CHINASOFT INTERNATIONAL LIMITED
中 軟 國 際 有 限 公 司*

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT

2004

* for identification purpose only

中软国际

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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.

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> Corporate Information

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COMPANY SECRETARY

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COMPLIANCE OFFICER

Dr. Chen Yuhong

QUALIFIED ACCOUNTANT

Mr. Fok Ming Fuk, William, *MBA, FCCA, FHKSA CHARTERED ACCOUNTANT, FTIHK, MHKSI*

AUDIT COMMITTEE

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Mr. Zeng Zhijie
Dr. Chen Qiwei

AUTHORISED REPRESENTATIVES

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Mr. Fok Ming Fuk, William, *MBA, FCCA, FHKSA CHARTERED ACCOUNTANT, FTIHK, MHKSI*

INTERNATIONAL AUDITORS

Deloitte Touche Tohmatsu

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STOCK CODE

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> Financial Summary

RESULTS

	For the year ended 31 December			
	2001	2002	2003	**2004**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	53,264	114,485	166,055	**293,896**
Profit before taxation	20,474	22,857	30,962	**42,456**
Taxation	–	–	(2,735)	**(3,917)**
Profit before minority interests	10,474	22,857	28,227	**38,539**
Minority interests	(1,575)	(3,448)	(4,110)	**(3,006)**
Net profit for the year	8,899	19,409	24,117	**35,533**
Dividend	–	5,406	–	**6,784**

ASSETS AND LIABILITIES

	At 31 December			
	2001	2002	2003	**2004**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	73,232	96,898	183,117	**331,325**
Total liabilities	(12,210)	(19,386)	(42,824)	**(131,930)**
Minority interests	(9,085)	(11,572)	(14,182)	**–**
Shareholders' funds	51,937	65,940	126,111	**199,395**

Notes:

1. The results for each of the two years ended 31 December 2001 and 2002 were extracted from the prospectus of the Company dated 10 June 2003.

2. Assets and liabilities of the Group as at 31 December 2001 and 2002 were extracted from the prospectus of the Company dated 10 June 2003.

> Milestones 2004

JANUARY

- Entered into business contracts with the State Tobacco Control Bureau and its 36 key affiliated tobacco production enterprises and 36 key metropolitan business enterprises to promote the Group's "Tobacco Production and Operation Decision Management System for the State Tobacco Control Bureau."

- Entered into the "The Building Contract for the First Phase Project Work of the Office Automation System for the State Tobacco Control Bureau Office" with the State Tobacco Control Bureau.

- Announced the setting up of a strategic alliance with ISS, and initiated the ISS security product agency business.

MARCH

- Successfully acquired 26% equity interest of CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd. ("Cyber Resources")

APRIL

- The first phase of the construction of the "e-Audit" Project reached the stage of testing and acceptance, initiating a nationwide promotion campaign.

- Accredited as one of the "2004 China's 10 Leading Technology Companies Listed Overseas".

- Promoted the "Domestic Resident Marriage Registration Information System" throughout the PRC.

- Successfully acquired the CS&S Computer Tech. Training Centre.

JUNE

- Recruited a core professional and technical team of 北京金葉軟體技術開發有限公司 (Beijing Jinye Software Technology Development Company Limited) to join the Group.

JULY

- Promotion of the Second Phase of the "Tobacco Production and Operation Decision Management System for the State Tobacco Control Bureau" commenced.

- Appointed by the State Audit Office for the arrangement of the nationwide promotion of the "e-Audit" Project.

> Milestones 2004

- Successfully bidded the "e-Insurance" Project of Tongren City, Guizhou Province and the business of the "e-Insurance" Project was initiated.

- Successfully bidded the new rural cooperative medical project of Xiaoshan District, Hangzhou City, and local e-Government business achieved a new breakthrough.

- Cyber Resources, an associated company of the Group, won the outsourcing tender for the Customer Service Centre of Panasonic.

AUGUST

- Acquired the remaining entire equity interest in Beijing Chinasoft International Information Technology Limited.

- Recruited the professional tobacco information team of 合肥市宇佳軟件技術有限責任公司(Hefei Yujia Software Technology Company Limited) from Hefei, Anhui Province to join the Group.

SEPTEMBER

- Named as one of the "2004 China's 100 leading e-Government IT Enterprises" in 2004.

- Awarded the State First Class Certificate for Computer Information Systems Integration

OCTOBER

- Chinasoft e-Government Middleware ResourceOne was again accredited as the number one brand name in terms of e-Government middleware in 2003.

- Named by Deloitte Touche Tohmatsu as one of the "500 Fastest Growing Hi-tech Enterprises in Asia Pacific in 2004".

- Successfully recruited the professional tobacco information team of 昆明方元利科技有限責任公司 (Kunming Fangyuanli Technology Company Limited) to join the Group.

NOVEMBER

- Successfully developed the "Chinasoft Audit" AE audit product, and established direct sales and distribution agency channels.

DECEMBER

- Completed the entire procedures for the design, development, testing, arrangement and implementation of the "Office Automation System for the State Tobacco Control Bureau." Final testing and acceptance of the "Remote Document Transmission System."

- Undertook the construction of the Digital Park "e-Park" in the Xian High Tech Zone.

> Managing Director's Report

I am pleased to report that, given the keen competition in the software industry in the PRC, the Group has utilised its core technology competitive edge, and committed itself in industries which it has a leading position. The Group increased its market share in those industries, whilst at the same time explored new industries to act as new basis for the Group's continuing development. I would like to take this opportunity to share with the Shareholders the Group's certain financial and business highlights in 2004:

OPERATING RESULTS

For the year ended 31 December 2004, the Company recorded a turnover and net profit of approximately RMB293,896,000 and RMB35,533,000 (2003: approximately RMB166,055,000 and RMB24,117,000) respectively, an increase of 77% and 47% respectively over that of last year. Earnings per share was approximately RMB0.0537 (2003: RMB0.0427)

The directors recommend the payment of a final dividend of HKD0.01 per share for the year ended 31 December 2004.

BUSINESS REVIEW

The Group captured tightly the growing business opportunities in the e-Government market, and had attained the following achievements during the reporting period via its competitive advantage in technology: (1) the establishment of a strategic partnership in the informationization of the tobacco industry with the State Tobacco Control Bureau that helps build up the leading position of the Group in the tobacco industry; (2) the successful development of an Audit Management System and Live-Audit Implementation System by the Group under the appointment by the State Audit Office, and the launch of nationwide promotion; (3) the exploration of the "e-Insurance" Project, which has achieved leading positions in certain provinces; (4) the participation in the formulation of the industry standards and the construction of pilot projects in the emerging markets of new rural coorperative medical scheme and low insurance premiums of civil affairs scheme which made the Group become the pioneer in the market; (5) the entering into the core of the "e-Quality" Project via the compilation of the feasibility study report on the "e-Quality" Project entrusted by the Sate Administration for Quality Supervision, Inspection and Quarantine; (6) Cyber Resources, an associated company of the Group, won a tender for the Customer Service Centre of Panasonic, and marked new progress in the IT outsourcing business; (7) the nationwide promotion of the "Domestic Resident Marriage Registration Information System"; (8) the undertaking of the construction of the Digital Park in the Xian High Tech District, extending the success of "e-Park"; (9) setting up a strategic alliance with ISS, commencing the agency business of ISS security product; (10) the successful acquisition of the CS&S Computer Tech. Training Centre; (11) the successful acquisition of 26% equity interest in Cyber Resources; (12) the acquisition of the remaining entire equity interest in Beijing Chinasoft; (13) recruitment of the tobacco professional technology's core team of 北京金葉軟體技術開發有限公司(Beijing Jinye Software Technology Development Company Limited) to join the Group; (14) recruitment of the professional tobacco information team of 合肥市宇佳軟件技術有限責任公司(Hefei Yujia Software Technology Company Limited) from Hefei, Anhui Province to join the Group; (15) recruitment of the professional tobacco information team of 昆明方元利科技有限責任公司 (Kunming Fangyuanli Technology Company Limited) to join the Group; (16) the successful development of "Chinasoft Audit," AE Software, and the gradual establishment of direct sales and distribution agent channels; (17) continuous development of Chinasoft middleware ResourceOne, which was successfully upgraded to the V3.0 version; (18) awarded the State First Class Certificate for Computer Information System Integration; (19) selected by Deloitte as one of the "500 Fastest-growing Hi-tech Enterprises in Asia Pacific" for

2004; (20) selected as one of the "China's 10 Leading Technology Companies listed overseas" in 2004; (21) re-selected as one of the "China's 100 leading e-Government IT Enterprises" in 2004; (22) the Chinasoft e-Government middleware ResourceOne was accredited again as the number one brand name in terms of e-Government middleware in 2003.

