>997</u>	<u>1,173</u>

CONSOLIDATED CASH FLOW STATEMENT

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Cash flows from operating activities	24,464	10,812
Cash flows from investing activities	(16,764)	(7,063)
Cash flows from financing activities	(17,786)	45,474
Net (decrease) increase in cash and cash equivalents	(10,086)	49,223
Cash and cash equivalents at beginning of the year	84,074	34,851
Effect of foreign exchange rate changes	41	—
Cash and cash equivalents at end of the year representing bank balances and cash	<u>74,029</u>	<u>84,074</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 Institute of Certified Public 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.

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Solutions	240,820	114,888
IT outsourcing	34,286	45,247
IT consulting and training services	6,298	2,629
Sale of standalone software and hardware products	12,492	3,291
	<u>293,896</u>	<u>166,055</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 Technology Limited (“Beijing Chinasoft”), a wholly owned operating subsidiary of the Group, has been designated as an advanced technology enterprise and is entitled to the three year’s exemption from income tax followed by three years of 50% tax reduction commencing from the first-profit-making year with effect from 2000.

Beijing Chinasoft is subject to the income tax computed at the rate of 7.5% for the three years 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 year as the assessable profit of the Group was wholly absorbed by tax losses brought forward.

During the year, the Group has made provision for deferred taxation arising from the temporary differences in respect of development costs.

4. DIVIDEND

On 26 April 2004, the Company declared a final dividend of HK\$0.01 (equivalent to RMB0.0106) per share amounted to HK\$6,400,000 (equivalent to RMB6,784,000) for the year ended 31 December 2003 to its shareholders. The amount was paid to its shareholders in May 2004.

A final dividend of HK\$0.01 (equivalent to RMB0.0106) per share amounted to approximately RMB6,975,000 has been proposed by the directors and is subject to approval by the shareholders in general meeting.

5. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of RMB35,533,000 (2003: RMB24,117,000) and on the weighted average number of 661,267,123 shares (2003: 565,041,096 shares) in issue during the year.

The computation of diluted earnings per share for the year is as follows:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Earnings for the purpose of calculating diluted earnings per share	<u>35,533</u>	<u>24,117</u>
	Number of shares	
	2004	2003
Weighted average number of shares for the purposes of calculating basic earnings per share	661,267,123	565,041,096
Effect of dilutive potential shares issuable under the Company’s share option scheme	<u>6,593,918</u>	<u>459,283</u>
Weighted average number of shares for the purposes of calculating diluted earnings per share	<u>667,861,041</u>	<u>565,500,379</u>

6. TRADE RECEIVABLES

An aged analysis of trade receivables is as follows:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
0 - 90 days	65,317	31,906
91 - 180 days	17,073	8,691
181 - 365 days	20,480	14,865
1 - 2 years	16,108	5,339
over 2 years	1,226	—
	<u>120,204</u>	<u>60,801</u>

7. TRADE PAYABLES

An aged analysis of trade payables is as follows:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
0 - 90 days	59,486	15,248
91 - 180 days	9,876	5,553
181 - 365 days	5,783	1,881
1 - 2 years	2,991	—
over 2 years	—	50
	<u>78,136</u>	<u>22,732</u>

8. CAPITAL COMMITMENTS

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

9. RELATED PARTY TRANSACTIONS

- (i) During the years ended 31 December 2004 and 2003, the Group had the following significant transactions with the following related parties:

	<i>Notes</i>	2004 RMB'000	2003 RMB'000
Purchase 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
– 中國軟件與技術服務股份有限公司 (Chinasoft National Software and Service Company Limited) (“CNSS”) (formerly known as 中軟網絡技術股份有限公司 (Chinasoft Network Technology Company Limited) (“CNTC”) and its subsidiaries	<i>(b) & (c)</i>	–	376
– 中軟總公司計算機培訓中心 (CS&S Computer Tech. Training Centre)	<i>(b)</i>	–	378
Sales of computer software products			
– CS&S	<i>(a)</i>	–	7,488
Building 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	484
Rental expenses			
– CS&S	<i>(a)</i>	<u>1,264</u>	<u>715</u>

All other transactions were carried out in accordance with the terms of the relevant agreements.

Notes:

- (a) CS&S was a holding company of a shareholder of the Group and the Company from 19 August 2004 to 31 December 2004 and a minority shareholder of a subsidiary of the Group from 1 January 2004 to 18 August 2004 and in 2003.
- (b) CNTC and CS&S Computer Tech. Training Centre were subsidiaries of CS&S in 2003. Beijing Chinasoft Shiyuan Property Management Co., Ltd. was an associate of CS&S.
- (c) Dr. Chen Yuhong, Mr. Cui Hui and Ms. Tang Min, directors of the Company, are also directors of CNSS.
- (ii) Pursuant to an agreement entered into between CS&S and Beijing Chinasoft International Information Technology Limited on 10 December 2003, Chinasoft Beijing acquired 100% of the equity interest of 中軟總公司計算機培訓中心 from CS&S at a consideration of RMB500,000. The acquisition was completed in April 2004.

- (iii) Pursuant to a trademark license agreement (“Trademark Licence Agreement”) entered into between CS&S and the Company on 20 December 2003, CS&S has granted to the Company an exclusive right to use a trademark of 中軟總公司計算機培訓中心 as defined on the Trademark Licence Agreement for a period of 25 years pending registration of such trademark with the Trademark Bureau of the PRC for a consideration of RMB2,000,000. Such amount, which is refundable on unsuccessful registration, has been paid to CS&S and was included in the amount due from a related company at 31 December 2004 and 2003.
- (iv) Pursuant to an agreement entered into between CS&S and Chinasoft International (Hong Kong) Limited (“Chinasoft (HK)”) on 26 March 2004, Chinasoft (HK) acquired 26% of the registered capital of CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd. from CS&S at a consideration of RMB1,465,000.
- (v) Pursuant to an agreement entered into between China National Computer Software & Technology Service Corporation (Hong Kong) Limited (“CS&S (HK)”), a subsidiary of CS&S, and Chinasoft (HK) on 24 June 2004, Chinasoft (HK) acquired an additional interest of 15% of the registered capital of Beijing Chinasoft International Information Technology Limited from CS&S (HK). The consideration of the acquisition was satisfied by the allotment and issue of 57,500,000 new shares of the Company of HK\$0.05 each to CS&S (HK). The acquisition was completed on 19 August 2004. The acquisition constituted a connected transaction of the Company under the GEM Listing Rules as CS&S (HK) is a connected person of the Group at the subsidiary level. The independent non-executive directors of the Company considered that the terms of the acquisition were fair and reasonable to the Company and its shareholders as a whole, and the acquisition was approved by the shareholders at the extraordinary general meeting on 3 August 2004.

The directors of the Company are of the opinion that the above transactions were conducted under normal commercial terms and 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 and hardware products. These divisions are the basis on which the Group reports its primary segment information.

