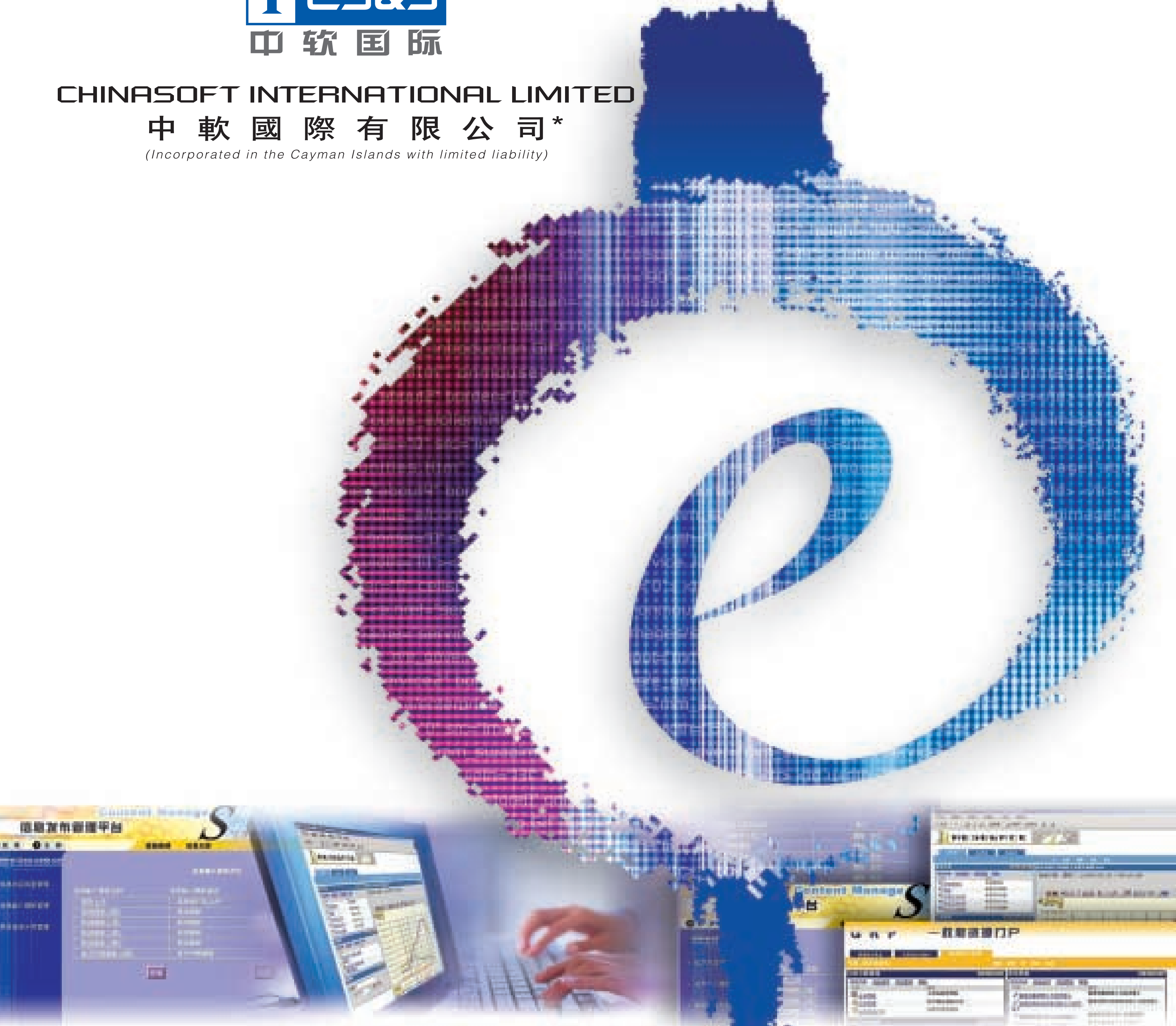
CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)



Annual Report 2003

*For identification purpose only

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.

Contents

REGISTERED OFFICE
Century Yard, Cricket Square, Hutchins Drive
P. O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC
3rd Floor, No.3 Building, Chinasoft Building
No. 55 Xue Yuan Nan Road
Haidian District, Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Units 4607-8, 46th Floor,
COSCO Tower
No.183 Queen's Road Central
Hong Kong

WEBSITE
www.icss.com.cn

COMPANY SECRETARY
Mr. Yim Hing Wah, Terence, *FCCA, AHKSA*

COMPLIANCE OFFICER
Dr. Chen Yuhong

QUALIFIED ACCOUNTANT
Mr. Yim Hing Wah, Terence, *FCCA, AHKSA*

AUDIT COMMITTEE
Mr. He Ning
Mr. Zeng Zhijie
Dr. Chen Qiwei

AUTHORISED REPRESENTATIVES
Dr. Chen Yuhong
Mr. Yim Hing Wah, Terence, *FCCA, AHKSA*

INTERNATIONAL AUDITORS
Deloitte Touche Tohmatsu

SPONSOR
Oriental Patron Asia Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Bank of Butterfield International (Cayman) Ltd.
Butterfield House, 68 Fort Street
P. O. Box 705
George Town
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Room 1901–5
19th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS
Bank of China
Haidian sub-branch
No. 58 Zhi Chun Road
Haidian District, Beijing
PRC

The Bank of East Asia Limited
22nd Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Hong Kong

STOCK CODE
8216

JANUARY

- Signed the first business contract with China State Standardizations Administrative Committee, marking the Group's advent into the "e-Quality Project".

- Appointed to organize the Training Course for Computer Information Systems Project Manager by the State Ministry of Information Industry.

FEBRUARY

- Signed the "Contract for e-Government development of Dalian Development Zone" with the Dalian Development Zone, and made further progress on the e-park Digitalized Economic Technology Development Zone Solution of the Group.

- Signed the Contract of Information Technology Consultation and Training with the State Audit Office to provide training our e-government affairs.

APRIL

- The e-government platform software "ResourceOne" of the Group was subsidized and appraised by the State Science and Technology Office as a project under the State Level Torch Programme.

JUNE

- The Company was successfully listed on GEM of the Stock Exchange.

- Donated to the "Angel Fund" (a special purpose fund for fighting SARS).

JULY

- Signed the Development Contract for Business Decision Making Management System for Tobacco Rolling Industry" with the State Tobacco Control Bureau, marking the official entry of the Group into the tobacco industry.

AUGUST

- Successfully completed the design work of the framework of the tobacco industry information solution, and Business Decision Making Management System for Tobacco Rolling Industry" passed the verification of the expert team of the State Tobacco Control Bureau.

SEPTEMBER

- The Group was recognized as the number one brand of the software product of e-government application support platform in the PRC by CCID.

- Set up the Chinasoft International (GuangZhou) Company Limited.

- Signed the master integration contract of "e-Audit Project" with the State Audit Office and established the Group's status of general consultation, general integration and general services in the e-Audit Project.

- Entrusted by the State Council Information Work Office to undertake the "Standard Research on the Information and e-Government Knowledge and Skill Training of Cadres"

OCTOBER

- Signed the "GuangZhou Development Zone e-Government Contract" with the GuangZhou Development Zone, and clients of the Group's e-Park Digitalized Economic Technology Development Zone Solution now included the three largest economic and technology development zones in the PRC.

- The Group was elected as one of the Top 100 Companies of China e-Government Projects.

- Set up Chinasoft International (HangZhou) Company Limited.

DECEMBER

- The Group was recognized as "Major Software Enterprise within the State Planning" by the State Development Restructuring Commission, Ministry of Information Industry, Ministry of Commerce and State General Administration of Taxation.

- The Group established strategic alliance with Internet Securities Systems ("ISS"), (NASDAQ: ISSX), one of the largest providers of network security system.

- The Group participated in the "Implementation Meeting of Business Decision Making Management System Project for Tobacco Rolling Industry" to promote the "The Business Decision Making Management System Project for Tobacco Rolling Industry for State Tobacco Control Bureau" of the Group.

- The Group was recognized as Core Platform Technology Provider of e-Security Project by the Ministry of Labor and Social Security.

2003 was a historical year for the Company. Its shares were successfully listed on GEM of Hong Kong Stock Exchange in June 2003 and remarkable results were achieved during the year. e-government solutions of the Group has made a groundbreaking progress in launching into various sectors such as tobacco industry, auditing and Development Zones. Our e-Government platform software was accredited as a first-class brand name in the PRC. The Group's results continued to maintain a stable growth, providing a stronger momentum to drive further ahead.