BUSINESS PROSPECTS

In 2004, the e-Government in the PRC has undergone changes despite its continuing rapid growth. Since its investment in the e-Government, the Government has been focusing on the construction of hardware. As the hardware improved continually, the users have raised more demands for application, i.e. software application. Given such changes and challenges, the Group will implement the following strategies:

- To cooperate closely with the State Tobacco Control Bureau, strive to complete the second phase of the promotion of "The Production and Operation Decision Making Management System Project for Tobacco Industry for State Tobacco Control Bureau" by capitalizing on the Group's leading advantages in the tobacco industry and, at the same time, to plan the third phase of "The Production and Operation Decision Making Management System Project for Tobacco Industry for State Tobacco Control Bureau."
- To maintain a good cooperation relationship with the State Audit Office, and continue with the nationwide promotion of the Audit Management System Software (ie. OA system) and the Live-Audit Implementation Software System (ie. AO system) for the State Audit Office.
- The Group plans to turn the "Chinasoft Audit" AE Software, which it developed on its own, into a package software, and continues to promote it nationwide through different channels.
- To continue with the exploration of new business areas, and further its commitment in industries entered into through the "e-Quality" Project, "e-Insurance" Project and New Rural Cooperative medical scheme, which have commenced during the reporting period, to capture the industry's advantages. At the same time, the Group will look for those industries that provide similar solutions as the Group, in order to apply its existing solutions to other industries.
- the Company will focus its research and development effort on its core competitive product the e-Government middleware ResourceOne for the ongoing revisions and upgrades in order to maintain its competitiveness.
- To continue looking for new acquisition targets following the Group's successful experience in 2004, strengthen the Group's competitiveness incessantly and improve rapidly the Group's profitability.

APPRECIATION

I would like to thank every staff member for your hard work and innovation during the year, and I would like to encourage you all to maintain such virtues in the future. Also, I would like to thank our shareholders, clients and partners for their support and trust over the years, and wish that they could continue to support the Group in the future.

Dr. Chen Yuhong
Managing Director

Beijing, The PRC
23 March 2005

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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

Major area	Major business objective stated in the Prospectus	Actual business Progress
Strengthen the Group's Solutions	• Commence and complete the development of the new "e-Park" solution (V2.0)	• Completed the commencement and completion of the development of the new "e-Park" solution (V2.0)
	• Conduct feasibility study on the development of new e-Government solutions	• Successfully developed the "Tobacco Production and Operation Decision Management System for the State Tobacco Control Bureau" • Successfully developed the Audit Management System (OA System) and the Audit Implementation System (AO System)
	• Continue to adjust and enhance the functions of the existing solutions	• Completed the adjustment and improvement of the functions of the existing solutions

> Business Objectives and Business Progress Comparison

Major area	Major business objective stated in the Prospectus	Actual business Progress
Development of new standalone software products and enhancement of existing standalone software products	• Commence the development of new application software • Evaluate the features of the existing standalone software products	• Successfully developed the "Chinasoft Audit" AE Software • Completed the evaluation of the features of the existing standalone software products
Development of the business of IT consulting and training and IT outsourcing	• Continue to monitor existing customers' systems and provide them with consulting and training services	• Successfully acquired the CS&S Computer Tech. Training Centre • Successfully acquired CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd.
Sales and marketing	• Seek suitable distributors as the Group's offer sales • Set up sales offices in Dalian and Chongqing	• A number of distributors has been developed • The setup is temporarily halted to save costs, but has developed certain local distributors

USE OF PROCEEDS FROM THE LISTING

The net proceeds raised from the listing of the Company on the GEM on 20 June 2003 was approximately HK$34,013,000. Save as disclosed herein, all unused proceeds from listing have been deposited at bank to prepare for future use as set out in the business development plan in the Prospectus.

As at 31 December 2004, 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 2004	Actual amount used up to 31 December 2004	Unused balance
	HK$' million	HK$' million	HK$' million
1. Development of new and enhancement of the Group's existing solutions	7.00	7.00	–
2. Development of new standalone software products and enhancement of the Group's existing solutions	7.00	7.00	–
3. Development of business of IT consulting and training	1.50	2.50	–
4. Development of business of IT outsourcing	2.00	2.00	–
5. Sales and Marketing	3.10	3.10	–
	20.60	21.60	–

FINANCIAL REVIEW

For the fiscal year ended 31 December 2004, the Company reported a total turnover of approximately RMB293,896,000 and net profit attributable to shareholders of approximately RMB35,533,000 as compared to a turnover of approximately RMB166,055,000 and net profit of approximately RMB24,117,000 in 2003, representing an increase of about 77% and 47% respectively. Earnings per share is approximately RMB0.0537 and net assets per share of the Company is approximately RMB0.29.

ANALYSIS OF TURNOVER

The turnover of the Group for the year ended 31 December 2004 can be classified by categories of services and products:

Products Segment	**2004**		2003		
	Turnover RMB'000	**Portion**	Turnover RMB'000	Portion	Increase (decrease) in Turnover %
Solutions	**240,820**	**82%**	114,888	69%	110%
IT Outsourcing	**34,286**	**12%**	45,247	27%	(24%)
IT Consulting and Training Services	**6,298**	**2%**	2,629	2%	140%
Sale of Standalone Software and Hardware Products	**12,492**	**4%**	3,291	2%	280%
Total	**293,896**	**100%**	166,055	100%	77%

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

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

FINANCIAL RESOURCES AND WORKING CAPITAL

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

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

During the year ended 31 December 2004, as all major Group's sales and purchases were substantially denominated in Renminbi, the Board of Directors considers that the potential foreign exchange exposure of the Group is limited.

As at 31 December 2004, except a bank deposit pledged with a bank of approximately RMB1,093,000 for trade facilities granted to the Group by the suppliers, the Group did not have any material investment in assets and assets pledged.

As at 31 December 2004, the Group did not have any material contingent liabilities.

No subsequent events occurred after 31 December 2004, which may have a significant effect, on the assets and liabilities or future operations of the Group.

BUSINESS REVIEW

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

I. In the aspect of business:

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

2. Entrusted by the State Audit Office, successfully developed the Audit Management System (ie. OA System) and the Live-Audit Implementation System (ie. AO System) and launched "e-Audit" national promotion.

3. Actively developed "e-Insurance" Project and promptly gained competitive advantages in some provinces.

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

5. Entrusted by the State Administration of Quality Supervision, Inspection and Quarantine to prepare the feasibility research report of "e-Quality" Project and entered the core of the "e-Quality" Project.

6. Cyber Resources, an associated company of the Group, won the bid for the outsourcing project of the Customer Service Centre of Panasonic, marking a new progress in IT outsourcing business.

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

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

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

II. Acquisition and Invitation

1. Successfully acquired CS&S Computer Tech. Training Centre.

2. Successfully acquired 26% equity interest of Cyber Resources Technology (Tianjin) Co., Ltd.

3. Acquired the remaining entire equity interest of Beijing Chinasoft.

4. Recruited the tobacco professional technology's core team of 北京金葉軟體技術開發有限公司 (Beijing Jinye Software Technology Development Company Limited) to join the Group.

5. Recruited the professional tobacco information team of 合肥市宇佳軟件技術有限責任公司 (Hefei Yujia Software Technology Company Limited).

6. Recruited the professional tobacco information team of 昆明方元利科技有限責任公司 (Kunming Fangyuanli Technology Company Limited).

III Research and Development

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

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

IV. Awards received:

1. Obtained the State First Class Certificate of Computer Information System Integration.

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

3. Awarded among "2004 China's 10 Leading Technology Companies listed overseas"

4. Awarded among "2004 China's 100 leading e-Government IT Enterprises".

5. Chinasoft's e-Government middleware, ResourcesOne, was again accredited as the Number One brand name in terms of e-Government middleware in 2003.

I. In the aspect of business:

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

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

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

According to the design concept of the State Tobacco Control Bureau, which is "to realize systematic integration and information sharing by way of building a general information platform, general data centre, general code standard and general transmission channel", the Group first utilized the e-government middleware, ResourceOne, developed by itself to build a general data platform for all enterprises and departments of tobacco sector, making data transmission and data sharing in the tobacco sector possible.

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

- To realize the integration of industrial and commercial data of tobacco sector and building a general information integration platform. To obtain the information in relation to the volume of production, price, inventory, costs, volume of sales and sales destination of tobacco production and operation in a complete, timely and accurate manner and to realize automatic integration and generation of basic data.

- To realize timely and effective control and management of production and operation of cigarettes and assure scientific and timely decision management in production and operation.

- To compile daily report on production and operation data of cigarettes of the sector and to establish the functions of gathering, inquiry, analysis, assessment, appraisal, pre-warning and decision support of the volume, price, structure and costs of cigarette products so as to technically support the daily tracking of the running of the sector's economy, the analysis of sector's economy in every ten days of a month and the deployment in every month.