(i) Segment information about these businesses for the year ended 31 December 2004 is presented below:

Income statement

	Solutions <i>RMB'000</i>	IT outsourcing <i>RMB'000</i>	IT consulting and training services <i>RMB'000</i>	Sale of standalone software and hardware products <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Turnover	240,820	34,286	6,298	12,492	293,896
Segment result	67,427	4,496	3,572	6,107	81,602
Unallocated other operating income					802
Unallocated corporate expenses					(39,433)
Amortisation of intangible assets					(702)
Amortisation of goodwill					(977)
Finance costs					(104)
Share of result of an associate					1,249
Release of negative goodwill of an associate					19
Profit before taxation					42,456
Taxation					(3,917)
Profit before minority interests					38,539
Minority interests					(3,006)
Net profit for the year					35,533

(ii) Segment information about these businesses for the year ended 31 December 2003 is presented below:

Income statement

	Solutions	IT	IT	Sale of	
	<i>RMB'000</i>	<i>outsourcing</i>	<i>and training</i>	<i>standalone</i>	
		<i>RMB'000</i>	<i>services</i>	<i>software</i>	
			<i>RMB'000</i>	<i>and</i>	
				<i>hardware</i>	
				<i>products</i>	Consolidated
				<i>RMB'000</i>	<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 other operating income					765
Unallocated corporate expenses					(18,311)
Finance costs					(497)
Profit before taxation					30,962
Taxation					(2,735)
Profit before minority interests					28,227
Minority interests					(4,110)
Net profit for the year					24,117

No business segment information for the assets, liabilities, capital additions, depreciation and amortisation 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 segment information of the Group is shown as the operating businesses of the Group are substantially carried out in the PRC and the Group's assets and liabilities are substantially located in the PRC.

11. EMPLOYEE INFORMATION

The remuneration for the employees of the Group amounted to approximately RMB31,341,000, including the directors' remuneration of approximately RMB1,324,000 during year ended 31 December 2004 (2003: approximately RMB14,769,000, including the directors' remuneration of approximately RMB1,165,000). The increase in employee remuneration resulted from the increase in number of employees from 238 to 477 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 31 December 2004 (2003: HK\$0.01).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results

For the year ended 31 December 2004, the Group continued to achieve an impressive result of having a turnover of approximately RMB293,896,000, representing an increase of approximately 77% as compared to the corresponding period in 2003. The Group also achieved a net profit of approximately RMB35,533,000, representing an approximately 47% increase as compared to the corresponding period in 2003. Both remarkable increase in turnover and net profit were attributable to drastic increase in sales orders by the Group's continuous effort in maintain our sound technology capability, market position and positioning in providing e-government solutions, particularly on "e-Tobacco" and "e-Audit". The turnover of the Group is derived from provision of Solutions, IT outsourcing, IT consulting and training and sales of Standalone software product, all of which grew tremendously as compared to corresponding period in 2003 except IT outsourcing. The drop in IT outsourcing is orders from our customers was decreased. The substantial growth in the sales of Standalone software product, which recorded 2.8 times increase, was contributed by the successful promotion and sales of Internet Security Software Product throughout the PRC. While the increase in IT Consulting and Training Services was due to additional revenue contributed by CS&S Computer Tech. Training Centre. By compared with last year ended, gross profit margin was decreased from 29% to 28%, which was resulted from different combination of hardwares and softwares being used in different solutions provided by the Group. The distribution costs for the year were approximately RMB9,883,000, representing an increase of approximately 68% from the last year which was in line with the increase in the Group's turnover. The administrative expenses for the reporting period were approximately RMB29,550,000, an increase of approximately 141% from the last period. The increase in administrative costs was mainly due to (i) the expansion of the Group's Sales forces and technical support staffs and the set up costs for the two newly established offices in Hangzhou and Guangzhou; and (ii) further expansion of human resources in delivery of e-Tobacco solution; and (iii) depreciation of property, plant and equipment. Hence, due to an increase in distribution cost, administrative expenses and amortization of Goodwill and Intangible assets, the net profit margin dropped from 14% to 12%.

Financial Resources and working capital

As at year ended 31 December 2004, shareholders' funds of the Group amounted to approximately RMB199,395,000. Current assets amounted to approximately RMB275,850,000, of which approximately RMB74,029,000 were cash and bank deposits, which includes pledge bank deposits. The Group had no non-current liabilities and its current liabilities amounted to approximately RMB130,709,000, mainly its trade and bill payables. The net asset value per share was RMB0.29 and the Group had no bank borrowing as at year ended.

The Group recorded an increase in trade receivables in 2004 as compared to 2003 was in line with the substantial increase in turnover in 2004. As for the credit management, the Group has stringent a credit policy to minimize its credit exposure including credit control, negotiations and discussion with customers, issue of reminders and letters threatening legal action. In view of our credit management and sufficient allowance being provided for doubtful debt, the Group believe that trade receivables will soon be recovered.

During the year ended 31 December 2004, as all major 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 31 December 2004, except a bank deposit pledged with a bank of approximately RMB1,093,000 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 31 December 2004, the Group did not have any material contingent liabilities.

No subsequent events occurred after 31 December 2004, 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. Save as disclosed herein, 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.

Major area stated in the Prospectus	Intended use of proceeds stated in the Prospectus up to 31st December, 2004 <i>HK\$' million</i>	Actual amount used up to 31st December, 2004 <i>HK\$' million</i>	Unused balance <i>HK\$' million</i>
1. Development of new and enhancement of the Group's existing solutions	7.00	7.00	—
2. Development of new standalone software products and enhancement of the Group's existing solutions	7.00	7.00	—
3. Development of business of IT consulting and training business	1.50	2.50	—
4. Development of business of IT outsourcing	2.00	2.00	—
5. Sales and marketing	3.10	3.10	—
	<u>20.60</u>	<u>21.60</u>	<u>—</u>

BUSINESS REVIEW

The Group achieved remarkable operating results for 2004, of which the details are as follows:

I. In the aspect of business:

1. Established an informational and strategic partnership with the State Tobacco Control Bureau in tobacco sector, a fact that the Group had gained a leading position in tobacco sector.
2. Entrusted by the State Audit Office, successfully developed Audit Management System and On-site Audit Implementation System and launched national promotion.
3. Actively developed e-Insurance Project and promptly gained competitive advantages in some provinces.
4. In emerging markets of new rural cooperative medical scheme and low insurance premiums of civil affairs scheme, took part in formulating industry's standards and pilot project construction, becoming a market leader.

5. Entrusted by the State Administration of Quality Supervision, Inspection and Quarantine to prepare the feasibility research report of e-Quality Project and entered the core of the e-Quality Project.
6. Cyber Resources, an associated company of the Group, won the bid for the outsourcing project of the Customer Service Centre of Panasonic, marking a new progress in outsourcing business.
7. Promoted the “Domestic Resident Marriage Registration Information System” across the country.
8. Undertook the construction of the digital park of Xian High-Tech Development Zone, representing a further achievement in the business of e-park.
9. Established a strategic partnership with ISS and started the agency business of ISS security products.

II. Acquisition and Invitation

1. Successfully acquired CS&S Computer Tech. Training Centre.
2. Successfully acquired 26% equity interest of Cyber Resources.
3. Acquired the remaining entire equity interest of Beijing Chinasoft.
4. Invited the core team of tobacco technology of 北京金葉軟體技術開發有限公司 (Beijing Jinye Software Technology Development Company Limited) to join us.
5. Recruited the professional team of tobacco information of 合肥市宇佳軟件技術有限責任公司 (Hefei Yujia Software Technology Company Limited).
6. Recruited the professional team of tobacco information of 昆明方元利科技有限責任公司 (Kunming Fangyuanli Technology Company Limited).

III Research and Development

1. Successfully developed the audit product of Chinasoft Audit, AE, and was establishing direct sales channels and agency channels.
2. The Group continued to develop Chinasoft e-Government middleware – ResourceOne, which was successfully upgraded to V3.0 version.

IV. Awards received:

1. Obtained the State First Class Certificate of Computer Information System Integration.
2. Named by Deloitte as one of the “500 Fastest Growing Hi-tech Enterprise in the Asia Pacific for 2004”.
3. Awarded among “2004 China’s 10 Leading Technology Companies listed overseas”
4. Awarded among “2004 China’s 100 leading e-Government IT Enterprises”.
5. Chinasoft’s e-Government middleware, ResourcesOne, was again accredited as the Number One brand name in terms of e-Government middleware in 2003.

