



CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)



2005 Interim Report

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This report, for which the directors of Chinasoft International Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Chinasoft International Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Accomplished a net profit of approximately RMB18,202,000 (2004: approximately RMB12,653,000) for the six months ended 30 June, 2005, representing an approximately 43.86% increase as compared with that of the corresponding period in 2004.
- Achieved a turnover of approximately RMB163,546,000 (2004: approximately RMB116,355,000) for the six months ended 30 June, 2005, representing an approximately 40.56% increase as compared with that of the corresponding period in 2004.
- Earnings per share (“EPS”) (basic) was approximately RMB2.61 cents (2004: approximately RMB1.98 cents) and EPS (diluted) was approximately RMB2.51 cents (2004: approximately RMB1.96 cents) for the six months ended 30 June, 2005, representing an approximately 32% increase of EPS (basic) and 28% increase of EPS (diluted) as compared with that of the corresponding period in 2004.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June, 2005.

INTERIM RESULTS

The board of Directors (the “Board”) of Chinasoft International Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 June, 2005, respectively, with corresponding figures as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	Notes	For the three months ended 30 June,		For the six months ended 30 June,	
		2005	2004	2005	2004
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	74,471	57,539	163,546	116,355
Cost of sales		(48,906)	(37,819)	(116,284)	(83,040)
Gross profit		25,565	19,720	47,262	33,315
Other operating income		255	1,060	255	1,084
Distribution costs		(7,615)	(3,885)	(10,947)	(6,667)
Administrative expenses		(6,950)	(7,530)	(16,315)	(11,161)
Amortisation of intangible assets	11	(636)	(93)	(1,274)	(133)
Profit from operations		10,619	9,272	18,981	16,438
Finance costs		(143)	(86)	(26)	(122)
Share of result of an associate		199	–	564	–
Profit before taxation		10,675	9,186	19,519	16,316
Taxation	3	(518)	(999)	(1,317)	(1,535)
Net profit before minority interests		10,157	8,187	18,202	14,781
Minority interests		–	(992)	–	(2,128)
Net profit attributable to shareholders		10,157	7,195	18,202	12,653
Dividend	4	7,394	6,784	7,394	6,784
Earnings per share					
– Basic (cents)	5	1.46	1.12	2.61	1.98
– Diluted (cents)	5	1.42	1.12	2.51	1.96

CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	(Unaudited) 30 June, 2005 <i>RMB'000</i>	(Audited) 31 December, 2004 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		12,529	11,682
Intangible assets		19,750	14,909
Goodwill	13	27,226	27,226
Interest in an associate		2,222	1,658
		<u>61,727</u>	<u>55,475</u>
Current assets			
Inventories	12	52,692	34,485
Trade debtors	6	137,526	120,204
Advance to suppliers		7,100	5,659
Deposits, prepayments and other receivables		52,730	38,092
Amount due from a related company		–	1,978
Loans to employees		220	310
Pledged bank deposits		159	1,093
Bank balances and cash		26,346	74,029
		<u>276,773</u>	<u>275,850</u>
Current liabilities			
Trade creditors	7	96,458	78,136
Deposits received from customers		9,331	16,684
Other payables and accrued charges		1,668	5,501
Bills payable		17,984	28,414
Amount due to a shareholder		–	50
Dividend payable to a shareholder		498	498
Taxation payable		837	1,426
		<u>126,776</u>	<u>130,709</u>
Net current assets		<u>149,997</u>	<u>145,141</u>
Total assets less current liabilities		211,724	200,616
Non-current liabilities			
Deferred tax liabilities		(1,521)	(1,221)
Net assets		<u>210,203</u>	<u>199,395</u>
Capital and reserves			
Share capital		36,968	36,968
Reserves		173,235	162,427
		<u>210,203</u>	<u>199,395</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Translation reserve	General reserve	Enterprise expansion fund	Accumulated profits	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January, 2004	33,920	45,080	49	1,074	589	45,399	126,111
Net profit for the period	-	-	-	-	-	12,653	12,653
Dividend for 2003 paid	-	-	-	-	-	(6,784)	(6,784)
At 30 June, 2004	<u>33,920</u>	<u>45,080</u>	<u>49</u>	<u>1,074</u>	<u>589</u>	<u>51,268</u>	<u>131,980</u>
At 1 January, 2005	36,968	85,185	90	1,250	589	75,313	199,395
Net profit for the period	-	-	-	-	-	18,202	18,202
Dividend for 2004 paid	-	-	-	-	-	(7,394)	(7,394)
At 30 June, 2005	<u>36,968</u>	<u>85,185</u>	<u>90</u>	<u>1,250</u>	<u>589</u>	<u>86,121</u>	<u>210,203</u>

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 June,	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities	(32,094)	4,034
Cash flows from investing activities	(8,145)	(4,828)
Cash flows from financial activities	(7,444)	(10,281)
Net increase (decrease) in cash and cash equivalents	(47,683)	(11,075)
Cash and cash equivalents at the beginning of the period	74,029	84,074
Cash and cash equivalents at the end of the period	26,346	72,999

Notes:

1. BASIS OF PRESENTATION

The financial statements of the Group have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

2. TURNOVER

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

	For the three months ended 30 June,		For the six months ended 30 June,	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Solutions	62,385	47,935	136,145	96,087
IT outsourcing	8,165	7,092	22,463	17,756
IT consulting and training services	2,915	2,512	3,436	2,512
Standalone software product	1,006	—	1,502	—
	<u>74,471</u>	<u>57,539</u>	<u>163,546</u>	<u>116,355</u>

3. TAXATION

Pursuant to an approval document issued by the State Bureau of Beijing Haidian District dated 21 November 2000, Beijing Chinasoft International Information Tech. Ltd. (“Beijing Chinasoft”), a major operating subsidiary of the Group, has been designated as an advanced technology enterprise and is entitled to the three year’s exemption from income tax followed by three years of 50% tax reduction commencing from the first-profit-making year with effect from 2000.

