

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)



THIRD QUARTERLY REPORT | 第三季度報告

2004

* 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 RMB21,922,000 for the nine months ended 30th September, 2004, representing an approximately 61% increase as compared to the corresponding period in 2003
- Achieved a turnover of approximately RMB195,378,000 for the nine months ended 30th September, 2004, representing an approximately 97% increase as compared to the corresponding period in 2003
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September, 2004

THIRD QUARTER RESULTS

The board of Directors ("Board") of Chinsoft 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, 2004, respectively, with corresponding figures as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	Notes	For the three months ended 30th September,		For the nine months ended 30th September,	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	2	79,023	39,960	195,378	99,040
Cost of sales		(63,099)	(27,874)	146,139	(70,234)
Gross profit		15,924	12,086	49,239	28,806
Other revenue		613	220	1,697	388
Distribution costs		(1,603)	(1,844)	(8,270)	(4,667)
Administrative expenses		(4,929)	(2,821)	(16,090)	(6,911)
Research and development costs		(286)	(41)	(419)	(120)
Profit from operations		9,719	7,600	26,157	17,496
Finance costs		(8)	(210)	(130)	(210)
Profit before taxation		9,711	7,390	26,027	17,286
Taxation	3	(184)	(626)	(1,719)	(1,301)
Net profit before minority interests		9,527	6,764	24,308	15,985
Minority interests		(258)	(1,072)	(2,386)	(2,378)
Net profit attributable to shareholders		9,269	5,692	21,922	13,607
Dividend	4	–	–	6,784	–
Earnings per share – basic	5	RMB0.0139	RMB0.009	RMB0.0337	RMB0.025

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Translation reserve	General reserve	Enterprise expansion fund	Accumulated profits	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1st January, 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>
At 1st January, 2004	33,920	45,080	49	1,074	589	45,399	126,111
Net profit for the period	-	-	-	-	-	21,922	21,922
Dividend for 2003 paid	-	-	-	-	-	(6,784)	(6,784)
Issue of shares under placement	<u>2,875</u>	<u>39,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,975</u>
At 30th September, 2004	<u>36,795</u>	<u>84,180</u>	<u>49</u>	<u>1,074</u>	<u>589</u>	<u>60,537</u>	<u>183,224</u>

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,	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Solutions	64,324	29,149	157,019	73,883
IT outsourcing	6,880	9,186	25,839	22,386
IT consulting and training services	4,021	201	6,619	979
Standalone software product	3,798	1,424	5,901	1,792
	79,023	39,960	195,378	99,040

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

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

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

4. DIVIDEND

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

5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and nine months ended 30th September, 2004 was based on the net profit of approximately RMB9,269,000 and approximately RMB21,922,000 (three months and nine months ended 30th September, 2003: net profit of approximately RMB5,692,000 and RMB13,607,000) divided by the weighted average number of shares issued during the three months ended 30th September, 2004 of 668,750,000 shares (2003: 640,000,000 shares) and nine months ended 30th September, 2004 of 649,583,000 shares (2003: 539,780,000 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, 2004 and 2003 as there were no potential dilutive securities in existence during the relevant periods.

INTERIM DIVIDEND

The directors of the Company (“Directors”) do not recommend the payment of an interim dividend for the nine months ended 30th September, 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Business results

For the nine months ended 30 September, 2004, the Group continued to achieve an impressive result of having a turnover of approximately RMB195,378,000, representing an increase of approximately 97% as compared to the corresponding period in 2003. The Group also achieved a net profit of approximately RMB21,922,000, representing an approximately 61% 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 maintaining 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. The substantial growth in the sales of Standalone software product, which recorded 2.3 times increase, was contributed by the successful promotion and sales of Internet Security Software Product throughout the PRC. While the increase in IT outsourcing was due to the increase in demand and procurement of outsourced IT hardware and software from our customers, the increased sales of IT Consulting and Training was due to additional revenue contributed by CS&S Computer Tech. Training Centre. The increase in other revenue of approximately RMB1,697,000 (compared to last year of RMB388,000) was mainly due to dividend received from Cyber Resources Software Technology (Tianjin) Company Limited during the corresponding period. For the nine months ended 30 September, 2004, gross profit margin was decreased from 29% to 25%, which was resulted from different combination of hardwares and softwares being used in different solutions provided by the Group.