I. In the aspect of business:

1. Established an informational and strategic partnership with the State Tobacco Control Bureau in tobacco sector, a fact that the Group had gained a leading position in tobacco sector

China’s tobacco sector is under the sole monopoly of the State Tobacco Control Bureau (China Tobacco Corporation), forming a monopoly administrative regime of vertical administration and control over sales and operation. The State Tobacco Control Bureau has tobacco control bureaus and tobacco companies at various levels of provinces, prefectures and counties across the country. Because the regime is large in scale and the affiliated companies are many, the informationization construction of the tobacco sector has become an important tool for the State Tobacco Control Bureau to administer the production companies and sales companies of tobacco industry. At the same time, based on the “2003-2004 China Software Industry Development and Research Report” issued by China Software Sector Association (中國軟件行業協會), IT investment in China’s tobacco sector amounted to RMB2,300,000,000 in 2003.

- 1) Because the initial informationization construction of the tobacco sector lacks unified planning and investment is decentralized, hardware and software platforms used by various systems are not in line with each other, there is no prevailing technical standard and the systems used by each are incompatible with each other, the State Tobacco Control Bureau is unable to administer each sector of production and sales of the national tobacco sector by way of digital means. As the Group showed outstanding performance in e-Government, the State Tobacco Control Bureau established the strategic partnership with the Group for the informationization construction of the tobacco sector.

According to the design concept of the State Tobacco Control Bureau that “to realize systematic integration and information sharing by way of building a general information platform, general data centre, general code standard and general transmission channel,” the Group first utilized the e-government middleware, ResourceOne, developed by itself to build a general data platform for

all enterprises and departments of tobacco sector, making possible the data transmission and data sharing in the tobacco sector.

Meanwhile, the Group provided customized development to the State Tobacco Control Bureau on the basis of ResourceOne and designed and developed the “Tobacco Production and Operation Decision Management System,” the construction of which will achieve the following goals:

- To realize the integration of industrial and commercial data of tobacco sector and building a general information integration platform. To obtain the information in relation to the volume of production, price, inventory, costs, volume of sales and sales destination of tobacco production and operation in a complete, timely and accurate manner and to realize automatic integration and generation of basic data.
- To realize timely and effective control and management of production and operation of cigarettes and assure scientific and timely decision management in production and operation.
- To compile daily report on production and operation data of cigarettes of the sector and to establish the functions of gathering, inquiry, analysis, assessment, appraisal, pre-warning and decision support of the volume, price, structure and costs of cigarette products so as to technically support the daily tracking of the running of the sector’s economy, the analysis of sector’s economy in every ten days of a month and the deployment in every month.

“The Tobacco Production and Operation Decision Management System of the State Tobacco Control Bureau” is a decision and command system of cigarette production and operation of the tobacco sector established on the basis of integration of industrial and commercial data of tobacco sector for regulating the order of cigarette market economy and strengthening the management of the control in cigarettes sales. The major functions of the system include:

- i. To install the Tobacco Production and Operation Decision Management System in the State Tobacco Control Bureau and its affiliated industrial enterprises and commercial enterprises of cigarettes;
- ii. To establish nationwide data sharing system based on the Internet so as to realize data inter-transmission among the State Tobacco Control Bureau and its affiliated industrial enterprises and commercial enterprises of cigarettes;
- iii. To provide users with the training in IT technology and the operation and use of this system.

As the affiliated enterprises of tobacco sector are many, the Group will carry out promotion in tobacco sector in stages:

- i. The first phase project of the Tobacco Production and Operation Decision Management System of the State Tobacco Control Bureau: The Group entered into promotion contracts

with the State Tobacco Control Bureau and its 36 key affiliated industrial enterprises and commercial enterprises in the first quarter and has prepared for the installation of “the Tobacco Production and Operation Decision Management System of the State Tobacco Control Bureau” in the above enterprises.

ii. The second phase project of the Tobacco Production and Operation Decision Management System: based on the successful promotion of the first phase project, the State Tobacco Control Bureau starts the deployment and implementation of the system in other minor industrial and commercial enterprises. In order to further meet the requirement of the general setup proposal for “planned access to codes, logistics tracking and confirmation upon delivery of goods” of the State Tobacco Control Bureau, The State Tobacco Control Bureau convened the meeting of implementing the second phase project of the Tobacco Production and Operation Decision Management System, on which the Group was acknowledged to be the general system integrator for the second phase in charge of implementation of the system. The Group promoted the Tobacco Production and Operation Decision Management System to 61 other minor commercial enterprises, 27 at provincial level and 351 branch companies at prefecture and municipal levels, involving 121 factories/production outlets, 433 branch companies of sales and 33 companies at provincial department level. Meanwhile, the Group updated industrial and commercial data gathering function of the 36 industrial enterprises and 36 commercial enterprises which was already implemented in the first phase. The meeting decided that during the second phase project each of the bureau (company) of the province took charge of implementation of the system in its affiliated commercial and industrial enterprises:

- Each industrial enterprise will go to Beijing in different batches to enter into business contracts with the Group at the request of the State Tobacco Control Bureau and under the arrangement of bureaus (companies) and industrial companies at provincial level.
- For the business contract of sales companies, bureaus (companies) at provincial level will enter into a general contract for commercial implementation with the Group, which will include the sub-contract for the implementation in each branch commercial enterprise. The bureaus (companies) at provincial level will collect the payment of project from each branch commercial enterprise (or commercial enterprises at provincial level that possess the legal right to operate tobacco business) on the relevant terms of the general contract and sub-contract and make payment for all of them to the Group according to the progress.

2) In order to enhance office informationization of the tobacco sector and establish a close working relationship with the Group, the State Tobacco Control Bureau also enter into the “Contract for the construction of the First Phase Project of Office Automation System of the State Tobacco Control Bureau.” This project provided many personalized functions to the State Tobacco Control Bureau, including:

- Flow of official documents
- Online approval
- Information portal
- Online bidding, etc.

The implementation of this project will raise the work efficiency of the State Tobacco Control Bureau. The Group plans to promote this resolution to the whole country.

2. Entrusted by the State Audit Office, the Group successfully developed and promoted the Audit Management System and the On-site Audit Implementation System

The “e-Audit Project” is the abbreviation for the project of audit information-based system construction, which is one of 12 key business systems defined in the “Guiding Opinion on the Construction of e-Government of Our Country of the State Informationization Leading Group” and the first State e-Government construction project approved pursuant to the State’s infrastructure procedures.

During the period of the report, the Group completed the customized development for the State Audit Office and successfully developed the application system of the “e-Audit System,” which consisted of two major systems: Audit Management System (OA System) and Audit Implementation System (AO System); of which Audit Implementation System is subdivided into On-site Audit Implementation Software and Inter-Network Audit Implementation Software.

In the meantime, the Group was entrusted by the State Audit Office to promote the e-Audit Project across the country.

- 1) In order for the auditors to better use the Audit Management System and the On-site Audit Implementation System developed by the Group, the Group entered into a service contract with the State Audit Office to set up a service centre of e-Audit Project. Through telephone service and website service of this service centre, the Group provided technical consultation service to auditors and auditing technicians under the State’s audit system, so that the auditing staff using the Group’s solution may be familiarized with the system as soon as possible.
- 2) The Group entered into contracts with the State Audit Office to construct and update the basic software environment for its affiliated bodies at the provincial level, so as to solve the problems arising from the differences of existing infrastructures and implementation environments in different places.
- 3) The Group entered into business contracts with the audit offices of Guangdong, Hubei, Zhejiang Provinces and Chongqing as well as Hangzhou City, the provincial capital of Zhejiang Province to promote the Audit Management System and On-site Audit System. In the meantime, the Group

signed service contracts with above-mentioned audit bodies, and released over 20,000 pieces of the On-site Audit Implementation Software. The Group plans to perform all-aspect promotion in 31 provinces and municipalities across the country and their affiliated 332 regions and 2,860 counties and districts. As an industry's leader of the e-Audit Project as well as the sole general service provider recognized by the State Audit Office, the Group will also enter into service contracts with the audit bodies of these provinces, municipalities and counties, which will generate stable income each year for the Group.