Shares of the Company were listed on GEM of the Stock Exchange in June 2003 with outstanding market performance. It has illustrated our development target at establishing e-Government as a first-class brand name in PRC with practical, aggressive and appropriate to the PRC's growth strategy, and our intelligent, courageous and flexible management team are well recognized in the capital market.

OPERATION RESULTS

For the year ended 31 December 2003, the Company recorded a turnover and net profit of approximately RMB166,055,000 and RMB24,117,000 (2002: approximately RMB114,485,000 and RMB19,409,000) respectively, an increase of 45% and 24% respectively over that of last year. Earnings per share was approximately RMB0.04 (2002: RMB0.04).

The directors recommend the payment of a final dividend of HK$0.01 per share for the year ended 31 December 2003.

BUSINESS REVIEW

During the year of 2003, the implementation of e-government in the PRC continued its rapid growth. According to a research report by CCID, investment in e-government amounted to RMB32.91 billion in 2003, an increasing 17.6% as compared with RMB27.984 billion in 2002. During the reporting period, on the foundation of continual and rapid business growth, the Group had achieved solid progress in a number of areas, namely: (1) the successful development of e-tobacco solution; (2) gaining of customers' confidence in the Group's e-Audit solution; (3) further enhancement of the competitive edge of the e-Park solution; (4) e-government supporting platform software of the Group being accredited as a first-class brand name in the PRC; (5) the Group was recognised as "國家規劃布局內的重點軟件企業"; (6) jointly set up a strategic alliance with ISS; (7) wholly owned subsidiaries were set up in Guangzhou and Hangzhou. All these point to our further strengthening of the e-government business and a significant step being made in the development of the Group's business of a first-class brand name in the PRC.

PROSPECT

Looking into 2004, the rapid growth trend of e-government in the PRC will continue, while other major projects such as e-Security, e-Quality, e-Audit, e-Agriculture, e-Water and e-Shield will be ready to commence; and the market for e-government related businesses, such as information security, e-signature, development and utilization of information resources will be more flourished.

Given such business opportunity, the Group will take the following steps in order to achieve its strategic objective of becoming the premier brand in e-government in the PRC:

- To further expand the competitive advantage obtained by the Group on the solutions of tobacco industry by further promote its application solutions throughout the country; and according to the demand of the IT facilities of the tobacco industry, to upgrade the Group's e-tobacco solutions by virtue of the newly added application modules.

- To continue to step up the research and development and marketing of e-government solutions such as "e-Audit solution", "e-Park solution", etc., so as to enlarge the market share and consolidate the competitive advantages.

- To capture the business opportunities in e-government and explore new domains in the e-government industry, such as "e-Quality", "e-Security", etc. in order to accelerate the business growth.

- To strengthen the research and development and marketing of ResourceOne with an ultimate aim of building up the Group's core competitiveness.

- To implement a project integrating the sale and service ISS safe product and e-tobacco solution in 36 major tobacco production enterprises and 36 major metropolitan business enterprises in the PRC in order to construct and optimize the technological service network of the Group.

- By virtue of the opportunity from the cooperation with ISS, to expand the client base in a broader area, and in the meantime, to develop and promote a safer e-government solution.

- To continue with the promotion of the idea of "consultation on the basis of training", make stronger strategic alliance and consolidate the relevant resources to focus on developing a first class e-government consultation and planning team in the PRC and further secure the Group's favourable position in the high-end consultancy market of e-government in the PRC.

- According to the needs of the Group's strategic development, to look for suitable acquisition target, and to realize the rapid growth of its business through acquisition and merger.

APPRECIATION

Actions is more difficult than words. Our diligent staff is the key to the subsistence and success of the Group's long-term development. I hereby express my sincere thanks to every staff member for their zeal and dedication. I would like to remind our colleagues that our future ahead is full of immense challenges, for which we have to strive harder to make greater improvements.

Lastly, I would like to thank our shareholders, clients and strategic partners for their trust, support and assistance to Chinasoft over the year.

Dr. Chen Yuhong
Managing Director

Beijing, The PRC
26 March 2004

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 2003:

Major area	Major business objective stated in the Prospectus	Actual business Progress
1. Strengthen the Group's Solutions	• Continue to enrich the Group's software component bank by evaluating and upgrading existing components, and development new Solutions.	• The total software components of the Group reached 350 units.
	• Conduct feasibility study on upgrade existing e-Park solution (V1.0) including the installation of additional new modules such as the intelligent logistics module, one-stop office function module and customer relationship management module.	• The feasibility study on comprehensive upgrade existing e-Park solution (V1.0) has been completed; studies on national technological strategic projects such as development and applications of the technology of regional e-commerce and logistics public information project in Suzhou Industrial Park have been also finished.
	• Continue to establish new business partners/ strategic alliances with technology companies for joint development of Solutions.	• Established strategic alliances with ISS in order to jointly develop network security technology.

Major area	Major business objective stated in the Prospectus	Actual business Progress
2. Development of new standalone software products and enhancement of existing standalone software products	• Upgrade ResourceOne (V2.0) by installing and integrating new modules.	• More functional modules will be added to ResourceOne (V2.0): 1) Developed ResourceOne workflow module on the base of standard WFMC model; 2) Upgraded portal function; 3) Launched ResourceOne component model and developed a set of standards and tools for application system integration; 4) Launched the software management device to provide on-line installation and simple upgrade of components in wide area environment; and 5) Encapsulated Information ResourceOne and developed data transmission channels to provide safe transmission and data routing in a wide area environment for nationwide application system.
	• Conduct feasibility study on the development of new standalone software products.	• The feasibility study on development of ResourceOne (V3.0) has been completed.
	• Develop simplified version of ResourceOne.	• The study on development of simplified versions for ResourceOne has been completed.

Major area	Major business objective stated in the Prospectus	Actual business Progress
3. Development of the business of IT consulting and training and IT outsourcing	• Continue to monitor existing customers' systems and provide consulting and training services to them. Improve the existing e-Government training information. Upgrade existing e-government training materials.	• provided IT consulting and training services to clients such as Motorola and Nortel; and held training classes for project manager of computer IT system under the commission of Ministry of Information Industry.
	• Continue to enhance the utilization of the Group's resource by the provision of IT outsourcing.	• Continue the provision of IT outsourcing to clients such as Motorola and Nortel.
4. Sales and marketing	• Promote e-government solutions to government authorities and enterprises in ETDAs and government authorities.	• Participated in "implementation meeting of business decision making management system project for tobacco rolling industry" to promote the Group's e-tobacco solution for State Tobacco Control Bureau.
	• Seek suitable distributors as the Group's sales offer.	• Cooperate with various distributors for sale of software products and solutions of the Group.
	• Set up sales offices in the Guangdong.	• Established Chinasoft International (Guanzhou) Information Technology Limited and Chinasoft International (Hangzhou) Information Technology Limited in Guanzhou and Hangzhou respectively.

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.

As at 31 December 2003, the Company had incurred the following amount to achieve its business objectives as set out in the Prospectus:

Major area stated in the Prospectus	Intended use of proceeds stated in the Prospectus up to 31 December 2003 HK$' million	Actual amount used up to 31 December 2003 HK$' million	Unused balance HK$' million
1. Development of new and enhancement of the Group's existing solutions	3.00	3.00	–
2. Development f new standalone software products and enhancement of the Group's existing solutions	3.00	3.00	–
3. Development of business of IT consulting and training	0.50	0.50	–
4. Development of business of IT outsourcing	0.75	0.75	–
5. Sales and Marketing	1.70	1.70	–
	8.95	8.95	-

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.

FINANCIAL REVIEW

For the fiscal year ended 31 December 2003, the Company reported a total turnover of RMB166,055,000 and profit attributable to shareholders of RMB24,117,000 as compared to a turnover of RMB114,485,000 and profit of RMB19,409,000 in 2002, representing an increase of about 45% and 24% respectively. Earnings per share is approximately RMB0.04 and net assets per share of the Company is approximately RMB0.2.

Analysis of Turnover

The turnover of the Company for the year ended 31 December 2003 can be classified by categories of services and products:

Products Segment	**2003**		2002		
	Turnover RMB'000	**Portion**	Turnover RMB'000	Portion	Increase (decrease) in Turnover %
Solutions	**114,888**	**69%**	86,364	75%	33%
IT Outsourcing	**45,247**	**27%**	22,824	20%	98%
IT Consulting and Training Services	**2,629**	**2%**	1,958	2%	34%
Standlone Software Products	**3,291**	**2%**	3,339	3%	(1%)
Total	**166,055**	**100%**	114,485	100%	45%

No geographical segments information of the Group is shown as the operating business of Group is solely carried out in the PRC and its assets are substantially located in the PRC.