The distribution cost for the reporting period were approximately RMB8,270,000, representing an increase of 77% from the last period which was in line with the increase in the Group's turnover. The administrative expenses for the reporting period were approximately RMB16,090,000, an increase of approximately 132% from the last period. The increase in administration 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. Hence, due to an increase in distribution cost and administrative expenses, the net profit margin dropped from 13% to 11.2%.

BUSINESS REVIEW

During the reporting period, the Group has made substantial achievements as follows:

1. A 97% and 61% increase in sales revenue and net profit of the Group respectively as compared with the corresponding period last year;
2. Beijing Chinasoft International Information Technology Limited ("Beijing Chinasoft") was granted the First Class Certificate for China Computer Information System Integration;
3. Completion of the acquisition of entire equity interest of Beijing Chinasoft;
4. The strategic partnership with the State Tobacco Control Bureau was further developed and new contracts were signed;
5. The Group was appointed by the Audit Office of the State for the arrangement of the nationwide promotion of the "e-Audit Project";
6. The Group successfully bided the "e-Insurance Project" of Tongren City, Guizhou Province and the business of the "e-Insurance Project" was initiated;
7. The Group successfully bided the new rural cooperative medical scheme of Xiaoshan District, Hangzhou City, and local e-government achieved a new breakthrough;
8. 中軟賽博資源軟件技術(天津)有限公司(Cyber Resources Software Technology (Tianjin) Company Limited), a subsidiary of the Group, won a tender for the Customer Service Centre of Matsushita Electric;

9. The Group recruited a professional tobacco informative team to enhance its capacity in regional implementation and services;
10. The Group was selected as one of the “2004 China’s 100 Leading e-Government Enterprises”.

A 97% and 61% increase in sales revenue and net profit respectively as compared with the corresponding period last year

As compared with the corresponding period of last year, the Group continued to maintain a rapid growth mainly due to the provision of “e-Tobacco” solution and the “e-Audit Project” solution. The Group will persist in strengthening its advantages in these two industries.

Beijing Chinasoft International Information Technology Limited (“Beijing Chinasoft”) was granted the First Class Certificate for China Computer Information System Integration

Based on many successful cases, Beijing Chinasoft, the Group’s major operating company, obtained the First Class Certificate for China Computer Information System during the reporting period.

China Computer Information System Integration refers to the comprehensive planning, design, development, implementation, service and protection of Computer application system and network system project. The class of China Computer Information System Integration refers to the comprehensive capacity, which includes technology quality, management quality, service quality, capability of quality assurance, technological equipment, quality of system construction, composition and qualities of the staff, operating results and assets conditions, in running the business of China Computer Information System Integration. The First Class Certificate for China Computer Information System Integration represents the highest qualification of integration. The holders of the certificate have the capacity to independently establish various kinds of computer information system of large, medium and small-sized enterprises at state level, provincial (ministerial) level, industrial level, local (municipal) level (or even lower levels). The recognition of capacity sufficiently proves the Group’s comprehensive capability of computer system integration.

Completion of the acquisition of entire equity interest of Beijing Chinasoft

In August 2004, the Group acquired the entire equity interest in Beijing Chinasoft from China Computer Software and Technology Service (Hong Kong) Limited (“CS&S(HK)”) by issuing 57,500,000 new shares (i.e. approximately 8.24% of the total share capital of the Company as enlarged by such issue of shares.).

As at the completion of the acquisition in August 2004, CS&S(HK) was owned as to 95.71% by China National Computer Software & Technology Service Corporation (“CS&S”), a stated-owned enterprise established in the PRC. Subsequent to the re-organisation of CS&S in September 2004, CS&S became wholly-owned by 中國軟件與技術服務股份有限公司(China National Software & Service Company Limited) (formerly known as 中軟網絡技術股份有限公司 (Chinasoft Network Technology Company Limited)), the shares of which are listed on Shanghai Stock Exchange.

The strategic partnership with the State Tobacco Control Bureau was further developed and new contracts were signed

After the previous reporting period, the Group established an informational and strategic partnership with the State Tobacco Control Bureau and entered into contracts with the State Tobacco Control Bureau and its 36 major affiliated tobacco production enterprises and 36 metropolitan business enterprises for the purposes of promoting the Group’s “Tobacco Production and Operation Decision Management System for the State Tobacco Control Bureau”, being the first phase of construction. During this reporting period, the system of the captioned project was basically established and fully entered into the stage of acceptance. The State Tobacco Control Bureau considered that the implementation of the “Tobacco Production and Operation Decision Management System” in metropolitan business enterprises was basically completed, and the system was in a normal condition under the joint coordination. The Group’s ability to finish numerous workload within such a short period of time proves its in-depth understanding of the demand of this industry. The “Tobacco Production and Operation Decision Management System for the State Tobacco Control Bureau” developed by the Group meets the requirement of the State Tobacco Bureau. With an excellent technical team, the Group can help users further develop the quality.