"The Tobacco Production and Operation Decision Management System of the State Tobacco Control Bureau" is a decision and command system of cigarette production and operation of the tobacco sector established through integrating the industrial and commercial data of the tobacco sector in order to regulate the order of cigarette market economy and strengthen the management of the control in cigarettes sales. The major functions of the system include:

i. To install the Tobacco Production and Operation Decision Management System in the State Tobacco Control Bureau and its affiliated industrial enterprises and commercial enterprises of cigarettes;

ii. To establish nationwide data sharing system based on the Internet so as to realize data inter-transmission among the State Tobacco Control Bureau and its affiliated industrial enterprises and commercial enterprises of cigarettes;

iii. To provide users with the training in IT technology and the operation and use of this system.

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

i. The first phase "e-tobacco" project of the Tobacco Production and Operation Decision Management System of the State Tobacco Control Bureau: the Group entered into promotion contracts with the State Tobacco Control Bureau and its 36 key affiliated industrial enterprises and commercial enterprises in the first quarter and has prepared for the installation of "the Tobacco Production and Operation Decision Management System of the State Tobacco Control Bureau" in the above enterprises.

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

- Each industrial enterprise and industrial company at provincial level will go to Beijing in different batches to enter into business contracts with the Group at the request of the State Tobacco Control Bureau and under the arrangement of bureaus (companies).

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

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

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

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

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

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

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

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

1) For the auditing staff's better use of the Audit Management System and the Live-Audit Implementation System developed by the Group, the Group entered into a service contract with the State Audit Office to set up a service centre of the "e-Audit" Project. Through telephone service and website service of this service centre, the Group provided technical consultation service to auditors and auditing technicians under the State's audit system, so that the auditing staff using the Group's solution may be familiarized with the system as soon as possible.

2) The Group entered into contracts with the State Audit Office to construct and update the basic software environment for its affiliated bodies at the provincial level, so as to solve the problems arising from the differences of existing infrastructures and implementation environments in different places.

3) The Group entered into business contracts with the audit offices of Guangdong, Hubei, Zhejiang Provinces and Chongqing as well as Hangzhou City, the provincial capital of Zhejiang Province to promote the Audit Management System and Live-Audit System. In the meantime, the Group signed service contracts with the above-mentioned audit bodies, and released over 20,000 pieces of the Live-Audit Implementation Software. The Group plans to perform all-aspect promotion in 31 provinces and municipalities across the country and their affiliated 332 regions and 2,860 counties and districts. As an industry's leader in the "e-Audit" Project as well as the sole general service provider recognized by the State Audit Office, the Group will also enter into service contracts with the audit bodies of these cities at the provincial and county level, which will generate stable income each year for the Group.

4) While promoting the Live-Audit Implementation System, the Group was already involved in networked audit, laying a foundation for the promotion of the second phase "e-Audit" Project.

3. Actively developed "e-Insurance" Project and promptly gained competitive advantage in some provinces.

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

During the reporting period, the Group undertook:

1) the "e-Insurance" Project of Tongren City of Guizhou Province. This project provided the state-of-the-art "5-in-1 insurance system" to Tongren City, which comprises insurances for retirement, unemployment, medical care, work injury and birth, which is different from the original "e-Insurance" Project that usually divided the 5 insurances into different systems where there were no mutual coverage and sharing among these systems, causing waste of resources and low efficiency. Meanwhile, this system which the Group developed for Tongren City is the first social insurance management information system developed by using the technical standard of the second version of the core platform of the social insurance management information system in Guizhou Province. This project covered 8 counties, 1 district and 1 city under the control of Tongren City.

2) The "e-Insurance" Project of Xinxiang City of Henan Province. In order to meet the objective of "5-in-1 insurances system," the Group will renovate and update the original "e-Insurance" Project of Xinxiang City, enabling the "5 insurances" to be used independently and at the same time with mutual connection and coverage. In the second phase of the project, the Group will provide users with customized development according to the new "5 insurances" policy so as to highlight its service principle of creating convenience for people and high efficiency. Meanwhile, the system will create an integrated system connecting the network settlement system with designated medical institutions, designated drugstores and the information system of China Life Insurance Company, Xinxiang Branch.

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

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

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

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

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

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

The "e-Quality" Project aimed at gradually realizing online administrative approval, informationized control and administration, intelligent support for decision, standardization of handling business, automatic information exchange and release by fully utilizing the exterior net of the State's e-government and existing information resources and by constructing "one net, one database and three systems" (hardware and software platform and network platform for quality inspection, quality inspection business database group, quality supervision business and management system, quality inspection business application and approval system and quality inspection information service system) so as to enhance the administrative enforcement of quality inspection, supervision and quarantine in all aspects, to raise the market regulating capacity and to speed up the response to the monitoring of quality and safety as well as to improve the administration of quality inspection.

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

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

1) To improve the LAN of the nodes at various locations

2) To build the State's standard information database

3) To build national quality inspection business monitoring system, quality inspection business report and approval system and quality inspection information service system

4) To build the security system such as the protection, assessment, audit control and management systems, etc. and at the same time, to formulate relevant standards, renovate engine rooms and train the personnel.

6. Cyber Resources, an associated company of the Group, successfully bidded the outsourcing project of the Customer Service Centre of Panasonic, marking a new progress in outsourcing business.

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

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

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

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

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

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

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

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

   (1) Coordinated office work platform: the public platform in support of business development

   (2) Internal portal: implementation integration and content integration

(3) General office work: general administrative office work system with the functions of government administration, official document administration, etc.

(4) Office work for business: business functions in relation to the management process of projects entering the zone, prioritized project management, enterprise information management and statistics, technology plan application and report as well as comprehensive statistics

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

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

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

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

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

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

II. Mergers, Acquisitions and Invitations:

1. Successfully acquired CS&S Computer Tech Training Centre

   CS&S Computer Tech. Training Centre (hereinafter referred to as "Chinasoft Training"), established 24 years ago, is the computer training entity established earliest in China and is operated with international up-to-date level. It has had approximately 400,000 enrolments of trainees in total since its establishment. In 1999, Chinasoft Training passed the inspection of ISO-9001 International Quality System Authentication, becoming the first domestic computer technology training centre which has passed the inspection of ISO-9001 International Quality System Authentication . Chinasoft Training provided training service to government bodies and enterprises, including Beijing Planning and Development Commission, Jiangsu's provincial government, Nortel Network, Motorola, Coca Cola (China). At the same time, Chinasoft Training conducted IT international certification training within the country for international IT enterprises such as Sun, Microsoft, HP-Compaq, IBM and Lotus; Chinasoft Training is also the authorized examination centre of two international examination institutes, Prometric and VUE, where trainees of Chinasoft Training may obtain the international authentication certificates issued by the relevant companies and effective worldwide after receiving training and passing an online examination.

2. Successfully acquired 26% equity interest of Cyber Resources

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

3. Acquired the remaining entire equity interest of Beijing Chinasoft

   Beijing Chinasoft is the major profitable subsidiary of the Group. In order to strengthen its control over this company, the Group decided to acquire the remaining entire equity interest of Beijing Chinasoft held by CS&S (HK) (before this event, CS&S already transferred the 15% equity interest of Beijing Chinasoft held by it to its subsidiary, CS&S (HK) in March 2004). All shareholders voted at the general meeting in favour of the acquisition of the remaining entire equity interest of Beijing Chinasoft held by CS&S (HK) at a consideration of issuing 57,500,000 new shares of Chinasoft International Company Limited (HKGEM:8216) to CS&S (HK).

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

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

4. Recruited the professional core team of tobacco technology of 北京金葉軟體技術開發有限公司 (Beijing Jinye Software Technology Development Company Limited).

5. Recruited the professional tobacco information team of 合肥市宇佳軟件技術有限責任公司 (Hefei Yujia Software Technology Company Limited).

6. Recruited the professional tobacco information team of 昆明方元利科技有限責任公司 (Kunming Fangyuanli Technology Company Limited).

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

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

III. Research and Development

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

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

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

   The major functions are:

   Audit plan

   Audit item

   Audit preparation

   Audit performance

   Audit termination

   Audit support

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

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

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

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

ResourceOne V3.0 mainly comprises the following parts:

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

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

IV. Awards received:

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

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

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

   For the purpose of meeting the need for the construction of an information system and the development of the information industry of our country, strengthening the standardized management of the computer information system integration market and guaranteeing the quality of the construction of computer information system, all units involved in computer information system integration must be subject to qualification authentication and obtain the "Computer Information System Integration Qualification Certificate." Computer information system integration means the overall planning, designing, development, implementation, service and protection of computer application system project and network system project. The qualification of computer information system integration means the comprehensive ability to perform computer information system integration, including in the technical level, management level, service level, quality assurance ability, technical equipment, construction quality of system, composition and quality of personnel, operating results, assets status and other elements. All units in need of building computer information system shall select the computer information system integration unit that holds relevant class of Qualification Certificate to undertake the construction of a computer information system.