Results

The Group has continued a substantial growth in the operational results for the year ended 31st December, 2003. For year ended 31st December, 2003, the Group generated revenue of approximately RMB166,055,000 and a profit of approximately RMB24,117,000, representing a 45% and 24% growth in revenue and net profit respectively. The increase in net profit was attributable to the Group's continuous efforts in marketing through the expansion of the sales and marketing team to develop relationships with prospective customers and attending various seminars to promote the Group's solutions, particularly the e-Tobacco, e-Park and e-Audit. As a results, new large contracts were made during the year with the State Tobacco Control Bureau, Dalian ETDA and the National Audit Office of the PRC. The increase in outsourcing revenue generated from information technology was due to the growing demand of outsourcing procurement of information technology hardware and software by the large-scale telecommunications clients of the Group. By compared with last period, the increase in gross profit margin for year 2003 from approximately 28% to 30% was due to large and high gross profit margin of solution contracts such as e-Tobacco in the State Tobacco Control Bureau, e-Park in Dalian ETDA and e-Audit in State Audit Office of the PRC were signed and completed during the current year. The distribution costs for the year were approximately RMB5,900,000, an increase of approximately 31% from the last period. The increase in distribution cost was mainly due to the expansion of the Group's sales and marketing team. The administrative expenses for the year was approximately RMB12,251,000, an increased of approximately 125% from the last year. The increase in administrative expenses was mainly due to the adjustment of the salary of the personnel in administration and additional prelimary expenses and rental expenses incurred for the Hong Kong, Guangzhou and Hangzhou new offices during the current year.

FINANCIAL RESOURCES AND WORKING CAPITAL

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

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

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

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

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

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

BUSINESS REVIEW

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

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

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

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

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

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

e-Audit solution is one of the "12 e-solutions" planned for the e-government market, and is the first e-solution initially approved by the State Planning Commission. After the consultancy period for the first phase of the e-Audit project, the Group had successfully signed a number of first phase contracts including the audit office automation module, the specialized application module for audit management both based on business intelligence. All these demonstrate the Group is recognized for its technology and service quality, and that the Group had gained customers' confidence in its "e-Audit solution". the Group regards the e-Audit solution project as an excellent opportunity to contribute to the digitalization of the national audit system.

Further enhancement of competitive edge of the e-Park solution

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

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

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

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

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

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

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

Strategic Alliance by the Group and ISS

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

Establishment of wholly-owned subsidiaries in Guangzhou and Hangzhou

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

HUMAN RESOURCES

As at 31 December 2003, the Company had a total of 238 employees, 222 of whom have bachelor degree. For the year ended 31 December 2003, the total staff costs paid by the Company to its staff was approximately RMB14,769,000 (2002: approximately RMB3,872,000).

A breakdown of employees of the Company by their functions as at 31 December 2003 and 2002 were as follows:

Departments	2003	2002
Management	8	8
Finance and administration	27	16
Research and development	102	75
Sales, technical support and marketing	101	46
Total	238	145

The pay scale of the Company's employees is maintained at a competitive level and employees are rewarded based on their performance according to the general framework of the Company's salaries and bonus systems, which is reviewed annually. The Group will implement a provident fund scheme for its staff in Hong Kong in compliance with the requirements of the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). The Group will also provide a medical insurance scheme for its staff in Hong Kong. According to the relevant PRC regulations, the Group is required to participate in the employee retirement scheme administered by the relevant local government bureau in the PRC and to make contributions for its employees who are eligible to participate in the scheme. The contributions to be borne by the Group are calculated at 19% of the basic salaries for those eligible employees.

FUTURE PROSPECTS

In 2004, the e-government market in the PRC will continue to see its rapid growth. A number of major constructions will be launched gradually, including e-Security, e-Quality, e-Agriculture, e-Water and e-Shield. Meanwhile, the e-government-related markets, such as information security, e-signature, exploration of information resources, are expected to become more and more prosperous.

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

- Upon the competitive advantage obtained by the Group on the solutions of tobacco industry, to further promote its application solutions throughout the country by fully capitalizing on the Group's technological and brand advantages, and according to the demand of the IT facilities of the tobacco industry, to upgrade the Group's e-tobacco solutions by virtue of the newly added application modules.

- To continue to step up the research and development and marketing of e-government solutions such as "e-Audit solution", "e-Park solution", etc., so as to enlarge the market share and consolidate the competitive advantages.

- To capture the business opportunities in e-government and explore new domains in the e-government industry, such as e-Quality, e-Security, etc.

- By virtue of the opportunity from the cooperation with ISS, to expand the client base in a broader area, and in the meantime, to develop and promote a safer e-government solution.

- To implement a project integrating the sale and service ISS safe product and e-tobacco solution in 36 major tobacco production enterprises and 36 major metropolitan business enterprises in the PRC in order to construct and optimize the technological service network of the Group.

- To strengthen the research and development and marketing of ResourceOne with an ultimate aim of building up the Group's core competitiveness.

- To continue with the promotion of the idea of "consultation on the basis of training", make stronger strategic alliance and consolidate the relevant resources to focus on developing a first class e-government consultation and planning team in the PRC and further secure the Group's favourable position in the high-end consultancy market of e-government in the PRC.

- According to the needs of the Group's strategic development, to look for suitable acquisition target, and to realize the rapid growth of its business through acquisition and merger.

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

The following sets out the profile of the Directors and senior management of the Company:

DIRECTORS

Executive Directors

Dr. Chen Yuhong (陳宇紅), aged 41, is the managing director of the Company and is responsible for the overall business development of the Group. He has over 10 years' experience in software development and corporate management. Dr. Chen holds a doctorate degree in optics from 北京理工大學(Beijing Polytechnic University) in 1991. Prior to joining the Group on 25 April 2000, Dr. Chen was the vice president of CS&S in 2000 and was appointed senior vice-president of CNTC(中軟網絡信息技術有限公司) in December 2003. He was a manager of the research department from October 1996 to April 2000. He was also a director of 中軟賽博資源軟件技術(天津)有限公司(Chinasoft Cyber Resources Software Technology (Tianjin) Company Limited), an associate company of CS&S from 1999 to March 2002. From June 1991 to October 1996, he was the deputy general manager of China Great Wall Computer Software Co., Ltd.

Mr. Cui Hui (崔輝), aged 42, is responsible for the financial management of the Group. Mr. Cui has about 20 years' experience in corporate management. Mr. Cui graduated from Jilin University (吉林大學) in the PRC in 1983 with a bachelor's degree in mathematics. Prior to joining the Group on 25 April 2000, Mr. Cui worked for CS&S as deputy department head from August 1983 to April 1992, deputy general manager from July 1999 to January 2000 and was the vice president of CS&S in 2000. From May 1992 to December 1997, Mr. Cui was the deputy general manager and general manager of 東方科技(北京)有限公司(Oriental Technology (Beijing) Company Ltd) . He was the general manager of 中軟同和系統集成有限公司 (Chinasoft Tonghe Systems Integration Company Ltd) from January 1998 to June 1999. Mr. Cui currently holds directorship of CNTC. In December 2003, he was appointed senior vice-president of CNTC(中軟網絡信息技術有限公司).

Mr. Duncan Chiu (邱達根), aged 30, is responsible for the business development and overall strategic planning of the Group. He has been involved in the management of the Group since joining the Group on 24 January 2000. Mr. Chiu holds a bachelor's degree in business administration from Pepperdine University, USA in 1996. Mr. Chiu has been the joint managing director of Far East and a non-executive director of Far East Hotels and Entertainment Limited since October 1996. Mr. Chiu was appointed as a vice president of Hong Kong & Mainland Software Industry Cooperation Association since September 2002. He is the brother of Mr. David Chiu, a non-executive Director.

Mr. Peng Jiang (彭江), aged 35, is responsible for the sales and marketing of the Group. Mr. Peng joined the Group as a general manager on 25 April 2000. Mr. Peng graduated from 北京理工大學(Beijing Polytechnic University) in 1992 with a bachelor's degree in computer application. He has over 10 years experience in the IT industry. From 1992 to 1997, Mr. Peng worked for 電子工業部六所華勝計算機有限公司(China Electronics Technology (Group) Company, No.6th Research Institute of the Ministry of Electronic Industry of the PRC). He worked for Sun Computer (China) Limited as a manager from 1997 to 2000.