During the reporting period, in order to be in sync with the comprehensive design solution of the State Tobacco Control Bureau’s strategy of “planned coding, tracing of logistics and confirmation for the arrival of goods”, and according to the requirements as set out in the second phase implementation meeting of Tobacco Production and Operation Decision Management System, the Group as the chief system integration developer has the responsibility to implement the system. The Group started the promotion of “Tobacco Production and Operation Decision Management System for the State Tobacco Control Bureau”, being the second phase of construction, in 55 non-metropolitan production enterprises, 27 business enterprises of provincial bureau level and 351 subsidiaries of municipal level during the reporting period. Meanwhile, the production and business data of 36 production enterprises and 36 business enterprises gathered in the first phase of construction will be updated during the implementation for the current period.

Decision was made at the meeting that during the second phase of construction, each of the provincial-level bureaus (companies) would be responsible for organizing system implementation of business enterprises and production enterprises of the province:

- Business contracts regarding the system of production enterprises would be signed by each of the production enterprises with the Group. Each of the provincial-level bureaus (companies) and production companies are responsible for organizing production enterprises in the province and to complete the signing of contracts in Beijing in such order as required by the State Bureau.
- Business contracts regarding the system of business enterprises would be signed under a master contract between each provincial-level bureau (company) and the Group. The master contract covers sub-contracts governing the implementation of each of the business subsidiaries. Those sub-contracts would be signed jointly by provincial-level bureau (company), each of the business subsidiaries (or any business enterprises directly under the supervision of the provincial government and having the legal status in cigarette operation) and the Group. The signing of the master contract and the implementation of sub-contracts would be completed before 20 October in each of the provincial-level bureau (company).

The provincial-level bureaus (companies) engaged in the collection of fees under these contracts would receive payment in connection with the project from each of the business subsidiaries (or any business enterprises directly under the supervision of the provincial government and having the legal status in cigarette operation) in accordance with the relevant terms of the master contract and the sub-contracts, and such payment would be made to the Group collectively according to the construction progress.

The Group has first entered into business contracts with the following eight production enterprises:

Guangdong Zhongyan Industry Corporation (廣東中煙工業公司)

Meizhou Cigarette Factory (梅州捲煙廠)

Zhanjiang Cigarette Factory (湛江捲煙廠)

Shaoguan Cigarette Factory (韶關捲煙廠)

Shenzhen Cigarette Factory (深圳捲煙廠)

Tianjin Cigarette Factory (天津捲煙廠)

Beijing Cigarette Factory (北京捲煙廠)

Xiamen Cigarette Factory (廈門捲煙廠)

The contents of promotion among the eight production enterprises and the remaining production enterprises include:

- (1) The implementation for legal person enterprises include the application of the Product Digital Tracking System and the Production Data Collection System.
- (2) The implementation for production plants include the application of the Product Digital Tracking System.

After the commencement of the system operation, the scope of collectable data includes all the cigarette production enterprises with legal person status as well as business enterprises and business subsidiaries directly under the province with the legal cigarette operation rights.

The signing of these contracts demonstrates that the partnership between the Group and the State Tobacco Control Bureau is further developing. Meanwhile, the Group is positively and interactively negotiating with the State Tobacco Control Bureau for completion of the signing of the relevant implementation contracts of the remaining 50 factories and over 30 tobacco sales companies of provincial level (involving over 400 tobacco sales companies of municipal level).

The Group was appointed by the Audit Office of the State for the arrangement of the nationwide promotion of the “e-Audit Project”

The “e-Audit Project” is the short name of the construction project for the audit information technology system and is one of the 12 major business systems confirmed in “the Guiding Comments Regarding e-Government Construction in China by the National Group of Information System”(國家信息化領導小組關於我國電子政務建設指導意見). The system is also the first e-Government construction project of the State approved in accordance with the basic construction procedure of the State.