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

- Having clear system integration business area and rated among the top companies in technical capacity and market share in the major business area in the country;

- Having in-depth research on the business process in major business area, basic business software platform or other up-to-date development platform with independent intellectual property right, processing software products and tools developed by itself and having applied it in completed system integration project;

- Having senior personnel of research and development especially involved in the development of software or system integration technology as well as corresponding development place and equipment, etc. and having established a sound software development and testing system;

- Having injected an annual expense of over RMB3,000,000 in research and development.

Obtaining this certificate not only shows that the Group process strong technical core competitiveness, but also shows that the Group has greater chances in winning bids in the future.

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

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, its member firms, and their respective subsidiaries and affiliates. Deloitte Touche Tohmatsu is an organisation of member firms around the world devoted to excellence in providing professional services and advice, focused on client service through a global strategy executed locally in nearly 150 countries. With access to the deep intellectual capital of 120,000 people worldwide, Deloitte delivers services in four professional areas-audit, tax, consulting and financial advisory services-and serves more than one-half of the world's largest companies, as well as large national enterprises, public institutions, locally important clients, and successful, fast-growing global growth companies. Services are not provided by the Deloitte Touche Tohmatsu Verein, and, for regulatory and other reasons, certain member firms do not provide services in all four professional areas.

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

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

3. Awarded among "2004 China's 10 Leading Technology Companies listed overseas".

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

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

4. Awarded among one of the "2004 China's 100 leading e-Government IT Enterprises".

   In September 2004, the Group ranked among China e-Government Top 100 for the third time and rose to the place of the 12th for 2004 from the place of 23rd for 2003. In recent years, China's e-Government application market shows unprecedented opportunities of development and the growth in the the investment in e-Government exceeds 20% every year. Base on the study of CCID, the investment in e-Government for 2003 amounted to RMB32,910,000,000. The Group captured this opportunity by prioritizing the investment in the construction of e-Government, particularly in the "two networks, one station, four bases and twelve e-s" according to the "Guiding Opinion on e-Government Construction Across the Country for the Period of the Tenth Five-Year Plan of China." The fact that the Group ranked among "2004 China's 100 leading e-Government IT Enterprises" for three consecutive years shows on the one hand that the e-government market is expanding continuously and on the other hand that the Group's share in the e-government service market continues to increase and that the Group is one step closer in achieving its objective of being the "First brand in the PRC e-government market".

5. Chinasoft's e-Government support platform software, ResourceOne, was again rated the number one brand name in terms of e-Government middleware in 2003.

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

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

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

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

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

HUMAN RESOURCES

As at 31 December 2004, the Company had a total of 477 employees, 371 of whom have bachelor degree. For the year ended 31 December 2004, the total staff costs paid by the Company to its staff was approximately RMB31,341,000 (2003: approximately RMB14,769,000).

A breakdown of employees of the Company by their functions as at 31 December 2004 and 2003 were as follows:

Departments	**2004**	2003
Management	**11**	8
Finance and administration	**48**	27
Research and development	**307**	102
Sales, technical support and marketing	**111**	101
Total	**477**	238

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.

PROSPECTS OF PERFORMANCE

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

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

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

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

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

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

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

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

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

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

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

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

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

- The Company will focus on the consistent modification and update of ResourceOne, the Chinasoft e-Government middleware by inputting more efforts in its development in order to maintain its competitiveness, which forms the core competitiveness of the Company.

- The Group will learn from its successful experience in 2004 to further identify new targets of acquisition for the purpose of sharpening the competitive edge of the Group incessantly, meanwhile enhancing the Group's profitability speedily. It mainly shows in two ways:

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

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

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

DIRECTORS

Executive Directors

Ms. Tang Min (唐敏), aged 60, is the chairman of the Company and is the chairman of the PRC Software Alliance and a vice-chairman of the Chinasoft Software Association. Ms. Tang obtained a bachelor's degree in physics from Peking University, the PRC and has the professional qualification of senior engineer in computer science. She has more than 30 years' experience at the management level in the IT industry in the PRC. Ms. Tang is the general manager of China National Computer Software & Technology Service Corporation, a state-owned enterprise established in the PRC and holds directorships in a number of its subsidiaries and associate companies, including (1) Chinasoft Network Technology Company Limited, the A-shares of which are listed on the Shanghai Stock Exchange; and (2) China National Computer Software & Technology Service Corporation (Hong Kong) Limited, a corporate shareholder holding approximately 8.24% of the total issued share capital of the Company.

Dr. Chen Yuhong (陳宇紅), aged 42, 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(CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd.), 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 43, 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 31, 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. Duncan Chiu is the Managing Director of Far East Group of Companies and the Non-Executive Director of Far East Hotel & Entertainment Limited. Far East Technology International Limited (SEHK: 0036) principally engages in businesses in industrial sector, information technology, property development, investment and others. Far East Hotel & Entertainment Limited (SEHK: 0037) principally engages in property and hotel business. Since September 2002, Mr. Chiu has been served as Vice Chairman of Hong Kong & Mainland Software Industry Cooperation Association. Mr. Chiu is also the brother of Dato' David Chiu, the Non-Executive Director.

Mr. Peng Jiang (彭江), aged 36, 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 51, 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 33, 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 52, 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 46, 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 37, 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.

Mr. Au Yeung Shiu Kau（歐陽兆球）, Peter, aged 48, holds a diploma in accountancy in Hong Kong. He has more than 20 years' experience in the accountancy profession in Hong Kong and is currently a fellow member of both The Hong Kong Institute of Certified Public Accountants and The Chartered Association of Certified Accountants. He runs a business as a Certified Public Accountant in the form of sole proprietorship in Hong Kong. During the period of 28 October 2002 to 31 January 2003, Mr. Au Yeung was an independent non-executive director of Golden 21 Investments Holdings Limited (stock code 2312), a company listed on the Main Board of the Stock Exchange.

SENIOR MANAGEMENT

Mr. Wang Hui（王暉）, aged 32, is the general manager and technical supervisor 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.

Dr. Tang Zhenming（唐振明）, aged 42, is the manager of human resources and administrative department of the Group and the General Manager of our newly acquired Training Centre. 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. Zhang Chongbin（張崇濱）, aged 42, is the general manager of the R&D department and IT outsourcing 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.

Mr. Chen Yuqing（陳宇清）, aged 37, 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. Fok Ming Fuk, William（霍銘福）aged 43, is the qualified accountant and company secretary of the company. He has over twenty years' experience in auditing and financial management. Prior to joining the Group on May 17, 2004, Mr. Fok worked as the Chief Financial Officer of Portolan Commerce Solutions, a software developer engaged in Enterprise Resources Planning in Germany. Mr. Fok got his MBA from UK and is a fellow CPA member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants, an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Taxation Institute of Hong Kong and a member of Hong Kong Securities Institute.

Mr. Chen Pei（陳培）, aged 32, 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 38, 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. Fok Ming Fuk, William（霍銘福）, 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 their annual report and the audited financial statements of the Company for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 14 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 51.

The directors recommend the payment of a final dividend of HK$0.01 (equivalent to RMB0.0106) per share to the shareholders on the register of members on 28 April 2005, amounting to HK$6,975,000 (equivalent to RMB7,393,500).

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 24 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the Group's property, plant and equipment are set out in note 11 to the financial statements.

DIRECTORS

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

Executive directors:

Ms. Tang Min	(Chairman) (appointed on 30 September 2004)
Dr. Chen Yuhong	(Managing Director)
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. Zeng Zhijie
Mr. Au Yeung Shiu Kau Peter (appointed on 30 September 2004)

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The Company considers all of the independent non-executive directors are independent.

In accordance with Article 86 of the Company's Articles of Association, Ms. Tang Min and Mr. Au Yeung Shiu Kau Peter shall hold office until the annual general meeting of the Company and, being eligible, offer themselves for re-election.