Non-executive Directors

Mr. David Chiu (邱達昌), aged 50, was appointed on 18 April 2000. Mr. David Chiu has over 27 years' experience in corporate management. He holds a double degree of bachelor of science in business administration and economics from Sophia University, Japan in 1975. Mr Chiu has been a director of Far East Hotels and Entertainment Limited since April 1979 and a director of Far East since June 1981, the shares of both companies are listed on the Main Board. Mr. Chiu has been the deputy chairman and chief executive officer of Far East Consortium International Limited, the shares of which are listed on the Main Board, since December 1994 and October 1997, respectively. He is a brother of Mr. Duncan Chiu, an executive Director.

Mr. Liu Zheng (劉征), aged 32, was appointed on 14 June 2002. He has been a general manager of ITG since April 2000. From 1997 to 2000, he was the general manager of 任鼎榮投資管理公司(DingRong Investment Management Co., Ltd). Mr. Liu worked for China Everbright Bank from 1992 to 1997. Mr. Liu has 10 years' experience in the financial industry and graduated from Finance and Banking Institute of China (中國金融學院) in 1992 with a bachelor's degree in economics.

Dr. Chen Qiwei (陳琦偉), aged 51, was appointed on 14 June 2002. Dr. Chen is currently a director of ABCCL since February 1999 and has been a professor of 上海交通大學(Shanghai Communications University) since September 1997. He is also a committee member of various economic institutions such as China Society for Research on Economic System Reform, Chinese Society of World Economy and Chinese Association of Asia-Pacific Studies in the PRC. Dr. Chen holds a doctorate degree in economics from 華東師範大學(East China Normal University) in 1988 and has over 10 years' experiences in the finance and investment industry in the PRC.

Independent non-executive Directors

Mr. He Ning (何寧), aged 45, was appointed on 2 July 2002. Mr. He has been the chief executive officer of Beijing CCG Technology Co. Ltd. since September 2000. From January 1997 to August 2000, he was the vice president of the Beijing representative office of Merrill Lynch. Mr. He was the assistant officer of the China Stock Exchange Executive Council from July 1993 to December 1996. He also worked for Morgan Stanley as manager from May 1990 to June 1993. Mr. He obtained a master's degree in business administration from the University of Texas in 1984. Mr. He has over 10 years experience in investment banking, direct investment and venture business management in the PRC and the USA.

Mr. Zeng Zhijie (曾之杰), aged 36, was appointed on 21 April 2003. Mr. Zeng holds a master's degree in business administration from Stanford University in June 2001, and is a vice president of Walden International since October 2001, a global venture capital firm with an investment focus on the communications, electronics, software & IT services, semiconductors and life sciences/healthcare industries.

SENIOR MANAGEMENT

Mr. Chen Yuqing (陳宇清), aged 36, is the marketing business development manager and is responsible for the sales and marketing of the Group. Mr. Chen joined the Group on 25 April 2000, he has accumulated over 7 years of experience in marketing and IT development. He holds a bachelor's degree in 中國地質大學(China University of Geosciences) in 1992. Before joining the Group, he was a sales manager of the Sun Computer (China) Company Ltd. from July 1996 to 2000. He was the sales manager of 電子部六所華勝計算機有限公司from 1993 to 1996.

Mr. Zhang Chongbin (張崇濱), aged 41, is the general manager of the R&D department of the Group. Prior to joining the Group on 25 April 2000 he was appointed as manager in CS&S from 1999 to April 2000. He was the general manager of 重慶三峽游船公司(Chongqin Sanxia Yachit Co., Ltd) from 1997 to 1999. From 1994 to 1997, he worked for 玫瑰實業有限公司(Rose Enterprise Co., Ltd) as the deputy general manager. Mr. Zhang graduated from 西北大學(Northwest University) in the PRC in 1987 with a bachelor's degree in economics.

Dr. Tang Zhenming (唐振明), aged 41, is the human resources and administrative manager of the Group. Prior to joining the Group on 25 April 2000, Dr. Tang was employed by 北京理工大學產業總公司(Beijing Institute of Technology Industrial Company) as deputy general manager from May 1995 to March 2000 and by 美國W&P 公司北京辦事處(American W&P Company, Beijing Office) as officer from December 1993 to March 1995. He holds a bachelor's degree in vehicle engineering from 清華大學 (Tsinghua University) in 1985 and a doctorate degree in motor electronic control from 北京理工大學(Beijing Polytechnic University) in 1994.

Mr. Wang Hui (王暉), aged 31, is the general manager of the product and solution development team of the Group. He is responsible for the designing of technical solutions and consulting. Mr. Wang graduated from 天津大學 (Tianjin University) in 1995. He has 6 years experience in systems analysis and in the design of system infrastructure. Prior to of joining the Group on 25 April 2000, Mr. Wang was a manager of China Greatwall Computer Software Co., Ltd from 1995 to 2000.

Mr. Yim Hing Wah, Terence (嚴慶華), aged 39, is the qualified accountant and company secretary of the Company. He has over 9 years of experience in auditing, accounting and financial management. Prior to joining the Group on 3 July 2002, he was the qualified accountant of Jiangsu Nandasoft Company Limited, a company listed on GEM from January 2001 to July 2002. He worked for Deloitte Touche Tohmatsu as manager from July 1992 to December 2000. Mr. Yim holds a bachelor's degree in accounting from Hong Kong Polytechnic University in 1991 and is a member of the Hong Kong Society of Accountants, the Association of Chartered Certified Accountants and a member of Hong Kong Securities Institute.

Mr. Xie Hua (解華), aged 60, is the technical supervisor of the Group. He is responsible for the research and development strategic planning and execution (or implementation). Mr. Xie graduated from the 中國科技大學 (University of Science and Technology of China) with a bachelor's degree in engineering in 1968. He has over 20 years' experience in research and development of computer software. Mr. Xie joined the Group on 25 April 2000 from CS&S where he was employed as senior engineer from July 1980 to April 2000.

Mr. Chen Pei (陳培), aged 31, is the assistant general manager of the Group's R&D department. Mr. Chen graduated from 南昌航空工業學院 (Nanchang Institute of Aviation Industry) in 1995. He has 4 years' experience in system project management. He joined the Group on 25 April 2000. Prior to joining the Group, he was employed by 航空部民品公司 as technological engineer from June 1995 to April 2000.

Mr. Yu Yongxin (于永欣), aged 37, is the manager of the Group's engineering department. Mr. Yu graduated from 北京大學 (Peking University) with a bachelor's degree in statistics in 1989. He has 10 years' software development and system integration experience. He joined the Group on 25 April 2000. Prior to joining the Group, he was employed by AsiaInfo Technologies (China) Ltd as software engineer from 1994 to 2000. He also worked for 北京嘉利泰公司 (Beijing Jialitai Company Ltd) as software engineer from 1992 to 1994.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Yim Hing Wah, Terence (嚴慶華), is the qualified accountant and company secretary of the Company. Please refer to the paragraph headed "Senior management" in this section below for further details regarding his background.

The Directors present to the shareholders their first report together with the audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Group is one of the developers and providers of Solutions in the PRC with government authorities and their respective IT service providers as its main target customers. In addition to the provision of Solutions as its core business, the Group also provides IT consulting and training services, IT outsourcing services and standalone software products that are complementary to its provision of Solutions.

The Company has recorded a turnover and profit attributable to shareholders of approximately RMB166,055,000 and RMB24,117,000 respectively for the year ended 31 December 2003. An analysis of segmental turnover of the Group for the year ended 31 December 2003 is set out in the note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Company for the year are set out in the income statement on page 29.

The Directors recommended the payment of a final dividend of HK$0.01 per share for the year ended 31 December 2003.

RESERVES

Movements in the reserves of the Group during the year are set out on page 32.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the financial statements.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes of the Group are set out in note 27 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 22 to the financial statements.

DISTRIBUTABLE RESERVE

Distributable reserve of the Company as at 31 December 2003 amounted to RMB43,747,000 (2002: RMB42,828,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws requiring the Company to offer new shares to the existing shareholders of the Company in proportion to their shareholdings and there was no restriction against such rights under the laws of the PRC.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 56.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Dr. Chen Yuhong
Mr. Cui Hui
Mr. Duncan Chiu
Mr. Peng Jiang

Non-executive Directors

Mr. David Chiu
Mr. Liu Zheng
Dr. Chen Qiwei

Independent non-executive Directors

Mr. He Ning
Mr. Zheng Zhijie (appointed on 21 April 2003)

DIRECTORS' SERVICE CONTRACTS

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

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out in the section of "Biographical Details of Directors and Senior Management" of this annual report.