Since its formal development in 2002, the “e-Audit Project” has progressed well. With the objective and mission of “e-Audit Project”, an application system of the “e-Audit Project” is designed and developed by focusing on the business features of the audit work. Since the audit software developed under the application platform of the “e-Audit Project” could be used for the construction of an audit application system using the same technology standard and regulations and could be realized in the whole system of auditing body, the software is also beneficial to the continuous promotion of these audit experience and audit software, which will in turn raise the level of audit information.

The First Phase construction of the State's "e-Audit Project" is currently completed and is formally entering into the stage of planning for implementation locally.

The Group's development of the "e-Audit Project" application system is split into two major systems: Audit Management System (i.e. OA System) and Audit Implementation System (i.e. AO System). The Audit Implementation System is further divided into Live Audit Implementation Software and Networking Audit Implementation Software. The First Phase of e-Audit Project mainly completed the construction of Audit Management System and Live Audit Implementation Software.

Audit Management System is a comprehensive business management system, a combination of audit business management and administrative office duties. The system enhances the decision-making, organization, guidance and management of audit work, and constructs the fundamental resources database to support audit business so as to achieve dynamic reconstruction and unlimited development and provide unified services to auditing staff.

During the reporting period, we were appointed by the National Audit Office of China to be responsible for the promotion of the "e-Audit Project" nationwide.

Firstly, the Group entered into agreement of the "e-Audit Service" with the National Audit Office of China, for the construction of an e-Audit Project service centre. Technical consultation services were provided to auditing staff and auditing technicians of Audit System of the State through telephone service and network service of the service centre and assistance is given to the auditing staff to better manage the Audit Management System and Live Audit Implementation System.

Secondly, the Group entered into agreement with the National Audit Office of China for the construction of a basic software environment in all localities and provinces under the Office. This will thoroughly promote and lay the foundation of the Audit Management System and Live Audit Implementation System developed by the Group.

Furthermore, the Group will promote the Audit Management System in 32 provinces and cities and over 300 counties and cities in China. During the reporting period, we signed business contracts with Guangdong Province, Hubei Province, Chongqing City, Zhejiang Province and Zhejiang Hangzhou Bureau. Such promotion could be divided into five functional areas in accordance with its functions, authorities and suitability:

- Area of Leader's Decision: provide the leaders of the units with information for decision-making

- Area of Official Document Circulation: provide functions of reviewing, handling and circulation of official document
- Area of Auditing Management: provide function of business information management
- Area of Authority Affairs: provide internal information of the Authority
- Area of Information Resources: sharing of auditing business information, learning materials and literature

The Group successfully bided the “e-Insurance Project” (金保工程) of Tongren City, Guizhou Province, and the business of the “e-Insurance project” was initiated

e-Insurance Project is one of the “12 e-solutions” of the PRC. With the establishment of personal account of social security, socialized grant of pension and the improvement of socialized management service for the retired, the information volume of the social security business management is expanding at an unprecedented fast speed, while the social security fund is rapidly growing accordingly. In the meantime, the market is driving the gradual establishment of employment system that results in the increasing turnover of labour. As such, construction of unified information system project in labour and social security will be unavoidably implemented.

The e-Insurance Project is an integral part of the e-Government infrastructure and a collective term for the national labour security information system, which may be summarized into “One Two Three Four”. That is, One Project, Two Systems, Three Tiers of Structure and Four Functions. It means that a unified, efficient, convenient and practical labour and social security information system will be set up throughout the country. It includes the two major systems, namely social security and labour force markets, and is constituted by the three data segments and network management at city, province and central levels, with four functions of business operation, public service, fund monitoring and decision-making support.

The e-Insurance Project will be implemented in phases. During the “Tenth Five Year Plan”, the principal objectives of e-Insurance Project construction are: to establish a centralized resources data base covering all kinds of business in all cities (above district level) for the implementation of WAN networks real-time connection within cities and generally establishment of first-class labour security information announcement or enquiry terminal in streets; to implement the computerized management throughout the whole process in the principal business of labour security enabling the use of the unified software in most of the business application system; to preliminarily set up the national labour security information system by formulating the hardware equipment configuration standard, network access standard and unified data transmission model.