- 4) While promoting the On-site Audit Implementation System, the Group was already involved in networked audit, laying a foundation for the promotion of the second phase e-Audit Project.
3. Actively developed e-Insurance Project and promptly gained competitive advantage in some provinces.

The “e-Insurance Project” is the short name of the National Labour Security Information System. The Group will establish an integrated, efficient, convenient and practical information system across the country, which is comprised by two main systems – social insurance and labour market – which have the features of handling of business, public service, fund control and management and decision support.

During the reporting period, the Group undertook:

- 1) the e-Insurance Project of Tongren City of Guizhou Province. This project provided the state-of-the-art “5-in-1 insurance in system” to Tongren City, which comprises insurances for retirement, unemployment, medical care, industrial injury and birth, which is different from the original e-Audit Project that usually divided the 5 insurances into different systems where there were no mutual coverage and sharing among these systems, causing waste of resources and low efficiency. Meanwhile, this system which the Group developed for Tongren City is the first social insurance management information system developed by using the technical standard of the second version of the core platform of the social insurance management information system in Guizhou Province. This project covered 8 counties, 1 district and 1 city under the Monopoly of Tongren City.
- 2) The e-Insurance Project of Xinxiang City of Henan Province. In order to meet the objective of “5-in-1 insurances system,” the Group will renovate and update the original e-Insurance Project of Xinxiang City, enabling the “5 insurances” to be used both independently and with mutual connection and coverage. In the second phase of the project, the Group will provide users with customized development according to the new “5 insurances” policy so as to highlight its service principle of creating convenience for people and high efficiency. Meanwhile, the system will create an integrated system connecting the network settlement system with designated medical institutions, designated drugstores and the information system of China Life Insurance Company, Xinxiang Branch.

4. In emerging markets of new rural cooperative medical scheme and low insurance premiums of civil affairs, the Group took part in the setting of industry's standards and pilot project construction, becoming a market leader.

The new type rural cooperative medical scheme, aimed at the improvement of rural social security system, was set up on the basis of joint contribution made by the State from its financial resources and by the farmers with the feature of providing assistance for farmers who have serious disease.

China plans to basically establish relatively comprehensive rural social security system by 2010, which is planned to converge with the urban social security system by 2015. As at August 2004, a total amount of RMB3,020,000,000 was raised for the new type of rural cooperative medical schemes, covering a rural population of 95,040,000. As a major country in agriculture, there exists a substantial demand for the construction of an information system for the new rural cooperative medical scheme.

During the reporting period, the Group completed the development and implementation of the new type of rural cooperative medical scheme management information system of Xiaoshan District of Hangzhou City, Zhejiang Province. Through the system developed by the Group, 870,000 farmers of 18 towns and villages as well as 4 streets of the whole Xiaoshan District are able to visit doctors and to be hospitalized for medical treatment in 10 medical institutions and the office of medical service of the health care bureau in the entire district by presenting their medical cards, showing that an orderly new type cooperative medical service is in place by now. As the first new type of rural cooperative medical system at district level with network connection, the system developed by the Group has been stable and reliable since the beginning of its operation.

The development and implementation of the "new type of rural cooperative medical scheme" performed by the Group, the experience of its pilot operation and the relevant information system construction were highly appraised by the Vice Minister of Public Health of the PRC, Zhu Qingsheng, leaders of the Department of Rural Public Health of the Ministry of Public Health, the Department of Public Health and the Department of Finance of Zhejiang Province. The inscription of the "Feature of New Type Rural Cooperative Medical Scheme of Xiaoshan" written by the Vice-Minister, Zhu Qingsheng just indicated that the new type rural cooperative medical scheme in Xiaoshan has perfect computer management information system and scientific and up-to-date management means.

5. Entrusted by the State Administration of Quality Supervision, Inspection and Quarantine to compile the feasibility research report on e-Quality Project, being the core of the e-Quality Project.

The e-Quality Project aimed at gradually realizing online administrative approval, computerized Monopoly and administration, intelligent support for decision, standardization of handling business, automatic information exchange and release by fully using the exterior net of the State's e-government and existing information resources and by way of construction of "one net, one database and three systems" (platform of hardware and software for quality inspection, network platform, quality inspection business database group, quality supervision and management system, quality inspection business application and approval system and quality inspection information service system) so as to

enhance the level of administrative enforcement of quality inspection, supervision and quarantine in all aspects, to raise the capacity of regulating market and quick response to the monitoring of quality and safety as well as to improve the administration of quality inspection.

The construction of the e-Quality Project will include the construction of a network system and an application system in relation to 16 types of applications, including inspection, quarantine, quality control, quality management, certification, acknowledgement, standardization, measuring and many other business, and subscribers include nearly 4,000 internal bodies of quality inspection institutions, the public and enterprises.

Entrusted by the State Administration of Quality Supervision, Inspection and Quarantine, the Group prepared the feasibility research report on e-Quality Project (first phase), which indicates that the period of construction of the first phase of the project is two years. Construction details include:

- 1) To improve the LAN of the nodes at various locations
 - 2) To build the State's standard information database
 - 3) To build national quality inspection business monitoring system, quality inspection business report and approval system and quality inspection information service system
 - 4) To build the security system such as protection, assessment, audit control and management, etc. Meanwhile, to perform the formulation of relevant standards, renovation of engine rooms and personnel training, etc.
6. Cyber Resources, an associated company of the Group, successfully bid the outsourcing project of the Customer Service Centre of Panasonic, marking a new progress in outsourcing business.

During the reporting period, the Group made a new breakthrough in the outsourcing consultation business. CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd., a company especially involved in outsourcing business and acquired 26% equity interest by the Group during the reporting period, won the bid for the outsourcing project of the Customer Service Centre of Panasonic (China) Company Limited (hereinafter referred to as Panasonic) during the reporting period and signed the business contract. Pursuant to the contract, Panasonic shall use the customer service experts, equipment and relevant resources of the Group in combination with the ancillary facilities of Panasonic at the location provided by Panasonic to provide the clients of Panasonic with a package of services for 7 X 12 hours and 365 days (including public holiday) on behalf of Panasonic by various means (including telephone, facsimile, conventional mail, e-mail and web).

7. Promoted the "Domestic Resident Marriage Registration Information System" across the country.

During the reporting period, the Group was entrusted by the Ministry of Civil Affairs to provide customized development for its affiliated Department of Basic Regime and Community Construction and the Information Centre of the Ministry of Civil Affairs. The “Domestic Resident Marriage Registration Information System” was developed on the basis of the “Foreigner-related Marriage Registration Information System” originally developed by the Group for the Ministry of Civil Affairs. Development details include:

- Marriage registration
- Information inquiry
- Archive management
- Comprehensive statistics

The Ministry of Civil Affairs may make inquiry conveniently on the status of marriage and present certificate of marriage registration status through this system.

During the reporting period, the Group will promote this system in over 2,860 districts and counties across the country.

8. Undertook the construction of the digital park of Xian High-Tech Development Zone, representing a further achievement in the business of e-park.