In accordance with Article 87 of the Company's Articles of Association, Mr. Cui Hui and Mr. Liu Zheng (who have been longest in office since their last election) retire from office by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

(i) each service contract is of two years duration commencing on 20 June 2003 ("the Listing Date") except for that of Ms. Tang Min, which commenced on 30 September 2004. The service contract shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice, such notice not to be given before the expiry of the initial term of two years;

(ii) the monthly salary for each of Dr. Chen Yuhong, Mr. Cui Hui, Mr. Duncan Chiu, Mr. Peng Jiang for the first year of appointment commencing on the Listing Date is RMB40,000, RMB10,000, RMB10,000, RMB35,000 respectively and the monthly salary of Ms. Tang Min commencing from 30 September 2004 is RMB10,000, such salary to be reviewed annually by the board of directors. For the period from the expiry of the first year of appointment, the salary of these five executive directors shall be determined by the board of directors which annual salary shall not be more than 120 percent. of the annual salary of such director for the preceding year;

(iii) each of Dr. Chen Yuhong, Mr. Cui Hui, Mr. Duncan Chiu, Mr. Peng Jiang and Ms. Tang Min is entitled to such management bonus by reference to the consolidated net profits of the Group after taxation and minority interests but before extraordinary items as shown in the Group's audited consolidated accounts for the relevant financial year (the "Net Profits") as the Board may approve provided that the aggregate amount of management bonuses payable to all executive directors in respect of any financial year of the Group shall not exceed 5 percent. of the Net Profits; and

(iv) each such director shall abstain from voting and shall not be counted in the quorum in respect of the resolution regarding the amount of management bonus payable to himself/herself.

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

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

Details of the Directors' remuneration are set out in note 6 to the financial statements.

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

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

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

Save as disclosed above, as at 31 December 2004, none of the directors or chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO to be entered in the register required to be kept therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 30 to the financial statements.

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

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

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors of the Company, or their spouses or children under 18 years of age, had any rights to subscribe for the shares of the Company, or had exercised any such rights during the period.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

During the year, the Group had entered into certain connected transactions as set out in note 32 to the financial statements. The independent non-executive directors have reviewed the connected transactions (as defined under the GEM Listing Rules) as set out in note 32 to the financial statements, and confirmed that the transactions had been transacted on normal commercial terms and in the ordinary course of business of the Group.

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers accounted for less than 30% of the Group's total turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 36% of the Group's total purchases and the Group's largest supplier accounted for approximately 12% of the Group's total purchases.

None of the directors, their associates, or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in any of the five largest suppliers of the Group.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions

Name of shareholder	Capacity	Approximate Number of issued shares of HK$0.05 each of the Company held	Approximate Percentage of issued capital of the Company
Far East Technology International Limited ("Far East") (Note 1)	Beneficial owner	176,890,000	25.36%
Castle Logistics Limited ("Castle Logistics") (Note 2)	Beneficial owner	127,600,000	18.29%
Authorative Industries Limited ("Authorative") (Note 3)	Beneficial owner	57,490,000	8.24%
Yue Qianming (Note 3)	Interest of controlled corporation	57,490,000	8.24%
ITG Venture Capital Limited ("ITG") (Note 4)	Beneficial owner	46,940,000	6.73%
Zhou Qi (Note 4)	Interest of controlled corporation	46,940,000	6.73%
Prosperity International Investment Corporation ("Prosperity") (Note 5)	Beneficial owner	39,790,000	5.70%
Joseph Tian Li (Note 5)	Interest of controlled corporation	39,790,000	5.70%
China National Computer Software & Technology Service Corporation (Hong Kong) Limited ("CS&S (HK)") (Note 6)	Beneficial owner	57,500,000	8.24%
China National Computer Software & Technology Service Corporation ("CS&S") (Note 6)	Interest of controlled corporation	57,500,000	8.24%
Chinasoft National Software and Service Company Limited ("CNSS") (Note 7)	Interest of controlled corporation	57,500,000	8.24%

Notes:

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

2. Castle Logistics is beneficially owned by 10 shareholders of which 3 shareholders are Directors and 7 shareholders are senior management staff of the Group. Castle Logistics has appointed Dr. Chen Yuhong, Mr. Cui Hui and Mr. Peng Jiang as directors of the Company 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.

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

3. The entire issued share capital of Authorative is beneficially owned by Mr. Yue Qianming. Mr. Yue Qianming is taken to be interested in the shares of the Company held by Authorative.

4. The entire issued share capital of ITG is beneficially owned by Mr. Zhou Qi. Mr. Zhou Qi is taken to be interested in the shares of the Company held by ITG.

5. The entire issued share capital of Prosperity is beneficially owned by Mr. Joseph Tian Li. Mr. Joseph Tian Li is taken to be interested in the shares of the Company held by Prosperity.

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

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

Save as disclosed above, as at 31 December, 2004, so far as is known to the Directors, there is no other person who had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

The Company established an audit committee on 2 June 2003 with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises three members, namely the two independent non-executive directors, Mr. He Ning and Mr. Zeng Zhijie and the non-executive director, Mr. Chen Qiwei. The audit committee met on a quarterly basis during the year ended 31 December 2004.

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

BOARD PRACTICES AND PROCEDURES

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

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Oriental Patron Asia Limited ("Oriental Patron"), neither Oriental Patron nor its directors, employees or associates had any interests in the share capital of the Company as at 31 December 2004 pursuant to Rules 6.36 and 18.75 of the GEM Listing Rules.

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

COMPETING INTERESTS

Mr. Cui Hui, an executive Director, was interested in approximately 1.34% of the issued share capital of CNSS and served as a director of CNSS. In addition, Ms. Tang Min and Dr. Chen Yuhong had been appointed as directors by CNSS since August 2000 and April 2004 respectively. Although the Directors are of the view that the principal activities of CNSS do not directly compete with those of the Group currently, the Group and CNSS however are both engaged in the provision of information technology outsourcing.

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

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Dr. Chen Yuhong
Managing Director

Hong Kong, 23 March 2005

Deloitte.
德勤

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

We have audited the financial statements on pages 51 to 88 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 Institute of Certified Public 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 2004 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
23 March 2005

> Consolidated Income Statement

for the year ended 31 December 2004

	NOTE	2004 RMB'000	2003 RMB'000
Turnover	4	**293,896**	166,055
Cost of sales		**(212,294)**	(117,050)
Gross profit		**81,602**	49,005
Other operating income		**802**	765
Distribution costs		**(9,883)**	(5,900)
Administrative expenses		**(29,550)**	(12,251)
Amortisation of intangible assets		**(702)**	(160)
Amortisation of goodwill		**(977)**	–
Profit from operations	5	**41,292**	31,459
Finance costs	7	**(104)**	(497)
Share of result of an associate		**1,249**	–
Release of negative goodwill of an associate		**19**	–
Profit before taxation		**42,456**	30,962
Taxation	8	**(3,917)**	(2,735)
Profit before minority interests		**38,539**	28,227
Minority interests		**(3,006)**	(4,110)
Net profit for the year		**35,533**	24,117
Dividend	9	**6,784**	–
Earnings per share	10		
Basic		**RMB0.0537**	RMB0.0427
Diluted		**RMB0.0532**	RMB0.0426

> Consolidated Balance Sheet

at 31 December 2004

	NOTES	2004 RMB'000	2003 RMB'000
Non-current assets			
Property, plant and equipment	11	**11,682**	8,520
Intangible assets	12	**14,909**	3,499
Goodwill	13	**27,226**	–
Interest in an associate	15	**1,658**	–
Loans to employees	16	**–**	953
		55,475	12,972
Current assets			
Inventories	17	**34,485**	7,290
Trade and other receivables	18	**163,955**	75,460
Amount due from a related company	19/32	**1,978**	2,500
Loans to employees	16	**310**	78
Pledged bank deposits	20	**1,093**	743
Bank balances and cash		**74,029**	84,074
		275,850	170,145
Current liabilities			
Trade and other payables	21	**100,321**	26,753
Bills payable		**28,414**	2,948
Amount due to a shareholder	22	**50**	50
Dividend payable to a shareholder		**498**	–
Dividend payable to minority shareholder of a subsidiary		**–**	1,500
Bank loans – unsecured		**–**	10,000
Taxation payable		**1,426**	1,163
		130,709	42,414
Net current assets		**145,141**	127,731
Total assets less current liabilities		**200,616**	140,703
Non-current liabilities			
Deferred tax liabilities	23	**1,221**	410
Minority interests		**–**	14,182
		199,395	126,111

> Consolidated Balance Sheet

at 31 December 2004

	NOTE	2004 RMB'000	2003 RMB'000
Capital and reserves			
Share capital	24	**36,968**	33,920
Reserves		**162,427**	92,191
		199,395	126,111

The financial statements on pages 51 to 88 were approved and authorised for issue by the board of directors on 23 March 2005 and are signed on its behalf by:

Dr. Chen Yuhong
DIRECTOR

Duncan Chiu
DIRECTOR

> Balance Sheet

at 31 December 2004

	NOTES	2004 RMB'000	2003 RMB'000
Non-current asset			
Investments in subsidiaries	14	**–**	–
Current assets			
Other receivables		**353**	311
Amounts due from subsidiaries		**128,452**	86,095
Amount due from a related company	19	**2,000**	–
Bank balances and cash		**508**	–
		131,313	86,406
Current liabilities			
Other payables		**1,620**	761
Amount due to a subsidiary		**11,060**	7,978
Dividend payable to a shareholder		**498**	–
		13,178	8,739
Net current assets		**118,135**	77,667
		118,135	77,667
Capital and reserves			
Share capital	24	**36,968**	33,920
Reserves	25	**81,167**	43,747
		118,135	77,667