With a strong technology advantage, the Group took up the e-Insurance Project of Tongren City of Guizhou Province. It was the first time for Guizhou Province to use the technological standard of the core platform version II of the social insurance management information system in developing the application software of the social insurance management information system, which includes 5 types of insurance comprising retirement, unemployment, medical treatment, industrial injury and child bearing, i.e. "5 insurances in 1 system". The Project involves 8 counties, one district and one city which are administered by Tongren City. The 8 counties are: Jiangkou County, Yubing County, Shiqian County, Yinjiang County, Sinan County, Dejiang County, Yuanhe County and Songtao County; the one district is Wanshan Special Zone; the one city is Tongren City. The Group will provide the institutions which run the social security of county (special zone and city) with the application software solution for their respective levels as well as inter connection and training services.

The Group successfully bid the new rural cooperative medical project of Xiaoshan District, Hangzhou City, and local e-government achieved a new breakthrough

On top of strengthening the existing business advantages, the Group intensively developed new businesses. The new rural cooperative medical project (新型農業合作醫療) (hereinafter referred to as "New Rural Medical Scheme") is a newly-built rural cooperation system jointly invested by the state, regional governments at various levels and peasant individuals. The New Rural Medical Scheme provides mutual support in the treatment of serious diseases. For the time being, it is different from the basic medical insurance for urban employees. Under the prospering economy of the PRC, it is inevitable to move towards the establishment of a rural social security system.

As of August 2004, an aggregate of RMB3.02 billion has been raised for the new rural cooperative medical system which may cover the population of peasants of 95,040,000. As at the end of 2003, 1,870 counties and cities commenced rural pension schemes, and 54,280,000 persons participated in the insurance scheme.

The PRC is a major agricultural country, in which two thirds of the total population in the PRC are peasants. In accordance with the planning of long-term objective outlines for the state's economic and social development in 2010, basically a relatively complete system for rural social security is expected to be established by 2010. In 2015, the rural social security system will possibly be integrated with the urban one.

Since the Group bided the management information system of the new rural cooperative medical project at Xiaoshan District in Hangzhou City, Zhejiang Province, a large number of development personnels were assigned for the completion of the system. During the reporting period, the system was submitted. All information of the insurance scheme on the 870,000 peasants at 4 streets in 18 villages and towns of Xiaoshan District participated in such insurance has been entered into the data base; while 870,000 medical cards (supported by the state-of-the-art binary bar code technology) were all issued to the peasants. Intranet was built up among the 10 designated medical establishments and rural hospitals of the health bureau. As such, outpatient and hospital admission service are available to the peasant medical cardholders. The new medical cooperation of the district is in perfect order. The system keeps its stability and reliability since it has been put into operation and it is the first district intranet of rural medical systems.

Mr. Zhu Qingsheng, the Vice-Minister of the Ministry of Public Health of the PRC, the leaders of the Agricultural Department and Health Department and leaders of the General Office of Health of Zhejiang and the Finance Bureau successively arrived Hangzhou for study. They highly appraised in terms of the implementation, trial experience and informative construction of the management system of the New Rural Medical Scheme at Xiaoshan District in Hangzhou City developed by the Group. The characteristics of New Agricultural Medical Scheme at Xiaoshan District stated by Mr. Zhu Qingsheng, the Vice-Minister, indicating that the New Rural Medical Scheme of Xiaoshan District is run by well-equipped computer management information system under scientific and advanced management.

Cyber Resources Software Technology (Tianjin) Company Limited, a subsidiary of the Group, won the tender for the Customer Service Centre of Matsushita Electric

Cyber Resources Software Technology (Tianjin) Company Limited, a subsidiary of the Group, signed a business contract with Matsushita Electric (China) Co., Ltd. ("Matsushita Electric") and won the tender for the Customer Service Centre of Matsushita Electric during the reporting period. By utilizing the Customer Service Officers, equipment and related resources of the Group and the supporting equipment of Matsushita Electric, the Group will provide Matsushita Electric with all-in-one service through multi channels (telephone, fax, mail, e-mail and web) 365 days round the year (12 hours per day, public holidays included) at a place provided by Matsushita Electric. The Group will provide 50 Customer Service Officers for Matsushita Electric. All these show the Group's continuous development of advisory and contracting business and have been moving towards a new territory.