The e-Park solution of the digital park as an important solution provided by the Group to the clients of local government has been assuming the leading position in the sector. The Group won the bid for the construction the digital park of Xian High-Tech Development Zone in the fourth quarter and hence would provide coordinated office work system to the administrative commission of Xian High-Tech Development Zone. Based on the overall construction principle of “centralized designing, centralized maintenance, construction in separate phases and gradual improvement, “ the coordinated office work system was first implemented in the overall designing and meanwhile, it was also the basis and core of other items. Details are as follows:

- (1) Coordinated office work platform: the public platform in support of business development
- (2) Internal portal: implementation integration and content integration
- (3) General office work: general administrative office work system with the functions of government administration, official document administration, etc.
- (4) Office work for business: business functions in relation to the management process of projects entering the zone, prioritized project management, enterprise information management and statistics, technology plan application and report as well as comprehensive statistics

Meanwhile, at the request of Xian High-Tech Development Zone, the Group provided it with the system which had the systematic, practical, expandable, economic, technically sophisticated, mature and secure features.

9. Established a strategic partnership with ISS and started the agency business of ISS security products.

In 2004, China's information security market will exceed RMB20,000,000,000 (according to the forecast of China's software sector association), of which the information security of e-Government will still remain the major segment of the information security of China. The investment in the information security of e-Government will amount to no less than RMB6,450,000,000. As one of the major domestic providers of e-Government, the Group will obtain more opportunities in the area of information security of e-Government.

During the reporting period, the Group became the sole agent for ISS in the Mainland China as was announced on the press conference held by Internet Securities Systems (ISS, NASDAQ: ISSX) in Beijing and the two companies will become strategic partners, signifying the Group's tapping into the information security segment of the market.

ISS is recognized as the most reliable security consultant by the government bodies of 35 countries throughout the world. In addition, it provides the highest level network security system schemes to the largest 21 banks and 9 telecommunication carriers across the United States. It is one of the largest applicable network security system solution providers.

During the reporting period, the Group completed the establishment of the centres of sales and technical service in four cities of Beijing, Hangzhou, Guangzhou and Chengdu covering the whole country. The functions of each centre includes: (1) management of sales channels; (2) consultation of security technology and training centre; (3) contingency response centre and back-up parts warehouse.

II. Merges, Acquisitions and Invitations:

1. Successfully acquired CS&S Computer Tech Training Centre

CS&S Computer Tech. Training Centre (hereinafter referred to as "Chinasoft Training") was established 24 years ago and is the computer training entity established earliest in China and operated with international up-to-date level. It has had approximately 400,000 enrolments of trainees in total since its establishment. In 1999, Chinasoft Training passed the inspection of ISO-9001 International Quality System Authentication, becoming the first domestic computer technology training centre which has passed the inspection of ISO-9001 International Quality System Authentication. Chinasoft Training provided training service to government bodies and enterprises, including Beijing Planning and Development Commission, Jiangsu's provincial government, Nortel Network, Motorola, Coco Cola (China). At the same time, Chinasoft Training conducted IT international certification training within the country for international IT enterprises such as Sun, Microsoft, HP-Compaq, IBM and

Lotus; Chinasoft Training is also the authorized examination centre of two international examination institutes, Prometric and VUE, where trainees of Chinasoft Training may obtain the international authentication certificates issued by the relevant companies and effective worldwide after receiving training and passing an online examination.

2. Successfully acquired 26% equity interest of Cyber Resources.

Cyber Resources, a domestic special software outsourcing business provider, has the long-term stable clients including IBM, HP, Motorola and Panasonic and consistently provides them with secured software development, testing, paging centre and a series of relevant technical services. In order to provide the service satisfying clients, Cyber Resources formed a strong technical team comprising nearly 200 engineers. Meanwhile, Cyber Resources passed the inspection of ISO9001 authentication and the second class CMM authentication, fully demonstrating that the company holds a leading position in the sector. By way of acquiring 26% equity interest of Cyber Resources, the Group has represented the relatively large position.

3. Acquired the remaining entire equity interest of Beijing Chinasoft

Beijing Chinasoft is the major profitable subsidiary of the Group. In order to strengthen its control over this company, the Group decided to acquire the remaining entire equity interest of Beijing Chinasoft held by CS&S (HK) (before this event, CS&S already transferred the equity interest of Beijing Chinasoft held by it to its subsidiary, CS&S(HK) in March 2004). All shareholders voted at the general meeting in favour of acquiring the remaining entire equity interest of Beijing Chinasoft held by CS&S (HK) at a consideration by issuing 57,500,000 new shares of Chinasoft International Company Limited (HKGEM:8216) to CS&S (HK).

Prior to this acquisition, only 85% of revenues of Beijing Chinasoft was presented in the comprehensive financial operating results, but after the acquisition, all operating results of Beijing Chinasoft will be combined with the Group's financial operating results. So, this acquisition may also increase the Group's profits speedily, actively boosting the future development of the Group.

CS&S (HK) is a subsidiary of CS&S, a well-known software company in the Mainland China, which keeps good relations with the Chinese government. This strategic investment will enhance the reputation of the Group in the area of e-Government.

4. Recruited the professional core team of tobacco technology of 北京金葉軟體技術開發有限公司 (Beijing Jinye Software Technology Development Company Limited).
5. Recruited the professional team of tobacco information of 合肥市宇佳軟件技術有限責任公司 (Hefei Yujia Software Technology Company Limited).
6. Recruited the professional team of tobacco information of 昆明方元利科技有限責任公司 (Kunming Fangyuanli Technology Company Limited).

The above three companies are professional companies which have operated in the sector for a number of years, have extensive experience, understand in depth the requirements of the sector and possess the competitiveness of professional technical teams and core technology. They have stable clients and operating results in the subdivided markets for the construction of an information system for tobacco sector, and have strong influence on the clients of the provinces and cities of their own as well as surrounding provinces and cities. Meanwhile, they compete with the Group in the business of tobacco sector.

For the purpose of strengthening the core competitiveness of the Group in tobacco sector, expanding the technical team of the Group, increasing the Group's Monopoly on localized business of tobacco and consolidating the leading position of the Group in tobacco sector, the Group invited the core technical teams and core personnel of these three companies to join the Group during the reporting period. This effort fast increased the Group's profitability while reducing the competition faced by the Group. It also made preparations for the future localized promotion and service of the Group's tobacco business and other business.

III. Research and Development

1. Successfully developed the audit product of Chinasoft Audit, AE, and was establishing direct sales channels and agency channels.

Chinasoft Audit, the computer accessory software especially provided to internal auditors, was developed in accordance with internal audit business standard, practice of auditors for inspection of accounts and in reference of the experience of the Group gained in the customized development of "On-Site Audit Implementation System" for the State Audit Office. The software is able to collect a variety of business and financial data, provide intelligent pre-warning, process direction audit, automatic generation of work draft and audit report, etc.; to provide various audit calculation tools for the calculation of interest, costs, etc., tools of audit inspection such as inspection on accounts and statements, classified inspection, the audit analysis tools such as graph analysis, analysis of current accounts; it practically increased audit efficiency and reduce the work load of audit while improving the quality of audit and reducing the risk of audit.

The users of the software are professional auditors of audit firms, internal audit divisions of the enterprises and institutions, internal auditors and the divisions and personnel engaged in internal audit and the software is suitable for the internal audit of the units and the audit in divisions.

The major functions are:

Audit plan

Audit item

Audit preparation

Audit performance

Audit termination

Audit support

Possessing strong data collection function, this software is able to pick up financial data from the financial software of different developers and different editions and is also able to collect different business data; meanwhile supports many sorts of collection methods.

The software, Chinasoft Audit, is another software product with independent intellectual property right launched by the Group. As a software package, the Group will leverage the Group's influence in the sector to sell this software to launch sales through various branches of the Group on one hand and to promote this software across the country through existing partners and newly established channels. Hopefully this effort will generate satisfactory revenue to the Group in future.

2. The Group continued to develop Chinasoft e-Government middleware - ResourceOne, which was successfully upgraded to V3.0 version.