EMOLUMENTS OF DIRECTORS

Details of the emoluments of Directors of the Company are set out in note 6 to the financial statements.

FIVE HIGHEST PAID STAFF

Details of the five highest paid staff of the Company are set out in note 6 to the financial statements.

DIRECTORS' INTERESTS IN SHARES

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

Exercise Period Commencing	Ending	Exercise Price per share	Number of Shares exercisable
13/08/2004	12/08/2013	HK$0.58	25% of the total number of share options granted
13/08/2005	12/08/2013	HK$0.58	25% of the total number of share options granted
13/08/2006	12/08/2013	HK$0.58	25% of the total number of share options granted
13/08/2007	12/08/2013	HK$0.58	25% of the total number of share options granted

Save as disclosed above, the Directors have no interests and short positions in the shares, debentures or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which have been required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which have been required, pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange as at 31 December 2003.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

SHARE OPTION SCHEME

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

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

Exercise Period Commencing	Ending	Exercise Price per share	Number of Shares exercisable
13/08/2004	12/08/2013	HK$0.58	25% of the total number of share options granted
13/08/2005	12/08/2013	HK$0.58	25% of the total number of share options granted
13/08/2006	12/08/2013	HK$0.58	25% of the total number of share options granted
13/08/2007	12/08/2013	HK$0.58	25% of the total number of share options granted

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

SUBSTANTIAL SHAREHOLDERS

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

Long positions in Shares

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

Notes:

1. Mr. Duncan Chiu and Mr. David Chiu, an executive Director and a non-executive Director of the Company respectively are nominated by Far East.

2. Castle Logistics is beneficially owned by 10 shareholders of which 3 shareholders are Directors and 7 shareholders are senior management staff of the Group. Castle Logistics has appointed Dr. Chen Yuhong, Mr. Cui Hui and Mr. Peng Jiang as Directors and Mr. Xie Hua, Mr. Chen Yuqing, Dr. Tang Zhenming, Mr. Zhang Chongbin, Mr. Wang Hui, Mr. Chen Pei and Mr. Yu Yongxin as senior management of the Group. These 10 individuals became shareholders of Castle Logistics on 25 April 2000.

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

Name	**Entire issued share capital of Castle Logistics**
Mr. Cui Hui	18%
Dr. Chen Yuhong	18%
Mr. Xie Hua	18%
Mr. Chen Yuqing	8%
Dr. Tang Zhenming	8%
Mr. Zhang Chongbin	8%
Mr. Peng Jiang	5.5%
Mr. Wang Hui	5.5%
Mr. Chen Pei	5.5%
Mr. Yu Yongxin	5.5%

3. The entire issued share capital of Authorative is beneficially owned by Mr. Yue Qianming.

4. The entire issued share capital of ITG is beneficially owned by Mr. Zhou Qi.

5. The entire issued share capital of Prosperity is beneficially owned by Mr. Joseph Tian Li.

Save as disclosed above, the Company had not been notified of any other interests representing 5% or more of the Company's issued share capital as at 31 December 2003, or any substantial shareholders as recorded in the register required to be kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Company's major suppliers and customers are as follows:

Purchases	
— the largest supplier	11%
— five largest suppliers combined	45%
Sales	
— the largest customer	14%
— five largest customers combined	48%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

RELATED PARTY TRANSACTIONS

A summary of related party transactions of the Group during the year was disclosed in note 28 to the financial statements.

BOARD PRACTICES AND PROCEDURES

During the period from 20 June 2003 to 31 December 2003, the Company was in compliance with the board practices and procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

COMPETING INTERESTS

Mr. Cui Hui, an executive Director, was interested in approximately 1.34% of the issued share capital of CNTC and also served as a director of CNTC. In addition, Mr. Cui Hui and Dr. Chen Yuhong was appointed as a senior vice president by CNTC since December 2003. Although the Directors are of the view that the principal activities of CNTC do not directly compete with those of the Group currently, both the Group and CNTC however are also engaged in the provision of IT 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 2003 pursuant to Rules 6.35 and 18.63 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 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises the two independent non-executive directors, namely Mr. He Ning and Mr. Zeng Zhijie and a non-executive director, Dr. Chen Qiwei.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2003.

BOARD PRACTICES AND PROCEDURES

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

INTERNATIONAL AUDITORS

The accounts have been audited by Messrs. Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Dr. Chen Yuhong
Managing Director

Beijing, The PRC
26 March 2004

德勤‧關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu

TO THE SHAREHOLDERS OF CHINASOFT INTERNATIONAL LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 29 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
Hong Kong, 26 March 2004

Consolidated Income Statement

For the year ended 31 December 2003

	NOTES	2003 RMB'000	2002 RMB'000
Turnover	4	**166,055**	114,485
Cost of sales		**(117,050)**	(82,350)
Gross profit		**49,005**	32,135
Other operating income		**765**	761
Distribution costs		**(5,900)**	(4,521)
Administrative expenses		**(12,251)**	(5,439)
Amortisation of development costs		**(160)**	(79)
Profit from operations	5	**31,459**	22,857
Finance costs	7	**(497)**	–
Profit before taxation		**30,962**	22,857
Taxation	8	**(2,735)**	–
Profit before minority interests		**28,227**	22,857
Minority interests		**(4,110)**	(3,448)
Net profit for the year		**24,117**	19,409
Dividend	9	**–**	5,406
Earnings per share	10		
Basic		**RMB0.04**	RMB0.04
Diluted		**RMB0.04**	N/A

	NOTES	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	11	**8,520**	5,848
Development costs	12	**3,499**	3,228
Loans to employees	13	**953**	1,475
		12,972	10,551
Current assets			
Inventories	15	**7,290**	3,466
Trade and other receivables	16	**75,460**	48,030
Amount due from minority shareholder of a subsidiary	17	**2,500**	–
Loans to employees	13	**78**	–
Pledge bank deposits	18	**743**	–
Bank balances and cash		**84,074**	34,851
		170,145	86,347
Current liabilities			
Trade and other payables	19	**26,753**	18,756
Bills payable		**2,948**	–
Amount due to a shareholder	20	**50**	630
Dividend payable to minority shareholder of a subsidiary		**1,500**	–
Bank loans – unsecured		**10,000**	–
Taxation payable		**1,163**	–
		42,414	19,386
Net current assets		**127,731**	66,961
Total assets less current liabilities		**140,703**	77,512
Non-current liabilities			
Deferred tax liabilities	21	**410**	–
Minority interests		**14,182**	11,572
		126,111	65,940
Capital and reserves			
Share capital	22	**33,920**	118
Reserves		**92,191**	65,822
		126,111	65,940

The financial statements on pages 29 to 55 were approved and authorised for issue by the board of directors on 26 March 2004 and are signed on its behalf by:

Chen Yuhong
Director

Duncan Chiu
Director

	NOTES	2003 RMB'000	2002 RMB'000
Non-current assets			
Investments in subsidiaries	14	**–**	–
Current assets			
Other receivables		**311**	–
Amount due from a subsidiary		**86,095**	42,946
		86,406	42,946
Current liabilities			
Other payables		**761**	–
Amounts due from subsidiaries		**7,978**	–
		8,739	–
Net current assets		**77,667**	42,946
		77,667	42,946
Capital and reserves			
Share capital	22	**33,920**	118
Reserves	23	**43,747**	42,828
		77,667	42,946

Chen Yuhong
Director

Duncan Chiu
Director

	Share capital RMB'000	Share premium RMB'000	Translation reserve RMB'000	General reserve fund RMB'000 (note 23)	Enterprise expansion fund RMB'000 (note 23)	Accumulated profits RMB'000	Total RMB'000
At 1 January 2002	118	42,833	49	–	–	8,937	51,937
Net profit for the year	–	–	–	–	–	19,409	19,409
Dividend for 2001 paid	–	(5)	–	–	–	(5,401)	(5,406)
Appropriations	–	–	–	970	485	(1,455)	–
At 31 December 2002	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