The Group recruited a professional tobacco informative team to enhance its capacity in regional implementation and services

In order to promote the nationwide strategy implementation, business exploration and after-sale services of the Group, we sincerely invited Hefei Yujia Software Technology Company Limited (合肥市宇佳軟件技術有限責任公司) (“Hefei Yujia”) from Hefei, Anhui Province to assign its core team members to join the Group and establish the Anhui Technology Centre (安徽技術中心). Hefei Yujia is a professional technical company specializing in the provision of information technology services to local tobacco industries in Anhui. It maintains a steady sales revenue from the local operation and has a professional and mature team which has thorough understanding of the tobacco business. The Group has further enhanced its local capacity and reduced the local competition in Anhui through its establishment of the Anhui Technology Centre. The competitive edges of the Group have become more prominent in the local business through cooperation with local companies. This cooperation model will probably extend to the whole country in the future.

The Group was selected as one of the “2004 China’s 100 Leading e-Government Enterprises”

After nearly 50 days of massive statistical and data collection by China Internet Weekly, the “2004 China’s 100 Leading e-Government Enterprises” finally came up. Thanks to the Group’s high growth of results, we were named as one of the “2004 China’s 100 Leading e-Government Enterprises”. As the software business and service attained an increasing proportion in the China’s e-Government construction, the investment in software increased generally which has clearly showed that the e-Government market in China has gradually changed the tradition of hardware bearing more importance than software. This will provide the Group with a more favourable environment for development.

FUTURE PROSPECTS

The Group is the leading e-government solution provider in China and has leading advantages in extensive areas. The major job focus in the future will involve two areas: e-government in the Central government and e-government in local authorities. Following that direction, the profitability of the Group can be enhanced and the leading position and market share of the Group in the industry can be consolidated.

e-government of the Central government:

As for the customers of State Tobacco Control Bureau, subsequent to the signing of business contracts with eight non-major production enterprises in the tobacco industry during the reporting period, the Group will drive the smooth development of the second phase construction. The Group will sign promotional and implementation business contracts with over 50 non-major production enterprises and over 30 tobacco business sales companies of provincial level (involving over 400 tobacco sales companies of municipal level). The promotion of business enterprises will include:

- (1) Implementation Contents for Provincial-level Bureaus (Companies) include: the implementation of commercial data collection systems in Provincial-level Bureaus (Companies), trial tests of Provincial data transmission system and joint trial tests of systems (one province as one unit).
- (2) Implementation Contents for business enterprises that have the legal status in tobacco operation and are directly under provincial government include: the implementation of product digital tracking systems and business data collection systems, and the planning of abutment of this system, shipping permit sole-vendor system and tobacco e-trading system.
- (3) Implementation Contents for companies' branches include: the implementation of product digital tracking systems and business data collection systems, the planning of abutment of this system, shipping permit sole-vendor system and tobacco e-trading system, and the implementation of tobacco retail price collection system.

The Group has already started to discuss the contents and promotion plan for the third phase project with the State Tobacco Control Bureau.

As for the customers of the State Audit Office of China, the Group has the following arrangement for the promotion of the "e-Audit Project":

- To continue the promotion of the Group's Audit Management System (OA System) and Audit Implementation System (AO System)
 - (1) Promotion of the OA System would be targetted at local auditing authorities. The next round of promotion is expected to cover 40 local auditing authorities
 - (2) CS&S Training Centre acquired by the Group would be used as a platform in developing training in AO System across the country

- To put to the market the Chinasoft International auditing software before the end of the year
- To commission the Internal Business Auditing Plan for large State-owned enterprises and develop internal auditing with network auditing business

e-government of the local authorities:

As for the e-government of local authorities, the Group has increased its participation in the State “e-Insurance Project” and has bid for the first phase development project of “e-Insurance Project” software of Anhui Labour Security Department. The consolidation of the application software sub-projects, a labour and social security information system development project of Anhui Labour Security Department, may include the construction of the following contents in general: social insurance core platform application software, labour and employment core platform, community platform software, social insurance fund financial management software, public enquiry and service software, social security fund monitoring software, macro-decision supporting application software, portable pension scheme application software, portable joint network medical fee calculation application software, social insurance relationship transfer software, network software for ministries, provincial and municipal governments, network scanning software, pension security of institution units, pension security in villages and local development at the provincial level of other consolidated application software promoted by the Ministry of Labour and Social Security (some softwares use the consolidated software of the Ministry of Labour and Social Security directly), the implementation of the above software of labour security authorities at different levels in the whole province and related services authorities, and the relevant technology training and after-sale services.