Dr. Chen Yuhong
DIRECTOR

Duncan Chiu
DIRECTOR

> Consolidated Statement of Changes in Equity

for the year ended 31 December 2004

	Share capital RMB'000	Share premium RMB'000	Translation reserve RMB'000	General reserve fund RMB'000 (note 25)	Enterprise expansion fund RMB'000 (note 25)	Accumulated profits RMB'000	Total RMB'000
At 1 January 2003	118	42,828	49	970	485	21,490	65,940
Capitalisation issue of shares	25,322	(25,322)	–	–	–	–	–
New issue of shares	8,480	45,792	–	–	–	–	54,272
Expenses incurred in connection with the issue of new shares	–	(18,218)	–	–	–	–	(18,218)
Net profit for the year	–	–	–	–	–	24,117	24,117
Appropriations	–	–	–	104	104	(208)	–
At 31 December 2003	33,920	45,080	49	1,074	589	45,399	126,111
New issue of shares (see note 24(d))	3,048	41,446	–	–	–	–	44,494
Exchange differences arising from translation of overseas operations and net gain not recognised in the consolidated income statement	–	–	41	–	–	–	41
Net profit for the year	–	–	–	–	–	35,533	35,533
Appropriation	–	–	–	176	–	(176)	–
Dividend for 2003 paid	–	(1,341)	–	–	–	(5,443)	(6,784)
At 31 December 2004	36,968	85,185	90	1,250	589	75,313	199,395
Attributable to an associate:							
At 31 December 2004	–	–	–	176	–	997	1,173

> Consolidated Cash Flow Statement

for the year ended 31 December 2004

	NOTE	2004 RMB'000	2003 RMB'000
Cash flows from operating activities			
Profit before taxation		**42,456**	30,962
Adjustments for:			
Share of result of an associate		**(1,249)**	–
Interest expense		**104**	497
Interest income		**(442)**	(320)
Amortisation of intangible assets		**702**	160
Amortisation of goodwill		**977**	–
Release of negative goodwill of an associate		**(19)**	–
Depreciation of property, plant and equipment		**2,370**	1,481
Allowance for doubtful debts		**3,768**	320
Allowance for inventories		**653**	–
Operating cash flows before movements in working capital		**49,320**	33,100
Increase in inventories		**(27,819)**	(3,824)
Increase in trade and other receivables		**(91,744)**	(27,750)
Increase in trade and other payables		**72,112**	7,997
Increase in bills payable		**25,466**	2,948
Cash generated from operations		**27,335**	12,471
Interest paid		**(104)**	(497)
PRC Enterprise Income Tax paid		**(2,767)**	(1,162)
Net cash generated from operating activities		**24,464**	10,812
Cash flows from investing activities			
Dividend received from an associate		**1,000**	–
Repayment from employees		**721**	444
Interest received		**442**	320
Acquisition of a subsidiary	26	**365**	–
Additions of development costs		**(5,890)**	(431)
Purchase of technical knowhow		**(6,222)**	–
Purchase of property, plant and equipment		**(5,386)**	(4,153)
Acquisition of an associate		**(1,444)**	–
Increase in pledged bank deposits		**(350)**	(743)
Advances to minority shareholder of a subsidiary		**–**	(2,500)
Net cash used in investing activities		**(16,764)**	(7,063)

> Consolidated Cash Flow Statement

for the year ended 31 December 2004

	2004 RMB'000	2003 RMB'000
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)
Repayment to a shareholder	–	(580)
Bank loans repaid	(10,000)	(5,000)
Dividend paid	(6,286)	–
Dividend paid to minority shareholder of a subsidiary	(1,500)	–
Net cash (used in) from financing activities	(17,786)	45,474
Net (decrease) increase in cash and cash equivalents	(10,086)	49,223
Cash and cash equivalents at beginning of the year	84,074	34,851
Effect of foreign exchange rate changes	41	–
Cash and cash equivalents at end of the year representing bank balances and cash	74,029	84,074

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 and hardware products.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of consolidation – Continued

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible asset.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition over the cost of acquisition.

Negative goodwill will be credited to the income statement at the time of disposal of the relevant subsidiary or associate.

Negative goodwill is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets. Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenue recognition

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

Service income from solutions and IT outsourcing on project-based IT development contracts 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%

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Property, plant and equipment – Continued

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.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill in so far as it has not already been amortised, less any identified impairment loss.

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-ine 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.

Technical knowhow

Technical knowhow is measured initially at cost and amortised on a straight-line basis over its estimated useful life.

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

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 exceed 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies 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 and hardware 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 2004

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

4. TURNOVER AND SEGMENT INFORMATION – Continued

INCOME STATEMENT – Continued

For the year ended 31 December 2003

	Solutions	IT outsourcing	IT consulting and training services	Sale of standalone software and hardware products	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	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					(18,151)
Amortisation of intangible assets					(160)
Finance costs					(497)
Profit before taxation					30,962
Taxation					(2,735)
Profit before minority interests					28,227
Minority interests					(4,110)
Net profit for the year					24,117

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

Geographical segments

No geographical segment 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 and liabilities are substantially located in the PRC.

5. PROFIT FROM OPERATIONS

	2004 RMB'000	2003 RMB'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (note 6)	**1,324**	1,165
Retirement benefit costs	**969**	279
Other staff costs	**29,048**	13,325
Total staff costs	**31,341**	14,769
Allowance for doubtful debts	**3,768**	320
Allowance for inventories	**653**	–
Auditors' remuneration		
– current year	**795**	477
– underprovision in prior year	**138**	–
	933	477
Cost of inventories recognised as an expense	**190,624**	103,835
Depreciation of property, plant and equipment	**2,370**	1,481
Minimum lease payments in respect of land and buildings	**2,640**	1,151
and after crediting:		
Interest income	**442**	320

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

Details of emoluments to the directors of the Company for the year ended 31 December 2004 are as follows:

	Executive director					Non-executive director			Independent non-executive director			
	A	B	C	D	E	F	G	H	I	J	K	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees for:												
Executive directors	–	–	–	–	–	–	–	–	–	–	–	–
Non-executive directors	–	–	–	–	–	–	–	–	–	–	–	–
Independent non-executive directors	–	–	–	–	–	–	–	–	64	64	16	144
Other emoluments for executive directors:												
Salaries and other benefits	488	412	120	120	30	–	–	–	–	–	–	1,170
Retirement benefit costs	5	5	–	–	–	–	–	–	–	–	–	10
	493	417	120	120	30	–	–	–	64	64	16	1,324
Other emoluments for non-executive directors	–	–	–	–	–	–	–	–	–	–	–	–
Other emoluments for independent non-executive directors	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–
Total directors' remuneration	493	417	120	120	30	–	–	–	64	64	16	1,324

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – Continued

Directors' emoluments – Continued

Details of emoluments to the directors of the Company for the year ended 31 December 2003 are as follows:

	Executive director				Non-executive director			Independent non-executive director		
	A	B	C	D	E	F	G	H	I	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees for:										
Executive directors	–	–	–	–	–	–	–	–	–	–
Non-executive directors	–	–	–	–	–	–	–	–	–	–
Independent non-executive directors	–	–	–	–	–	–	–	32	32	64
Other emoluments for executive directors:										
Salaries and other benefits	486	426	60	120	–	–	–	–	–	1,092
Retirement benefit costs	5	4	–	–	–	–	–	–	–	9
	491	430	60	120	–	–	–	32	32	1,165
Other emoluments for non-executive directors	–	–	–	–	–	–	–	–	–	–
Other emoluments for independent non-executive directors	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–
Total directors' remuneration	491	430	60	120	–	–	–	32	32	1,165

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2003: two) were directors of the Company, whose emoluments were included above. The emoluments of the remaining three (2003: three) highest paid individuals were as follows:

	2004	2003
	RMB'000	RMB'000
Salaries and other benefits	**1,133**	818
Retirement benefit costs	**24**	12
	1,157	830

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – Continued

Employees' emoluments – Continued

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

During the years, no emoluments 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 waived any emoluments during both years.

7. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on borrowings wholly repayable within five years:		
Bank loans	**25**	451
Other borrowings	**79**	46
	104	497

8. TAXATION

	2004 RMB'000	2003 RMB'000
The charge comprises:		
PRC Enterprise Income Tax	**3,030**	2,325
Deferred tax (note 23)	**811**	410
Tax charge attributable to the Company and its subsidiaries	**3,841**	2,735
Share of taxation of an associate	**76**	–
	3,917	2,735

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2004 as the assessable profit of the Group was wholly absorbed by tax losses brought forward.