For The Year Ended 31 December 2003

	2003 RMB'000	2002 RMB'000
Cash flows from operating activities		
Profit before taxation	30,962	22,857
Adjustments for:		
Interest expense	497	–
Interest income	(320)	(151)
Amortisation of development costs	160	79
Depreciation of property, plant and equipment	1,481	985
Operating cash flows before movements in working capital	32,780	23,770
(Increase) decrease in inventories	(3,824)	850
Increase in trade and other receivables	(27,430)	(29,430)
Increase in trade and other payables	7,997	6,841
Increase in bills payable	2,948	–
Cash generated from operations	12,471	2,031
Interest paid	(497)	–
PRC Enterprise tax paid	(1,162)	–
Net cash generated from operating activities	10,812	2,031
Cash flows from investing activities		
Repayment from (loans to) employees	444	(1,475)
Interest received	320	151
Purchase of property, plant and equipment	(4,153)	(2,910)
Advances to minority shareholder of a subsidiary	(2,500)	(7,280)
Increase in pledged bank deposits	(743)	–
Additions of development costs	(431)	(2,644)
Repayment from minority shareholder of a subsidiary	–	7,280
Net cash used in investing activities	(7,063)	(6,878)
Cash flows from financing activities		
Proceeds from issue of new shares	54,272	–
Bank loans raised	15,000	–
Expenses paid in connection with the issue of new shares	(18,218)	–
Bank loans repaid	(5,000)	–
(Repayment to) advances from a shareholder	(580)	335
Dividend paid	–	(5,406)
Dividend paid to minority shareholder of a subsidiary	–	(961)
Net cash from (used in) financing activities	45,474	(6,032)
Net increase (decrease) in cash and cash equivalents	49,223	(10,879)
Cash and cash equivalents at beginning of the year	34,851	45,730
Cash and cash equivalents at end of the year representing bank balance and cash	84,074	34,851

1. GENERAL INFORMATION OF THE COMPANY

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 16 February 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The shares of the Company are listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 20 June 2003.

The Company is an investment holding company. The principal activities of the Group are development and provision of solutions, provision of information technology (“IT”) consulting, training, outsourcing services and standalone software products.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard (“HKFRS”) issued by the Hong Kong Society of Accountants. The term of HKFRS is inclusive of Statements of Standard Accounting Practice (“SSAP(s)”) and interpretations approved by the Hong Kong Society of Accountants:

SSAP 12 (Revised) Income taxes

SSAP 12 (Revised) has changed the approach of accounting for income taxes (including both current taxation and deferred taxation) which have been adopted in the financial statements. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred taxation. The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current or prior accounting periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal respectively, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Income from solutions and IT outsourcing is recognised on the percentage of completion method by reference to the value of work carried out during the year.

Income from provision of IT consulting and training services is recognised when the services are performed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold improvements	20%
Furniture, fixtures and equipment	20%
Motor vehicles	10%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over the estimated useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Project-based IT development contracts

When the outcome of a contract for project-based IT development can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date bear to estimated costs for each contract.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Where it is probable that the total contract costs will exceeded total contract revenue, the expected loss is recognised as an expense immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

3. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Taxation – continued

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in currencies other than Renminbi are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Renminbi are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, assets and liabilities of the subsidiaries which are denominated in currencies other then Renminbi are translated at rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group translation reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

Retirement benefit costs

Payments to the state-managed retirement benefit schemes or the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

4. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold and services rendered during the year.

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 products. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented as follows:

Income statement
For the year ended 31 December 2003

	Solutions RMB'000	**IT outsourcing** RMB'000	**IT consulting and training services** RMB'000	**Standalone software products** RMB'000	**Consolidated** RMB'000
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

4. TURNOVER AND SEGMENT INFORMATION – CONTINUED

Income statement – continued

For the year ended 31 December 2002

	Solutions	IT outsourcing	IT consulting and training services	Standalone software products	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	86,364	22,824	1,958	3,339	114,485
Segment result	23,110	4,643	1,044	3,338	32,135
Unallocated other operating income					761
Unallocated corporate expenses					(10,039)
Profit before taxation					22,857
Taxation					–
Profit before minority interests					22,857
Minority interests					(3,448)
Net profit for the year					19,409

No business segment information for the assets, liabilities, capital contributions, depreciation and other non-cash expenses of the Group is shown as all the assets and liabilities are shared by the business segments and cannot be separately allocated.

Geographical segments

No geographical segments information of the Group is shown as the operating businesses of the Group are substantially carried out in the People's Republic of China (the "PRC") and the Group's assets are substantially located in the PRC.

5. PROFIT FROM OPERATIONS

	2003 RMB'000	2002 RMB'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (note 6)	**1,165**	448
Retirement benefit costs	**279**	116
Other staff costs	**13,325**	3,308
Total staff costs	**14,769**	3,872
Allowance for doubtful debts	**320**	150
Auditors' remuneration	**477**	20
Cost of inventories recognised as an expense	**103,835**	66,906
Depreciation of property, plant and equipment	**1,481**	985
Minimum lease payments in respect of land and buildings	**1,151**	648
and after crediting:		
Interest income	**320**	151

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

Details of emoluments to the directors of the Company are as follows:

	2003 RMB'000	2002 RMB'000
Fees for:		
Executive directors	**–**	–
Non-executive directors	**–**	–
Independent non-executive directors	**64**	–
Other emoluments for executive directors:		
Salaries and other benefits	**1,092**	437
Retirement benefit costs	**9**	11
	1,101	448
Other emoluments for non-executive directors:		
Salaries and other benefits	**–**	–
Performance related incentive payments	**–**	–
Retirement benefit costs	**–**	–
	–	–
Total directors' remuneration	**1,165**	448

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – CONTINUED

Directors' emoluments – continued

Details of directors' remuneration by individuals are as follows:

	2003 RMB'000	2002 RMB'000
Executive director A	491	207
Executive director B	430	181
Executive director C	120	60
Executive director D	60	–
Non-executive director E	–	–
Non-executive director F	–	–
Non-executive director G	–	–
Independent non-executive director H	32	–
Independent non-executive director I	32	–

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2002: two) are directors of the Company, whose emoluments are included above. The emoluments of the remaining three (2002: three) highest paid individuals are as follows:

	2003 RMB'000	2002 RMB'000
Salaries and other benefits	818	511
Performance related incentive payments	–	–
Retirement benefit costs	12	16
	830	527

The emoluments of each of the five highest paid individuals were less than HK$1,000,000 (equivalent to RMB1,060,000).

No emolument were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group, or as compensation for loss of office. None of the directors has waived any emoluments during the year.

7. FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Interest on borrowings wholly repayable within five years:		
Bank loans	451	–
Other borrowings	46	–
	497	–

8. TAXATION

	2003 RMB'000	2002 RMB'000
The charge comprises:		
Income tax calculated at the rates prevailing in the PRC	2,325	–
Deferred tax	410	–
	2,735	–

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit in Hong Kong.

Pursuant to an approval document issued by the State Bureau of Beijing Haidian District dated 21 November 2000, 北京中軟國際信息技術有限公司 (formerly 北京中軟遠東國際信息技術有限公司) ("Chinasoft Beijing"), a subsidiary of the Company, has been designated as an advanced technology enterprise and was entitled to the three year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2000. Chinasoft Beijing is subject to the income tax computed at the rate of 7.5% for the three years ending 31 December 2005 and at the rate of 15% on its taxable profit thereafter.

Pursuant to an approval document issued by the Guangzhou National Tax Bureau, 中軟國際(廣州)信息技術有限公司 ("Chinasoft Guangzhou"), a subsidiary of the Company, was entitled to enjoy tax exemption and reduction from income tax commencing from the first profit-making year.

8. TAXATION – CONTINUED

The charge for the year can be reconciled to profit before taxation as follows:

	2003 RMB'000	2002 RMB'000
Profit before taxation	**30,962**	22,857
Tax at PRC income tax rate of 33% (2002: 33%)	**10,217**	7,543
Tax effect attributable to exempted profit	**(8,489)**	(6,899)
Tax effect of expenses that are not deductible in determining taxable profit	**376**	–
Tax effect of income that is not taxable in determining taxable profit	**(48)**	–
Tax effect of Hong Kong Profits Tax losses not recognised	**64**	19
Effect of different tax rate of subsidiaries	**250**	23
Others	**365**	(686)
Tax charge for the year	**2,735**	–

Details of the deferred taxation are set out in note 21.

9. DIVIDEND

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

A final dividend of HK$0.01 (equivalent to RMB0.0106) per share amounted to approximately RMB6,784,000 has been proposed by the directors and is subject to approval by the shareholders in general meeting.

10. EARNINGS PER SHARE

The calculations of the basic earnings per share is based on the net profit for the year of RMB24,117,000 (2002: RMB19,409,000) and on the weighted average number of 565,041,096 shares (2002: 480,000,000 shares) that would have been in issue throughout the year if the sub-division of the Company's shares as described in note 23 had been taken place on 1 January 2002.