In addition, the Group has bid for the “e-Insurance Project” in Xinxiang City, Henan Province. With reference to the actual situation in Xinxiang, the system construction project may be implemented by two phases. The first phase of construction will be the upgrade and modification of the original “Five in One” security system, so that the systems of medical, work-related injury and childbearing insurance can be operated independently. After the system is upgraded and modified, the second phase of construction will include analysis, design, development, testing and implementation in accordance with the new demands raised by users. After the completion of the second phase of construction, a new policy of medical, work-related injury and childbearing insurance will be achieved in order to realize the objects of the services of convenience and high efficiency. Meanwhile, the fixed-point medical institutions, fixed-point pharmacy networking clearing system are developed and implemented, and with a network linked with Xinxiang Branch of China Life Insurance Company Limited.

With reference to the sub-system, the constructions can be divided into the following contents: First Phase Construction of Medical Insurance System, Second Phase Construction of Medical Insurance System, Second Phase Construction of Medical Insurance System for Authority Affairs and an independent Third Phase Construction of Networking Clearing System.

In order to maintain the Group's advantages in the industry in local e-government electronic technology center, the Group has also bid for the coordination of working platform system of the Management Committee in the Hi-tech District, Xian during the reporting period.

The Hi-tech District of Xian is a Hi-tech Development Zone with outstanding technological level and is more influential in China. Its coordination of working system is one of the earliest project being implemented in the whole plan. Therefore, the principles of construction of the "Digital Park" in the Hi-tech District, Xian are "coordination and planning under government initiation, unified standard with joint construction for mutual communication and sharing of resources", and adhering to the overall construction principles of "unified design and maintenance protection, construction by stages and gradual improvement". Based on the above, the whole system construction will be systematic, practical, expandable, economical, and technologically advanced, matured and safe. The following goals would be achieved:

Construction of e-government: the construction of e-government flow and informational structure in compliance with the requirement of ISO9000 through re-engineering of business flow with the use of information technology. The service quality and operating efficiency would be improved, management and supervision of business would be enhanced and satisfaction of business towards the management committee would be raised.

Information sharing and policy support: It is particularly important to have flexible, effective and diversified management. In the course of e-government processing, realization of data exchange and automatic business processing in platform of different structures and in different networks are required, and these involve the standardization and unification of data, text and documents. Therefore, there is a need to establish a regulatory standard to enable the description of data exchange and business processing within the government, across government departments as well as between the public and the government, so as to reduce the various problems arising from the lack of unified standards in the course of data processing.

The main contents regarding the coordination of working system construction of Management Committee of the Hi-tech District, Xian inviting tender are as follows:

- (1) Coordination of working platform, support of public platform for business development
- (2) Internal portals: application integration and content integration
- (3) Common working system: common administrative system that has functions for governmental affairs management and documents management
- (4) Business working system: system that has functions for area access project workflow management, key project management, corporate information management and statistics, technology plan reporting and integrated statistics.

With the extensive application of Resource One, the Group's e-government platform software, the Group has invested a vast number of application software modules in this platform. This enriches the Group's software accessories store and continuously enhances the Group's core technological competitiveness. In the future, the Group will further accumulate new application software modules, so as to constantly increase the number of software modules that can be used repeatedly.

DIRECTORS' INTERESTS

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

Name of Directors	Exercise Price (HK\$)	No. of share options outstanding as at the Latest Practicable Date	Percentage of total issued share capital	Note
Chen Yuhong	0.58	1,200,000	0.17%	(1)
	0.65	5,000,000	0.72%	(2)
Cui Hui	0.65	500,000	0.07%	(2)
Duncan Chiu	0.65	1,000,000	0.14%	(2)
Peng Jiang	0.58	800,000	0.11%	(1)
	0.65	3,000,000	0.43%	(2)

Notes:

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

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

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

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

Save as disclosed above, as at 30 September, 2004, none of the Directors or chief executive of the Company had any interests or short positions in the shares, debentures or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which are required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

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

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

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

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

SHARE OPTION SCHEME

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

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

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

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

APPOINTMENT OF EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTOR

On 30 September, 2004, Ms. Tang Min and Mr. Au Yeung Shiu Kau Peter were appointed as an executive director and an independent non-executive director of the Company respectively.

Ms. Tang, aged 60, is the chairman of the PRC Software Alliance and a vice-chairman of the Chinasoft Software Association. Ms. Tang obtained a bachelor's degree in physics from Peking University, the PRC and has the professional qualification of senior engineer in computer science. She has more than 15 years' experience at the management level in the IT industry in the PRC.