No provision for Hong Kong Profits Tax had been made for the year ended 31 December 2003 as the Group had no assessable profit for the year.

8. TAXATION – Continued

The statutory rate of PRC Enterprise Income Tax is 33%.

Certain group companies are subject to certain tax exemption arrangements as set out below.

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 ("Chinasoft Beijing"), a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Beijing 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. As a result, Chinasoft Beijing is subject to the income tax computed at the rate of 7.5% for the three years ended 31 December 2004 and at the rate of 15% on its taxable profit thereafter.

Pursuant to an approval document issued by the Guangzhou Science and Technology Bureau dated 31 March 2004, 中軟國際(廣州)信息技術有限公司 ("Chinasoft Guangzhou"), a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, pursuant to another approval document issued by the Guangzhou National Tax Bureau dated 2 June 2004, Chinasoft Guangzhou was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2003.

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

	2004 **RMB'000**	2003 RMB'000
Profit before taxation	**42,456**	30,962
Tax at PRC Enterprise Income Tax rate of 33%	**14,010**	10,217
Tax effect of share of result of an associate	**(336)**	–
Tax effect attributable to tax exemptions granted to PRC subsidiaries	**(11,976)**	(8,489)
Tax effect of expenses not deductible for tax purpose	**1,655**	376
Tax effect of income not taxable for tax purpose	**(7)**	(48)
Tax effect of utilisation of tax losses previously not recognised	**(37)**	–
Tax effect of tax losses not recognised	**–**	64
Effect of different tax rate of subsidiaries	**822**	250
Others	**(214)**	365
Tax charge for the year	**3,917**	2,735

9. DIVIDEND

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

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

10. EARNINGS PER SHARE

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

	2004	2003
	RMB'000	RMB'000
Earnings for the purpose of calculating basic and diluted earnings per share	**35,533**	24,117

	Number of shares	
	2004	2003
Weighted average number of shares for the purposes of calculating basic earnings per share	**661,267,123**	565,041,096
Effect of dilutive potential shares issuable under the Company's share option scheme	**6,593,918**	459,283
Weighted average number of shares for the purposes of calculating diluted earnings per share	**667,861,041**	565,500,379

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 2004	2,754	6,189	2,565	11,508
Additions	869	4,035	482	5,386
Acquired on acquisition of a subsidiary	–	146	–	146
Written off	–	(90)	–	(90)
At 31 December 2004	3,623	10,280	3,047	16,950
DEPRECIATION				
At 1 January 2004	947	1,824	217	2,988
Provided for the year	590	1,535	245	2,370
Eliminated on written off	–	(90)	–	(90)
At 31 December 2004	1,537	3,269	462	5,268
NET BOOK VALUES				
At 31 December 2004	2,086	7,011	2,585	11,682
At 31 December 2003	1,807	4,365	2,348	8,520

12. INTANGIBLE ASSETS

	Development costs RMB'000	Technical knowhow RMB'000	Total RMB'000
THE GROUP			
COST			
At 1 January 2004	3,738	–	3,738
Additions	5,890	6,222	12,112
At 31 December 2004	9,628	6,222	15,850
AMORTISATION			
At 1 January 2004	239	–	239
Provided for the year	378	324	702
At 31 December 2004	617	324	941
NET BOOK VALUES			
At 31 December 2004	9,011	5,898	14,909
At 31 December 2003	3,499	–	3,499

12. INTANGIBLE ASSETS – Continued

The development costs and technical knowhow are amortised on a straight line basis over their estimated useful life of five years and ten years respectively.

13. GOODWILL

	RMB'000
THE GROUP	
COST	
Arising on acquisition of a subsidiary	897
Arising on acquisition of additional interest of a subsidiary	27,306
At 31 December 2004	28,203
AMORTISATION	
Charge for the year and balance at 31 December 2004	977
NET BOOK VALUE	
At 31 December 2004	27,226

The goodwill is amortised on a straight line basis over ten years.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	RMB'000	RMB'000
Unlisted shares, at cost	**–**	–

14. INVESTMENTS IN SUBSIDIARIES – Continued

Particulars of the Company's subsidiaries at 31 December 2004 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		Principal activities
			Directly	Indirectly	
Chinasoft International Holdings Limited*	Samoa/ Hong Kong	US$1	100%	–	Investment holding
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)")**	Hong Kong	HK$100	–	100%	Investment holding and provision of solution services
北京中軟國際信息技術有限公司 Chinasoft International Information Technology Limited ("Chinasoft Beijing")***	PRC	RMB50,000,000	–	100%	Provision of solutions, information technology outsourcing, software development and 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 ("Chinasoft Guangzhou")***	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 ("Chinasoft Hangzhou")***	PRC	HK$5,000,000	–	100%	Provision of solution information technology outsourcing, software development and information technology consulting services
中軟總公司計算機培訓中心****	PRC	RMB500,000	–	100%	Provision of information, technology consultancy and training services

* International company
** Limited liability company
*** Wholly foreign-owned enterprise
**** 中華人民共和國事業單位

None of the subsidiaries had any debt securities subsisting at 31 December 2004 or at any time during the year.

15. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Share of net assets	**1,769**	–
Negative goodwill of an associate	**(111)**	–
	1,658	–

Particulars of the Group's associate at 31 December 2004 are as follows:

Name of associate	Form of business structure	Place of establishment	Principal place of operation	Proportion of registered capital held by the Group	Nature of business
中軟賽博資源軟件技術(天津)有限公司 CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd. ("Cyber Resources")	Sino-foreign equity joint venture enterprise	PRC	PRC	26%	Provision of protected software developments, testing and related technological services

The negative goodwill of an associate arose on the acquisition of Cyber Resources in March 2004, which amounted to RMB130,000. In the current year, an amount of RMB19,000 was released to the consolidated income statement. The negative goodwill is released to income on a straight line basis over five years, represents the remaining weighted average useful life of the depreciable assets acquired.

16. 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 as follows:

	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%

	2004 RMB'000	2003 RMB'000
Analysed for reporting purpose as:		
Non-current	–	953
Current	310	78
	310	1,031

17. INVENTORIES

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Computer hardware, equipment and software products	34,485	7,290

At 31 December 2004, inventories of RMB2,576,000 were carried at net realisable value.

At 31 December 2003, all inventories were stated at cost.

18. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Trade receivables	**120,204**	60,801
Advance to suppliers	**5,659**	5,281
Deposits, prepayments and other receivables	**38,092**	9,378
	163,955	75,460

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

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Within 90 days	**65,317**	31,906
Between 91 – 180 days	**17,073**	8,691
Between 181 – 365 days	**20,480**	14,865
Between 1 – 2 years	**16,108**	5,339
Over 2 years	**1,226**	–
	120,204	60,801

19. AMOUNT DUE FROM A RELATED COMPANY

THE GROUP AND THE COMPANY

The amount is due from 中國計算機軟件與技術服務總公司China National Computer Software & Technology Service Corporation ("CS&S") and is unsecured, non-interest bearing and repayable on demand.

20. PLEDGED BANK DEPOSITS

THE GROUP

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

21. TRADE AND OTHER PAYABLES

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Trade payables	**78,136**	22,732
Deposits received from customers	**16,684**	449
Other payables and accrued charges	**5,501**	3,572
	100,321	26,753

An aged analysis of trade payables is as follows:

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Within 90 days	**59,486**	15,248
Between 91 – 180 days	**9,876**	5,553
Between 181 – 365 days	**5,783**	1,881
Between 1 – 2 years	**2,991**	–
Over 2 years	**–**	50
	78,136	22,732

At 31 December 2003, included in the trade payables above was an amount of RMB543,000, representing trading balances with companies in which CS&S had equity interests.

22. AMOUNT DUE TO A SHAREHOLDER

THE GROUP

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

23. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Group and movement thereon during the current and prior year:

	THE GROUP **Development costs** RMB'000
At 1 January 2003	–
Charge to the income statement	410
At 31 December 2003	410
Charge to the income statement	811
At 31 December 2004	1,221

At the balance sheet date, the Group had unused tax losses available for offset against future profits of approximately RMB274,000 (2003: RMB488,000). No deferred tax asset has been recognised in respect of such deductible temporary difference due to the unpredictability of future profit streams.

The Company had no significant unprovided deferred taxation at 31 December 2004 and 2003.