The computation of diluted earnings per share for the year ended 31 December 2003 is as follows:

	RMB'000
Earnings for the purpose of calculating diluted earnings per share	24,117

	Number of shares
Weighted average number of shares for the purpose of calculating basic earnings per share	565,041,096
Effect of dilutive potential shares issuable under the Company's share option scheme	459,283
Weighted average number of shares for the purpose of calculating diluted earnings per share	565,500,379
Diluted earnings per share for the year ended 31 December 2003	RMB0.04

No diluted earnings per share have been presented for the year ended 31 December 2002 as the Company did not have any potential ordinary shares outstanding in that year.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	**Furniture, fixtures and equipment** RMB'000	**Motor vehicles** RMB'000	**Total** RMB'000
THE GROUP				
COST				
At 1 January 2003	1,741	4,514	1,100	7,355
Additions	1,013	1,675	1,465	4,153
At 31 December 2003	2,754	6,189	2,565	11,508
DEPRECIATION				
At 1 January 2003	572	855	80	1,507
Provided for the year	375	969	137	1,481
At 31 December 2003	947	1,824	217	2,988
NET BOOK VALUES				
At 31 December 2003	1,807	4,365	2,348	8,520
At 31 December 2002	1,169	3,659	1,020	5,848

12. DEVELOPMENT COSTS

	RMB'000
THE GROUP	
COST	
At 1 January 2003	3,307
Additions	431
At 31 December 2003	3,738
AMORTISATION	
At 1 January 2003	79
Provided for the year	160
At 31 December 2003	239
NET BOOK VALUES	
At 31 December 2003	3,499
At 31 December 2002	3,228

The development costs are amortised on a straight line basis over its estimated useful life of five years.

13. LOANS TO EMPLOYEES

THE GROUP

The loans represent housing loans made to employees of the Group. The amounts are unsecured, non-interest bearing and repayable in accordance with the terms of the respective agreements.

	Proportion of the loans to be repaid
Starting from:	
the second year	25%
the third year	50%
the fourth year	75%
the fifth year	100%

	2003 RMB'000	2002 RMB'000
Analysed for reporting purpose as:		
Non-current	**953**	1,475
Current	**78**	–
	1,031	1,475

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY 2003 RMB'000	2002 RMB'000
Unlisted shares, at cost	–	–

Particulars of the Company's subsidiaries at 31 December 2003 are set out as follows:

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company Directly	Indirectly	Principal activities
Chinasoft International Holdings Limited*	Samoa/ Hong Kong	US$1	100%	–	Investment holding
Chinasoft International (Hong Kong) Limited**	Hong Kong	HK$100	–	100%	Investment holding and provision of solutions
北京中軟國際信息技術有限公司 Chinasoft International Information Technology Limited (formerly 北京中軟遠東國際信息技術有限公司 Chinasoft FE International Information Technology Limited)***	PRC	RMB50,000,000	–	85%	Provision of solutions, information technology outsourcing, software information technology consulting services
中軟國際(廣州)信息技術有限公司 Chinasoft International (Guang Zhou) Information Technology Limited****	PRC	HK$5,000,000	–	100%	Provision of solutions, information technology outsourcing, software development and information technology consulting services
中軟國際(杭州)信息技術有限公司 Chinasoft International (Hang Zhou) Information Technology Limited****	PRC	HK$5,000,000	–	100%	Not yet commenced business

* International company
** Limited liability company
*** Sino-foreign equity joint venture enterprise
**** Wholly foreign-owned enterprise

None of the subsidiaries had any debt securities subsisting at 31 December 2003 or at any time during the year.

15. INVENTORIES

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Computer hardware, equipment and software products	**7,290**	3,466

At the balance sheet date, all inventories were stated at cost.

16. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Trade receivables	**60,801**	34,085
Advance to suppliers	**5,281**	9,580
Deposits, prepayments and other receivables	**9,378**	4,365
	75,460	48,030

The credit terms of the Group ranged from 30 to 90 days. An aged analysis of trade receivables is as follows:

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Within 90 days	**31,906**	25,127
Between 91 – 180 days	**8,691**	5,971
Between 181 – 365 days	**14,865**	2,261
Between 1 – 2 years	**5,339**	726
	60,801	34,085

17. AMOUNT DUE FROM MINORITY SHAREHOLDER OF A SUBSIDIARY

Particulars of the amount due from minority shareholder of a subsidiary are as follows:

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
中國計算機軟件與技術服務總公司 China National Computer Software & Technology Service Corporation ("CS&S")	**2,500**	–

The amount is unsecured and non-interest bearing. Included in the balance above is an amount of RMB2,000,000 (2002: nil) and RMB500,000 (2002: nil), representing amount paid in connection with the acquisition of trademark (also see note 28(iv)) and 中軟總公司計算機培訓中心, a company in which CS&S has beneficial interest respectively.

18. PLEDGED BANK DEPOSITS

The deposits are pledged with a bank as guarantees for trade facilities granted to the Group by suppliers.

19. TRADE AND OTHER PAYABLES

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Trade payables	**22,732**	16,074
Deposits received from customers	**449**	284
Other payables and accrued charges	**3,572**	2,398
	26,753	18,756

An aged analysis of trade payables is as follows:

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Within 90 days	**15,248**	8,416
Between 91 - 180 days	**5,553**	5,579
Between 181 - 365 days	**1,881**	2,029
Between 1 - 2 years	**–**	50
Over 2 years	**50**	–
	22,732	16,074

Included in the trade payables above is an amount of RMB543,000 (2002: RMB2,545,000), representing trading balances with companies in which CS&S has equity interests.

20. AMOUNT DUE TO A SHAREHOLDER

The amount is unsecured, non-interest bearing and repayable on demand.

21. DEFERRED TAX LIABILITIES

The Group's deferred tax liability mainly relates to the temporary differences arising from development costs.

22. SHARE CAPITAL

	Notes	Number of shares	Amount US$
Authorised:			
Shares of US$1 each at 1 January 2002		50,000	50,000
			HK$
Redenomination	(a(i))		
Shares of HK$7.8 each		50,000	390,000
Subdivision	(a(ii))	7,750,000	–
Shares of HK$0.05 each immediately after the subdivision of shares and balance at 31 December 2002		7,800,000	390,000
Increase in authorised share capital	(b)	1,492,200,000	74,610,000
Shares of HK$0.05 each at 31 December 2003		1,500,000,000	75,000,000

	Notes	Number of shares	Amount US$	Amount shown in the financial statements RMB'000
Issued and fully paid:				
Shares of US$1 each at 1 January 2002		14,295	14,295	118
			HK$	
Redenomination	(a(i))			
Shares of HK$7.8 each		14,295	111,501	118
Subdivision	(a(ii))	2,215,725	–	–
Shares of HK$0.05 each immediately after the Subdivision of shares and balance at 31 December 2002		2,230,020	111,501	118
Capitalisation issue of shares	(c)	477,769,980	23,888,499	25,322
Placing of new shares on 20 June 2003	(d)	160,000,000	8,000,000	8,480
Shares of HK$0.05 each at 31 December 2003		640,000,000	32,000,000	33,920

22. SHARE CAPITAL - CONTINUED

Notes:

(a) Pursuant to the shareholder's resolutions of the Company passed on 20 August 2002, the Company's share capital were changed as follows:

(i) The authorised share capital of the Company of US$50,000 divided into 50,000 shares of US$1 each was redenominated into HK$390,000 divided into 50,000 shares of HK$7.8 each and the issued share capital of the Company was redenominated accordingly into one share of HK$7.8 each.

(ii) Immediately after the redenomination of the authorised and issued share capital of the Company stated in (i) above, each of the existing issued and unissued share of HK$7.8 of the Company resulting from the redenomination was subdivided into 156 shares of HK$0.05 each.

(b) Pursuant to written resolutions passed by the shareholders of the Company on 2 June 2003, the authorised share capital was increased from HK$390,000 to HK$75,000,000 by the creation of an additional 1,492,200,000 shares.

(c) On 20 June 2003, 477,769,980 new shares of HK$0.05 each were allotted and issued as fully paid at par to the holders of the shares on the register of members of the Company at the close of business on 2 June 2003 in proportion to their then respective shareholdings in the Company, by way of capitalisation of the sum of HK$23,888,499 (equivalent to RMB25,321,809) standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the placing of new shares as set out in (d) below.

(d) By means of placing new shares to professional and institutional investors, the Company issued and allotted an aggregate of 160,000,000 shares of HK$0.05 each at a price of HK$0.32 per share on 20 June 2003.