Ms. Tang holds directorship in CNSS and in a number of its subsidiaries and associate companies, including (1) CS&S; and (2) CS&S(HK), a corporate shareholder holding approximately 8.24% of the total issued share capital of the Company.

Mr. Au Yeung, aged 48, holds a diploma in accountancy in Hong Kong. Mr. Au Yeung has more than 20 years' experience in the accountancy profession in Hong Kong and is currently a fellow member of both The Hong Kong Institute of Certified Public Accountants and The Chartered Association of Certified Accountants. He runs a business as a Certified Public Accountant in the form of sole proprietorship in Hong Kong.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at 30 September, 2004, the following persons, not being a Director or chief executive of the Company, had an interest in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Long positions in Shares

Name	Nature of interest	Approximate number of Shares of Shares (million)	Approximate percentage of shareholding
Far Fast Technology International Limited ("Far Fast") (Note 1)	Beneficial interest	176.89	25.36%
Castle Logistics Limited ("Castle Logistics") (Note 2)	Beneficial interest	127.60	18.29%
Authorative Industries Limited ("Authorative") (Note 3)	Beneficial interest	57.49	8.24%
Yue Qianming (Note 3)	Interest of controlled corporation	57.49	8.24%
ITG Venture Capital Limited ("ITG") (Note 4)	Beneficial interest	46.94	6.73%
Zhou Qi (Note 4)	Interest of controlled corporation	46.94	6.73%

Name	Nature of interest	Approximate number of Shares of Shares (million)	Approximate percentage of shareholding
Prosperity International Investment Corporation ("Prosperity") (Note 5)	Beneficial interest	39.79	5.70%
Joseph Tian Li (Note 5)	Interest of controlled corporation	39.79	5.70%
China National Computer Software & Technology Service Corporation (Hong Kong) Limited ("CS & S (HK)") (Note 6)	Beneficial interests	57.50	8.24%
China National Computer Software & Technology Service Corporation ("CS & S") (Note 6)	Interests of controlled corporation	57.50	8.24%
Chinasoft National Software and Service Company Limited ("CNSS") (Note 7)	Interests of controlled corporation	57.50	8.24%

Notes:

1. Mr. Duncan Chiu and Mr. David Chiu, an executive Director and a non-executive Director of the Company respectively are nominated by Far East. Both Mr. Duncan Chiu and Mr. David Chiu are directors of Far East.
2. Castle Logistics is beneficially owned by 10 shareholders of which 3 shareholders are Directors and 7 shareholders are senior management staff of the Group. The above mentioned Directors are Dr. Chen Yuhong, Mr. Cui Hui and Mr. Peng Jiang and the other shareholders namely Mr. Xie Hua, Mr. Chen Yuqing, Dr. Tang Zhenming, Mr. Zhang Chongbin, Mr. Wang Hui, Mr. Chen Pei and Mr. Yu Yongxin are senior management of the Group. These 10 individuals became shareholders of Castle Logistics on 25 April 2000.

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

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

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. 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.

So far as was known to the Directors, as at 30 September, 2004, Beijing Chinasoft International Information Technology Limited has become a wholly-owned subsidiary of the Company.

Save as disclosed above, as at 30 September, 2004 the Company had not been notified of any interests and short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept by the Company under section 336 of the SFO.

COMPETING INTERESTS

Mr. Cui Hui, an executive Director, was interested in approximately 1.34% of the issued share capital of CNSS and also served as a director of CNSS. In addition, Ms. Tang Min and Dr. Chen Yuhong had been appointed as director 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 also engaged in the provision of IT outsourcing.

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

SPONSORS' INTERESTS

As updated and notified by the Company's sponsor, Oriental Patron Asia Limited ("Oriental Patron"), neither Oriental Patron nor its directors, employees or associates had any interest in the share capital of the Company as at 30 September, 2004 pursuant to Rules 6.36 and 18.75 of the GEM Listing Rules.

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

AUDIT COMMITTEE

The Company established an audit committee on 2 June, 2003 with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.33 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 the two independent non-executive directors, namely Mr. He Ning, Mr. Zeng Zhijie and a non-executive director, Dr. Chen Qiwei.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company from the date of its shares listed on GEM during the nine months ended 30 September, 2004.

BOARD PRACTICES AND PROCEDURES

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

On behalf of the Board

Dr. Chen Yuhong

Managing Director

11 November, 2004, Beijing