ResourceOne has always been the core technological competitive edge of the Company. The current ResourceOne software has fundamentally changed from the previous versions. It has been developed into a platform support package from the original single software and the development architecture has changed from a close source to an open source, which significantly enhances its integration and support capability.

ResourceOne V3.0 mainly comprises the following parts:

- Framework application development integration module
- StarFlow business workflow modeling module
- InfoBus data exchange bus module
- Develop Studio development tool module
- CP3.0 component management centre module

At present, the Group widely adopts ResourceOne and its components in solutions undertaken by the Group, such as the Tobacco Production and Operation Decision Management System of the State Tobacco Control Bureau, the Office Automation System of the State Tobacco Control Bureau, the On-site Audit Management System in the e-Audit Project, the OA System of Xinhua News Agency and the Assessment System of Xinhua News Agency.

IV. Awards received:

1. Awarded the State First Class Certificate for China Computer Information System Integration.

The Certificate of China Computer Information System Integration is issued by the Commission for the Management of Computer Information System Integration Certificate Authentication (hereinafter referred to as Commission), established by the Ministry of Information Industry, which is completely in charge of coordination and administration of qualification authentication. The Commission has the Expert Commission of Computer Information System Integration Qualification Authentication (hereinafter referred to as Expert Commission), which provides technical advice and participates in qualification assessment and review; the Working Office of Computer Information System Integration Qualification Authentication (hereinafter referred to as Working Office), which is the routine administrative office of qualification authentication in charge of specific work of arrangement and implementation of qualification authentication.

“Measures for the Management of Computer Information System Integration (Trial Implementation)” stipulates:

For the purpose of meeting the need for the construction of an information system and the development of information industry of our country, strengthening the standardizing management of computer information system integration market and guaranteeing the quality of the construction of computer information system, all units involved in computer information system integration must be subject to qualification authentication and obtain the “Computer Information System Integration Qualification Certificate.” Computer information system integration means the overall planning, designing, development, implementation, service and protection of computer application system project and network system project. The qualification of computer information system integration means the comprehensive ability to perform computer information system integration, including technical level, management level, service level, quality assurance ability, technical equipment,

construction quality of system, composition and quality of personnel, operating results, assets status and other elements. All units in need of building computer information system shall select the unit of the computer information system integration holding relevant class of Qualification Certificate to undertake the construction of a computer information system.

The State First Class Certificate of China Computer Information System Integration is the highest class of certificate of China computer information system integration in China, able to undertake the construction of various computer information systems for the institutions of the national, provincial (ministry), sector, prefecture (city) levels (and the levels below) and the enterprises of large, medium and small sizes. Gaining this certificate clearly shows the comprehensive capacity of the Group in the aspect of computer system integration. For this reason, high requirement is set for the technical capacity of the applying company, which mainly includes:

- Having clear system integration business area and rated among top companies in technical capacity and market share in the major business area in the country;
- Having in-depth research on the business process of major business area, basic business software platform or other up-to-date development platform with independent intellectual property right, having software products and tools developed by itself and having applied it in the completed project of system integration;
- Having senior personnel of research and development especially involved in the Development of software or system integration technology as well as corresponding development place and equipment, etc. and having established a sound system for software development and testing;
- Having injected an annual expense of over RMB3,000,000 in research and development.

Gaining this certificate clearly shows not only the Group's strong technical core competitiveness but also the more chances of the Group to win bids in future.

2. Named by Deloitte among "500 Fastest Growing Hi-tech Enterprise in the Asia Pacific for 2004".

Deloitte ("Deloitte") generally means the organization Deloitte Touche Tohmatsu (Deloitte Worldwide) of association nature formed in accordance with the laws of Switzerland and its member institutions/companies and their subsidiaries and associated institutions. Deloitte Worldwide is an organization comprised by many member institutions/companies around the globe and is committed to the provision of excellent professional service and consultation. The global network formed by 120,000 professionals of Deloitte from approximately 150 countries provide professional service to over half of the largest corporations in the globe, nationwide large enterprises, public institutions, local important clients and many fast growing global companies in the four areas of audit, tax service, corporate management consultation and financial consultation.

The “500 Fastest Growing Hi-tech Enterprise in the Asia Pacific for 2004” as assessed and selected by Deloitte is based on the rating of fast growing high-tech companies in the Asia Pacific Region in terms of turnover growth over the past three years. The enterprises in the Asia Pacific Region awarded this time realized 400% growth in income on average in the past three years. In the Asia Pacific Region, 90 China-based (including Hong Kong) enterprises were among the top 500, accounting 18% of the total enterprises selected. Software companies in this year continued to be the leaders in the Asia Pacific Region, accounting for 32% of those on the list, of which 60% of software companies come from China, India and Japan.

The Group ranked 150th, clearly showing that the Group captured international attention and recognition because of its outstanding performance. This also illustrates that the software industry in which the Group operates is at a rapid growing stage in Asia and in particular the PRC. As one of the countries experiencing the fastest economic growth in the world, the PRC has increasing demand for informatization infrastructure and its market capacity is very enormous.

3. Awarded among “2004 China’s 10 Leading Technology Companies listed overseas”.

This assessment and selection was performed by Internet Weekly, a professional journal of information in Mainland China, in view of the reputation, operating status, performance, development potential, highlights of business and based on the comprehensive analysis of major events recently occurring to the enterprises. It took five targets of revenue of major business, gross profit margin, growth of revenue from principal business and net operating cash flow per share as the assessment standards and finally selected ten enterprises.

“Being committed to domestic e-Government, Chinasoft International not only built China’s first digital economic development zone, Tianjin Development Zone, but also launched in 2003 the e-Audit Solution developed for the State Audit Office and the solution for the construction of an information system for the tobacco sector developed for the State Tobacco Monopoly Bureau. Apart from being armed with strong capacity of research and development, Chinasoft International pays special attention to the market-oriented product strategy and effective distribution network across the nation.” In so appraising the Group, Internet Weekly had fully taken into account the Group’s technical advantage and market competitiveness in the sector.

4. Awarded among one of the “2004 China’s 100 leading e-Government IT Enterprises”.

In September 2004, the Group ranked China e-Government Top 100 for the third time and rose to the place of the 12th for 2004 from the place of 23rd in the rating of China e-Government IT Top 100 for 2003. In recent years, China’s e-Government application market shows unprecedented opportunities of development and the investment in e-Government grows at a 20% each year. Base on the study of CCID, the investment in e-Government for 2003 amounted to RMB32,910,000,000. The Group captured this opportunity by prioritizing the investment in the construction of e-Government, particularly the “two networks, one station, four bases and twelve e-s” according to the “Guiding

Opinion on e-Government Construction Across the Country for the Period of the Tenth Five-Year Plan of China.” The fact that the Group ranked among “2004 China’s 100 leading e-Government IT Enterprises” for three consecutive years shows on the one hand that the e-government market is expanding continuously and on the other hand that the Group’s share in the e-government service market continues to increase and that the Group is one step closer to achieving its objective of being the “First brand in the PRC e-government market”.

5. Chinasoft’s e-Government support platform software, ResourceOne, was again rated the first brand of 2003 e-Government middleware.

e-Government support platform software is the essential basic software of e-Government system, and is able to assist e-Government application software in realizing the information sharing and process coordination between upper level and lower level of the government and between the different divisions of the same level, division function integration and providing one-stop service to the society.

The integrated application platform is significant for the construction of China’s e-Government and will fundamentally solve the problem of general layout of technical schemes of e-Government construction; solve the problems of mutual connection, mutual coverage and mutual operation among various systems; reduce repeated development and investment; assure long-term, orderly and gradual development of the construction of e-Government system. The Group has already deployed Chinasoft e-Government Intermediary, ResourceOne in the sectors of tobacco and “e-Audit” where the Group has leading position.