24. SHARE CAPITAL

	Note	**Nominal value per share** HK$	**Number of shares**	**Amount** HK$
Authorised:				
At 1 January 2003		0.05	7,800,000	390,000
Increase in authorised share capital	(a)		1,492,200,000	74,610,000
At 31 December 2003 and 2004		0.05	1,500,000,000	75,000,000

24. SHARE CAPITAL – Continued

	Notes	Nominal value per share HK$	Number of shares	Amount HK$	Amount shown in the financial statements RMB'000
Issued and fully paid:					
At 1 January 2003		0.05	2,230,020	111,501	118
Capitalisation issue of shares	(b)		477,769,980	23,888,499	25,322
Placing of new shares on 20 June 2003	(c)		160,000,000	8,000,000	8,480
At 31 December 2003		0.05	640,000,000	32,000,000	33,920
Issue of new shares	(d)		57,500,000	2,875,000	3,048
At 31 December 2004		0.05	697,500,000	34,875,000	36,968

Notes:

(a) 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 of HK$0.05 each.

(b) 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 (c) below.

(c) 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.

(d) Pursuant to an ordinary resolution passed by the shareholders of the Company on 3 August 2004, 57,500,000 new shares of the Company of HK$0.05 each were allotted and issued as fully paid at par to China National Computer Software & Technology Service Corporation (Hong Kong) Limited ("CS&S (HK)") as the consideration shares of HK$0.73 each for the acquisition of an additional interest of 15% of the registered capital of Chinasoft Beijing.

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

25. RESERVES

	Share premium	Accumulated loss	Total
	RMB'000	RMB'000	RMB'000
THE COMPANY			
At 1 January 2003	42,828	–	42,828
Capitalisation issue of shares	(25,322)	–	(25,322)
Issue of new shares	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
Issue of new shares	41,446	–	41,446
Net profit for the year	–	2,758	2,758
Dividend for 2003 paid	(1,341)	(5,443)	(6,784)
At 31 December 2004	85,185	(4,018)	81,167

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, the distributable reserves of the Company at 31 December 2004 amounted to RMB81,167,000 (2003: RMB43,747,000).

THE GROUP

General reserve fund and enterprise expansion fund

As stipulated by the relevant laws and regulations in the PRC, Chinasoft Beijing, Chinasoft Guangzhou and Chinasoft Hangzhou 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, Chinasoft Guangzhou and Chinasoft Hangzhou 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, Chinasoft Guangzhou and Chinasoft Hangzhou, 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, Chinasoft Guangzhou and Chinasoft Hangzhou by means of capitalisation issue.

26. ACQUISITION OF A SUBSIDIARY

In April 2004, the Group acquired 100% of the equity interest of 中軟總公司計算機培訓中心 for a consideration of RMB500,000 from CS&S, a related company of the Group (see note 32(ii)). Acquisition of the subsidiary was accounted for by the acquisition method of accounting.

	2004 RMB'000
Net assets acquired	
Property, plant and equipment	146
Inventories	29
Trade and other receivables	519
Bank balances and cash	365
Trade and other payables	(1,456)
	(397)
Goodwill on acquisition	897
Total consideration	500
Satisfied by amount due from a related company	500
Inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	365

The subsidiary acquired during the year contributed RMB7,185,000 to the Group's turnover and RMB108,000 to the Group's profit from operations.

27. MAJOR NON-CASH TRANSACTION

Pursuant to an agreement entered into between CS&S (HK) and Chinasoft (HK), a subsidiary of the Group on 24 June 2004, Chinasoft (HK) acquired an additional interest of 15% of the registered capital of Chinasoft Beijing from CS&S (HK). The total consideration of the acquisition of RMB44,494,000 was satisfied by the allotment and issue of 57,500,000 new shares of the Company of HK$0.05 each to CS&S (HK), and goodwill arising on the acquisition amounted to RMB27,306,000.

28. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004	2003	**2004**	2003
	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	**–**	–	**9,901**	12,948
	–	3,689	**9,901**	12,948

29. OPERATING LEASE COMMITMENTS

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

	THE GROUP		THE COMPANY	
	2004	2003	**2004**	2003
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,930**	262	**324**	–
In the second to fifth year inclusive	**189**	–	**189**	–
	2,119	262	**513**	–

Operating lease payments represent rentals payable by the Group and the Company for certain office properties. Certain lease agreements for office properties were replaced by new agreements entered into during the year. Leases are negotiated for an average term of one year (2003: two years) for the Group and two years for the Company respectively and rentals are normally fixed during the lease period.

30. SHARE OPTION 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 price 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 date of offer and; (iii) the nominal value of a share.

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 option 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.

30. SHARE OPTION SCHEME – Continued

A summary of the movements of share options granted during the year ended 31 December 2004 is as follows:

	Number of share options		
Type of participant	Outstanding at 1 January 2004 (note i)	Granted during the year (note ii)	Outstanding at 31 December the 2004
Directors			
Dr. Chen Yuhong	1,200,000	5,000,000	6,200,000
Mr. Cui Hui	–	500,000	500,000
Mr. Duncan Chiu	–	1,000,000	1,000,000
Mr. Peng Jiang	800,000	3,000,000	3,800,000
	2,000,000	9,500,000	11,500,000
Employees	9,040,000	43,200,000	52,240,000
	11,040,000	52,700,000	63,740,000

Notes:

(i) The share options 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. The closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of offer was HK$0.58 per share.

(ii) The share options are exercisable in four equal trenches from 13 May 2004, 13 May 2005, 13 May 2006 and 13 May 2007, respectively, to 12 May 2014 at an exercise price of HK$0.65 per share. The closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer was HK$0.65 per share.

Nominal consideration for options granted during the year was received.

No share options have been exercised, cancelled or lapsed during the year.

No charge is recognised in the income statement in respect of options granted under the above Share Option Scheme. Share options granted under the above Share 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.

31. RETIREMENT BENEFIT 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 basic 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 in respect of the MPF Scheme is to make the required contributions under the scheme.

During the year, the total cost of retirement benefit contributions charged to the income statement of RMB980,000 (2003: RMB288,000) 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.

32. OTHER TRANSACTIONS

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

	Notes	2004 RMB'000	2003 RMB'000
Purchase of computer hardware and software products			
– CS&S	(a)	–	9,137
– 中國軟件與技術服務股份有限公司 (Chinasoft National Software and Service Company Limited) ("CNSS") (formerly known as 中軟網絡技術股份有限公司 (Chinasoft Network Technology Company Limited) ("CNTC") and its subsidiaries	(b) & (c)	–	376
– 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
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**	484
Rental expenses			
– CS&S	(a)	**1,264**	715

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

Notes:

(a) CS&S was a holding company of a shareholder of the Group and the Company from 19 August 2004 to 31 December 2004 and a minority shareholder of a subsidiary of the Group from 1 January 2004 to 18 August 2004 and in 2003.

(b) CNTC and CS&S Computer Tech. Training Centre were subsidiaries of CS&S in 2003. Beijing Chinasoft Shiyuan Property Management Co., Ltd. was an associate of CS&S.

(c) Ms. Tang Min, Dr. Chen Yuhong and Mr. Cui Hui, directors of the Company, are also directors of CNSS.

32. OTHER TRANSACTIONS – Continued

(ii) Pursuant to an agreement entered into between CS&S and Chinasoft Beijing on 10 December 2003, Chinasoft Beijing acquired 100% of the equity interest of 中軟總公司計算機培訓中心 from CS&S at a consideration of RMB500,000. The acquisition was completed in April 2004.

(iii) Pursuant to a trademark license agreement ("Trademark Licence Agreement") entered into between CS&S and the Company on 20 December 2003, CS&S has granted to the Company an exclusive right to use a trademark of 中軟總公司計算機培訓中心 as defined on the Trademark Licence Agreement for a period of twenty-five years pending registration of such trademark with the Trademark Bureau of the PRC for a consideration of RMB2,000,000. Such amount, which is refundable on unsuccessful registration, has been paid to CS&S and was included in the amount due from a related company at 31 December 2004 and 2003.

(iv) Pursuant to an agreement entered into between CS&S and Chinasoft (HK) on 26 March 2004, Chinasoft (HK) acquired 26% of the registered capital of Cyber Resources from CS&S at a consideration of RMB1,465,000.

(v) Pursuant to an agreement entered into between CS&S (HK), a subsidiary of CS&S, and Chinasoft (HK) on 24 June 2004, Chinasoft (HK) acquired an additional interest of 15% of the registered capital of Chinasoft Beijing from CS&S (HK). The consideration of the acquisition was satisfied by the allotment and issue of 57,500,000 new shares of the Company of HK$0.05 each to CS&S (HK). The acquisition was completed on 19 August 2004. The acquisition constituted a connected transaction of the Company under the GEM Listing Rules as CS&S (HK) is a connected person of the Group at the subsidiary level. The independent non-executive directors of the Company considered that the terms of the acquisition were fair and reasonable to the Company and its shareholders as a whole, and the acquisition was approved by the shareholders at the extraordinary general meeting on 3 August 2004.

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