All the shares which were issued by the Company during the year rank pari passu with each other in all respects.

The Company intended to use the net proceeds from the new issue of shares to further develop the Group's business and for general working capital purposes.

23. RESERVES

	Share premium RMB'000	Accumulated loss RMB'000	Total RMB'000
THE COMPANY			
At 1 January 2002	42,833	–	42,833
Net profit for the year	–	5,401	5,401
Dividend for 2001 paid	(5)	(5,401)	(5,406)
At 31 December 2002	42,828	–	42,828
Capitalisation issue of shares	(25,322)	–	(25,322)
New shares issued	45,792	–	45,792
Expenses incurred in connection with the issue of new shares	(18,218)	–	(18,218)
Net loss for the year	–	(1,333)	(1,333)
At 31 December 2003	45,080	(1,333)	43,747

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Associations and provided that immediately following the distribution or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors, all reserves of the Company are available for distribution to shareholders.

THE GROUP

General reserve fund and enterprise expansion fund

As stipulated by the relevant laws and regulations in the PRC, Chinasoft Beijing is required to provide for the general reserve fund and the enterprise expansion fund. Appropriations to such reserve funds are made out of net profit after taxation as reported in the statutory financial statements of Chinasoft Beijing prepared in accordance with PRC Accounting Standards and the amount and allocation basis are decided by its board of directors annually. The general reserve fund can be used to make up prior year losses of Chinasoft Beijing, if any, and can be applied in conversion into capital by means of capitalisation issue. The enterprise expansion fund is used for expanding the capital base of Chinasoft Beijing by means of capitalisation issue.

24. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bills discounted with recourse	**3,689**	–	**–**	–
Guarantees given to a bank in respect of credit facilities granted to a subsidiary	**–**	–	**12,948**	–
	3,689	–	**12,948**	–

25. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitment for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Within one year	**262**	1,185
In the second to fifth year inclusive	**–**	1,264
	262	2,449

Operating lease payments represent rentals payable by the Group for certain office properties. Certain lease agreements for offices properties were replaced by new agreements entered into during the year. Leases are negotiated for an average term of two years and rentals are normally fixed during the lease period.

The Company did not have significant operating lease commitments at the balance sheet date.

26. SHARE OPTIONS SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 2 June 2003 by the then shareholders for the purpose of providing incentives and rewards to the people and the parties working for the interest of the Group. Under the Share Option Scheme, the board of directors may grant options to eligible participants including the directors, full-time and part-time employees of the Company or any of its subsidiaries or associates, and suppliers and customers of the Company or any of its subsidiaries or associate to subscribe for shares in the Company in accordance with the terms of the Share Option Scheme. An offer for the grant of options must be accepted within 30 days from the date of offer, and a consideration of HK$1.00 in payable by each of the participants on acceptance of the grant of options. The Share Option Scheme will remain valid for a period of ten years commencing on 2 June 2003. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of not more than ten years after the date on which an offer of the grant of an option is accepted. The subscription price for shares under the Share Option Scheme will be a price determined by the board of directors and notified to each grantee and will be no less than the highest of (i) the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the of offer and; (iii) the nominal value of a share.

26. SHARE OPTIONS SCHEME - CONTINUED

The Company may grant options under the Share Option Scheme and any other share option schemes of the Company entitling the grantees to exercise up to an aggregate of 10% of the total number of shares in issue immediately upon the listing of the shares on the Stock Exchange and subject to renewal with shareholders' approval. However, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share options schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in any one year exceeding the higher of 0.1% of the Company's shares in issue and with a value in excess of HK$5,000,000 must be approved by the Company's shareholders.

Details of the movement in the number of share options during the year under the Scheme which are exercisable in four equal trenches from 13 August 2004, 13 August 2005, 13 August 2006 and 13 August 2007, respectively, to 12 August 2013 at an exercise price of HK$0.58 per share are as follows:

	Number of share options		
Type of participants	Granted during the year	Lapsed during the year	Outstanding at 31 December 2003
Directors	2,000,000	–	2,000,000
Employees	9,040,000	–	9,040,000
	11,040,000	–	11,040,000

Nominal consideration for options granted during the year was received.

No charge is recognised in the income statement in respect of options granted under the above option scheme. Share options granted under the above option scheme are not recognised in the financial statements until such options are exercised. Upon exercise of options, the shares issued by the Company are recorded as the relevant company's additional share capital at nominal value of such shares and the excess of the exercise price/ subscription price over the nominal value of the shares issued is recorded in the relevant Company's share premium account.

27. RETIREMENT BENEFITS SCHEMES

As stipulated by the rules and regulations in the PRC, the Group contributes to state-sponsored retirement plans for its employees in the PRC. The Group is required to contribute a certain percentage of the basis salaries of its employees to the retirement plans, and has no further obligation for the actual payment of the previous or post retirement benefits. The relevant state-sponsored retirement plans are responsible for the entire present obligation to retired employees.

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a Mandatory Provident Fund ("MPF") scheme ("MPF Scheme") for all qualifying Hong Kong employees. The assets of the scheme are held separately from those of the Group and under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the scheme.

27. RETIREMENT BENEFITS SCHEMES – CONTINUED

During the year, the total cost of retirement benefits contributions charged to the income statement of RMB288,000 (2002: RMB127,000) represents contributions to the schemes made by the Group at rates specified in the rules of the respective schemes. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

28. OTHER TRANSACTIONS

(i) During the year, the Group had the following significant transactions with the following companies:

	Notes	2003 RMB'000	2002 RMB'000
Purchase of computer hardware and software products			
– CS&S	(a)	**9,137**	2,618
– 中軟網絡技術股份有限公司 (Chinasoft Network Technology Company Limited) ("CNTC") and its subsidiaries	(b) & (c)	**376**	2,700
– 中軟總公司計算機培訓中心 (CS&S Computer Tech. Training Centre)	(b)	**378**	–
Sales of computer software products			
– CS&S	(a)	**7,488**	2,564
Building management fee			
– 北京中軟仕園物業管理有限公司 (Beijing Chinasoft Shiyuan Property Management Co., Ltd.)	(b)	**484**	–
Rental expenses			
– CS&S	(a)	**715**	507
Provision of solution services			
– CS&S	(a)	**–**	640

Other than the provision of solution services which was carried out at cost plus a percentage of mark up, all other transactions were carried out in accordance with the relevant agreements.

Notes:

(a) Minority shareholder of a subsidiary.

(b) CS&S has equity interests in these companies.

(c) Mr. Cui Hui, a director of the Company, is also director of CNTC.

28. OTHER TRANSACTIONS - CONTINUED

(ii) Pursuant to an agreement entered into between CS&S and Chinasoft Beijing on 10 May 2002 (the "Agreement"), CS&S has granted to Chinasoft Beijing an exclusive right for no consideration to use the trademark as defined on the Agreement in the PRC pending registration of such trademark with the Trademark Bureau of the PRC. Under the Agreement, CS&S has agreed to enter into a further trademark licence agreement pursuant to which CS&S will grant an exclusive licence to Chinasoft Beijing for a period of 25 years.

(iii) Under a trademark licence agreement ("Licence Agreement") dated 3 June 2002 made between CS&S and Chinasoft Beijing, CS&S granted to Chinasoft Beijing a non-exclusive right for no consideration to use the trademarks as defined on Licence Agreement in the PRC for 10 years.

(iv) Pursuant to 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 as defined on the Trademark Licence Agreement for a period of 25 years pending registration of such trademark within 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 is included in the amount due from minority shareholder of a subsidiary as at 31 December 2003.

The directors of the Company are of the opinion that the above transactions were conducted under normal commercial terms in the usual course of business.

	For the year ended 31st December			For period from 16th February, 2000 to 31 December, 2000
	2003	2002	2001	
	RMB'000	RMB'000	RMB'000	**RMB'000**
Results				
Turnover	**166,055**	114,485	53,264	7,114
Net profit	**24,117**	19,409	8,899	38
Dividend per share	**HK$0.01**	–	–	–

	For the year ended 31st December			
	2003	2002	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Assets and Liabilities				
Total assets	**183,117**	96,898	73,232	21,827
Total liabilities	**(42,824)**	(19,386)	(12,210)	(21,784)
Minority Interests	**(14,182)**	(11,572)	(9,085)	(10)
Shareholders' capital	**126,111**	65,940	51,937	33

Note: No financial information for period prior to 16 February, 2000 is presented as the Company was established on 16 February, 2000.