賽迪顧問 is of the view that the e-Government application support platform software product market in China in 2003 was in the period of introduction, government’s information system developed gradually and many domestic firms competed for this market with market brands decentralized. In the three years ahead, the total investment in China’s e-Government application support platform software product will further grow and the competition on this market will be more intense. The investment in 2003 amounted to RMB356,000,000 and the market demand for 2004, 2005 and 2006 are forecast to reach RMB475,000,000, RMB598,000,000 and RMB751,000,000 respectively.

The assessment this time was organized by 賽迪顧問 and the functional divisions of the government covered were: audit, finance, taxation, tobacco, industry and commerce, public health, public security, environment protection, agriculture and others. One hundred samples in total were collected. Factories and Companies questioned were the current major domestic factories and companies of e-Government application support platform software.

Finally, the Group’s product, ResourceOne, ranked the first with its 9.9% market share. The Group’s strong research and development as well as market development capabilities were thus demonstrated thoroughly.

FUTURE PROSPECTS

China's e-Government business will continue to develop fast in 2004 as before, but there will be some changes. Hardware environment construction had been a priority since the investment of e-Government made by the government. As the hardware environment kept on improving, users raised many requirements for application environment, namely, software environment. In the face of this change and challenge, the Group will implement following strategies:

- To capitalize on the Group's leading position in tobacco sector and to closely cooperate with the State Tobacco Control Bureau to make efforts to complete the second phase promotion of the "Cigarette Production and Operation Decision Management System of the State Tobacco Control Bureau," meanwhile to map out the third phase plan of the "Cigarette Production and Operation Decision Management System of the State Tobacco Control Bureau" for the State Tobacco Monopoly Bureau.

As the second phase contract of tobacco sector was signed by the Group during the reporting period, a substantial amount of promotion will be completed in 2005. Meanwhile, in order to establish the concept of large scale logistics of tobacco sector, the Group is communicating with the State Tobacco Monopoly Bureau on the third phase planning and designing of the "Cigarette Production and Operation Decision Management System of the State Tobacco Control Bureau." In line with the further expansion of the State Tobacco Control Bureau's control over its subsidiaries and branches, the Group plans to upgrade the systems that have already been installed.

In order to familiarize the customers with the system promoted by the Group, the Group planned to organize promotional activities for specialised training courses in 2005. CS&S Computer Tech. Training Centre will be responsible for the promotional activities.

- To keep good cooperative relations with the State Audit Office and continue to promote audit management software and on-site implementation software for it across the country.

During the reporting period, the Group will complete the customized development of Audit Management System and On-site Audit Implementation System for the State Audit Office. In the meantime, after the promotion in pilot provinces and cities, the Group will act as the general contractor for the e-Audit Project to carry out promotion across the country according to the plan of the State Audit Office. At the same time, the Group will formulate the promotion plan, second phase of the e-Audit Project for the State Audit Office in order to maintain its leading position in the e-audit project.

There are many large state-owned enterprises in the PRC. Such enterprises are large in scale and have numerous subsidiaries and branches, thus overall supervision is difficult and there is an urgent need in the informationization of audit tools in order to manage their subsidiaries. The Group intends to focus on those enterprises and provide them with audit solutions by leveraging on existing technology and solutions.

- The Group plans to take the “Chinasoft Audit,” AE software, independently developed by the Group as a software package in future and promote it consistently throughout the country through channels.

Being an audit software for single user, this software is widely applicable. It can be used for internal auditing in an enterprise and at the same time it can be used by audit staff of an independent auditing firm.

At the same time, the Group is developing the “Chinasoft Audit” AM software, which is an intranet auditing software for the purpose of real-time monitoring, in order to accommodate the increasing market demand.

- To continue opening up new business areas. The Group will increase its input in the sectors of the e-Quality Project, e-Insurance Project and new type of rural cooperative medical scheme, etc. already entered during reporting the period in an effort to increase investments in these sectors and gain more competitive advantages. At the same time, the Group will try to seek the sectors similar to those where the Group provides solutions and plan to copy the solutions available to other sectors, such as sectors under the supervision of the State Food and Drug Administration Bureau and the power sector, all of which share the same operation features as the tobacco sector.

2005 is the crucial year for the construction of an information system for the e-Insurance Project. The labour and social security departments (bureaus) of 32 provinces, municipalities and autonomous regions of the whole country have set up the leading group of the e-Insurance Project and will try to arrange special fund and implement the project actively. The “new type of rural cooperative medical scheme” was proposed by the State for the purpose of providing rural medical coverage and is a type of medical insurance for cities and townships. The Group may quickly access this sector by using the Group’s successful experience of the e-Insurance Project. In addition, the Group has already had the case of success in this sector and the Group should be able to penetrate into the sector rapidly in the future.

e-Quality Project is a new sector for the Group. According the feasibility report prepared by the Group, the project involved nearly 4,000 internal quality control departments (nearly 4,000) of the government, the public and enterprises. The e-Quality Project will continue to generate income for the Group.

- The Company will focus on the consistent modification and update of ResourceOne, the Chinasoft e-Government middleware by inputting more efforts in its development in order to maintain its competitiveness, which forms the core competitiveness of the Company.
- The Group will learn from its successful experience in 2004 to further identify new targets of acquisition for the purpose of sharpening the competitive edge of the Group incessantly, meanwhile enhancing the Group’s profitability speedily.

Firstly, the Group will consolidate its position and increase its market share in the sectors by acquiring enterprises that have leading advantages in the sectors.

Secondly, the Group will acquire outstanding enterprises that plan to enter new sectors, so as to establish itself in those sectors quickly and attain leading position.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the business objectives as stated in the prospectus of the Company dated 10 June 2003 (“prospectus”) with the actual business progress up to 31 December 2004:

Major area	Major business objective stated in the Prospectus	Actual business progress
Strengthen the Group’s Solutions	<ul style="list-style-type: none">• Commence and complete the development of the new e-Park solution (V2.0)	<ul style="list-style-type: none">• Completed the commencement and completion of the development of the new e-Park solution (V2.0)
	<ul style="list-style-type: none">• Conduct feasibility study on the development of new e-Government solutions	<ul style="list-style-type: none">• Successfully developed the “Tobacco Production and Operation Decision Management System for the State Tobacco Monopoly Bureau”• Successfully developed the Audit Management System (OA System) and the Audit Implementation System (AO System)
	<ul style="list-style-type: none">• Continue to adjust and enhance the functions of the existing solutions	<ul style="list-style-type: none">• Completed the adjustment and improvement of the functions of the existing solutions

Major area	Major business objective stated in the Prospectus	Actual business progress
Development of new standalone software products and enhancement of existing standalone software products	<ul style="list-style-type: none"> • Commence the development of new application software • Evaluate the features of the existing standalone software products 	<ul style="list-style-type: none"> • Successfully developed the “Chinasoft Audit” AE Software • Completed the evaluation of the features of the existing standalone software products
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 them with consulting and training services 	<ul style="list-style-type: none"> • Successfully acquired the CS&S Computer Tech. Training Centre • Successfully acquired CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd.
Sales and marketing	<ul style="list-style-type: none"> • Seek suitable distributors as the Group’s offer sales • Set up sales offices in Dalian and Chongqing 	<ul style="list-style-type: none"> • A number of distributors has been developed • The setup is temporarily halted to save costs, but has developed certain local distributors

DIRECTORS' SERVICE CONTRACTS

Each of Dr. Chen Yuhong, Mr. Cui Hui, Mr. Duncan Chiu, Mr. Peng Jiang and Ms. Tang Min has entered into a service agreement with the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are set out below:

- (i) each service contract is of two years duration commencing on 20 June 2003 except for that of Ms. Tang Min, which commenced on 30 September 2004. The service contract shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice, such notice not to be given before the expiry of the initial term of two years;
- (ii) the monthly salary for each of Dr. Chen Yuhong, Mr. Cui Hui, Mr. Duncan Chiu, Mr. Peng Jiang for the first year of appointment commencing on the Listing Date is RMB40,000, RMB10,000, RMB10,000, RMB35,000 and the monthly salary of Ms. Tang Min commencing from 30 September 2004 is RMB10,000 respectively, such salary to be reviewed annually by the board of directors. For the period from the expiry of the first year of appointment, the salary of these five executive directors shall be determined by the board of directors which annual salary shall not be more than 120 percent. of the annual salary of such director for the preceding year;
- (iii) each of Dr. Chen Yuhong, Mr. Cui Hui, Mr. Duncan Chiu, Mr. Peng Jiang and Ms. Tang Min is entitled to such management bonus by reference to the consolidated net profits of the Group after taxation and minority interests but before extraordinary items as shown in the Group's audited consolidated accounts for the relevant financial year (the "Net Profits") as the Board may approve provided that the aggregate amount of management bonuses payable to all executive directors in respect of any financial year of the Group shall not exceed 5 percent. of the Net Profits; and
- (iv) each such director shall abstain from voting and shall not be counted in the quorum in respect of the resolution regarding the amount of management bonus payable to himself/herself.

All non-executive directors and independent non-executive directors except Mr. Au Yeung Shiu Kau Peter have entered into service agreements with the Group for a term of two years from 20 June 2003. The annual director's fee for Mr. He Ning and Mr. Zeng Zhijie is both HK\$60,000 while the monthly remuneration for Mr. Au Yeung Shiu Kau Peter is HK\$5,000 . All non-executive directors receive no remuneration for holding their office as non-executive director.

Save as disclosed above, none of the directors has entered into any service agreement with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

During the year, the Group had entered into certain connected transactions as set out in note 9 to the financial statements contained in this announcement. The independent non-executive directors have reviewed the connected transactions (as defined under the GEM Listing Rules) as set out in note 9 to the financial statements contained in this announcement, and confirmed that the transactions had been transacted on normal commercial terms and in the ordinary course of business of the Group.

Save as disclosed above, no contracts of significance to which the Company, or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE BONDS

Pursuant to the Company's share option scheme adopted on 2 June 2003, two executive directors, Dr. Chen Yuhong and Mr. Peng Jiang were granted 1,200,000 and 800,000 share options respectively to subscribe for shares in the Company at an exercise price of HK\$0.58 per share, exercisable in four equal tranches from 13 August 2004, 13 August 2005, 13 August 2006 and 13 August 2007, respectively, to 12 August 2013. None of these options granted were exercised since the date of grant and up to 31 December 2004.

During the year, Dr. Chen Yuhong, Mr. Peng Jiang and another two executive directors, Mr. Cui Hui and Mr. Duncan Chiu, were granted 5,000,000, 3,000,000, 500,000 and 1,000,000 share options respectively to subscribe for shares in the Company at an exercise price of HK\$0.65 per share, exercisable in four equal tranches from 13 May 2004, 13 May 2005, 13 May 2006 and 13 May 2007, respectively, to 12 May 2014. None of these options granted were exercised since the date of grant and up to 31 December 2004.

Save as disclosed above, as at 31 December 2004, none of the directors or chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("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 or short positions which they were 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 required to be kept therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the year ended 31st December, 2004, none of the Directors was granted options to subscribe for shares of the Company. Save as disclosed above, as at 31st December, 2004, none of the Directors had any rights to acquire shares in the Company.

SHARE OPTION SCHEME

The total number of shares in respect of which options are issuable under the Company's share option scheme as at the date of this report is 63,740,000, representing approximately 9.138% of the issued share capital of the Company as at that date.

The directors of the Company do not consider it appropriate to disclose a theoretical value of share options granted during the year under the Company's share option scheme because the value of share options calculated using theoretical models is subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the models and certain inherent limitations of the models.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest in the 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:

Long positions

Name of shareholder	Capacity	Approximate Number of issued shares of HK\$0.05 each of the Company held	Approximate Percentage of issued capital of the Company
Far East Technology International Limited ("Far East") (Note 1)	Beneficial owner	176,890,000	25.36%
Castle Logistics Limited ("Castle Logistics") (Note 2)	Beneficial owner	127,600,000	18.29%
Authorative Industries Limited ("Authorative") (Note 3)	Beneficial owner	57,490,000	8.24%
Yue Qianming (Note 3)	Interest of controlled corporation	57,490,000	8.24%
ITG Venture Capital Limited ("ITG") (Note 4)	Beneficial owner	46,940,000	6.73%
Zhou Qi (Note 4)	Interest of controlled corporation	46,940,000	6.73%

Name of shareholder	Capacity	Approximate Number of issued shares of HK\$0.05 each of the Company held	Approximate Percentage of issued capital of the Company
Prosperity International Investment Corporation (“Prosperity”) (Note 5)	Beneficial owner	39,790,000	5.70%
Joseph Tian Li (Note 5)	Interest of controlled corporation	39,790,000	5.70%
China National Computer Software & Technology Service Corporation (Hong Kong) Limited (“CS&S (HK)”) (Note 6)	Beneficial owner	57,500,000	8.24%
China National Computer Software & Technology Service Corporation (“CS&S”) (Note 6)	Interest of controlled corporation	57,500,000	8.24%
Chinasoft National Software and Service Company Limited (“CNSS”) (Note 7)	Interest of controlled corporation	57,500,000	8.24%

Notes:

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

Dr. Chen Yuhong and Mr. Cui Hui, both executive Directors, are directors of Castle Logistics.
3. The entire issued share capital of Authorative is beneficially owned by Mr. Yue Qianming. Mr. Yue Qianming is taken to be interested in the shares held by Authorative.
4. The entire issued share capital of ITG is beneficially owned by Mr. Zhou Qi. Mr. Zhou Qi is taken to be interested in the shares held by ITG.
5. The entire issued share capital of Prosperity is beneficially owned by Mr. Joseph Tian Li. Mr. Joseph Tian Li is taken to be interested in the shares held by Prosperity.

6. CS&S is taken to be interested in the shares which CS&S (HK), its subsidiary, is interested in.

7. CNSS is taken to be interested in the shares which CS&S, its subsidiary, is interested in.

Save as disclosed above, as at 31 December, 2004, so far as is known to the Directors, there is no other person who had an interest or a short position in the shares and 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.

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, an executive Director, was interested in approximately 1.34% of the issued share capital of CNSS and served as a director of CNSS. In addition, Ms. Tang Min and Dr. Chen Yuhong had been appointed as directors by 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 however are both engaged in the provision of information technology outsourcing.

Save as disclosed above, 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 31 December 2004 pursuant to Rules 6.36 and 18.75 of the GEM Listing Rules.

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

AUDIT COMMITTEE

The Company established an audit committee on 2 June 2003 with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.33 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 three members, namely the two independent non-executive directors, Mr. He Ning and Mr. Zeng Zhijie and the non-executive director, Mr. Chen Qiwei. The audit committee met on a quarterly basis during the year ended 31 December 2004.

The annual results of the Group for the year ended 31 December, 2004 have been reviewed by the audit committee of the Company.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

BOARD PRACTICES AND PROCEDURES

During the year, the Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules which applied before the amendments to the GEM Listing Rules relating to the Code or Corporate Governance Practices and Rules on Corporate Governance Report took effect on 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 31 December 2005.

On behalf of the Board

Chen Yuhong

Managing Director

Beijing, 23rd March, 2005

As at the date of this announcement, the Directors are as follows:

Executive Directors:

Dr. Chen Yuhong

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

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** For identification purpose only*