Beijing Chinasoft is subject to the income tax computed at the rate of 7.5% for the three years ending 31st December 2005 and at the rate of 15% on its taxable profit thereafter.

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 Group, 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 a 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.

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

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

4. DIVIDEND

On 23 March 2005, the Company declared final dividend amounting to HK\$6,975,000 (equivalent to RMB7,393,500) for the year ended 31 December 2004 to its shareholders. The amount was paid to its shareholders in 5 May 2005.

5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and the six months ended 30th June, 2005 was based on the net profit of approximately RMB10,157,000 and approximately RMB18,202,000 respectively (three months and six months ended 30 June, 2004: net profit of approximately RMB7,195,000 and RMB12,653,000 respectively) divided by the weighted average number of shares issued during the three months ended 30 June, 2005 of 697,500,000 shares (2004: 640,000,000 shares) and the six months ended 30 June, 2005 of 697,500,000 shares (2004: 640,000,000 shares) as if the sub-division of the Company's shares as described in Appendix VI of the prospectus of the Company dated 10 June, 2003 ("Prospectus") had taken place at the beginning of the relevant periods.

The calculation of diluted earnings per share for the three months and the six months ended 30 June, 2005 was based on the net profit of RMB10,157,000 for the three months ended 30 June, 2005 and RMB18,202,000 for the six months ended 30 June, 2005, respectively divided by the weighted average number of shares used in calculation of the diluted earnings per share for the three months and the six months ended 30 June, 2005 of 713,435,000 shares (2004: 642,571,142 shares) and 726,610,000 shares (2004: 643,769,067 shares) respectively.

6. TRADE DEBTORS

The credit terms of the Group ranged from 30 to 90 days.

Aged analysis of trade debtors are as follows:

	(Unaudited) 30 June, 2005 RMB'000	(Audited) 31 December, 2004 RMB'000
0 – 90 days	27,898	65,317
91 – 180 days	42,567	17,073
181 – 365 days	37,561	20,480
Over 365 days	29,500	17,334
	137,526	120,204

7. TRADE CREDITORS

Aged analysis of trade creditors are as follows:

	(Unaudited) 30 June, 2005 RMB'000	(Audited) 31 December, 2004 RMB'000
0 – 90 days	26,279	59,486
91 – 180 days	25,181	9,876
181 – 365 days	38,532	5,783
Over 365 days	6,466	2,991
	<u>96,458</u>	<u>78,136</u>

8. CAPITAL COMMITMENTS

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

9. RELATED PARTY TRANSACTIONS

- (i) During the relevant periods in 2005 and 2004, the Group had the following transactions with the following related parties:

	For the three months ended 30 June,		For the six months ended 30 June,	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
China National Computer Software & Technology Service Corporation ("CS&S") (Note a) – Rental expenses (Note b)	<u>695</u>	<u>316</u>	<u>1,389</u>	<u>631</u>

Notes:

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

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

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

10. SEGMENT INFORMATION

(A) Business segments

For management purposes, the Group is currently organised into four operating divisions – solutions, IT outsourcing, IT consulting and training services and sale of standalone software product. These divisions are the basis on which the Group reports its primary segment information.

- (i) Segment information about these businesses for the six months ended 30 June 2005 is presented below:

Income statement

	Solutions	IT outsourcing	IT consulting and training services	Standalone software product	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	136,145	22,463	3,436	1,502	163,546
Segment result	42,623	2,143	1,852	644	47,262
Unallocated corporate revenue					255
Unallocated corporate expenses					(28,536)
Finance costs					(26)
Share of result of an associate					564
Profit before taxation					19,519
Taxation					(1,317)
Net profit before minority interests					18,202

- (ii) Segment information about these businesses for the six months ended 30 June 2004 is presented below:

Income statement

	Solutions <i>RMB'000</i>	IT outsourcing <i>RMB'000</i>	IT consulting and training services <i>RMB'000</i>	Standalone software product <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Turnover	96,087	17,756	2,512	–	116,355
Segment result	29,315	2,217	1,783	–	33,315
Unallocated corporate revenue					1,084
Unallocated corporate expenses					(17,961)
Finance costs					(122)
Profit before taxation					16,316
Taxation					(1,535)
Net profit before minority interests					14,781

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

(B) Geographical segments

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

11. EMPLOYEE AND OTHER INFORMATION

The remuneration for the employees of the Group amounted to approximately RMB17,400,000, including the directors' emoluments of approximately RMB668,800 during the six months ended 30 June, 2005 (2004: approximately RMB8,712,892, including the directors' emoluments of approximately RMB634,000). The increase in employee remuneration resulted from the increase in the number of employees from 264 to 493 and the increase in bonus to individual staff during the relevant period.

The depreciation and amortisation charge of the Group including amortisation of intangible assets of RMB1,274,000 during the six months ended 30 June, 2005 amounted to RMB2,533,000 (2004: RMB1,110,000).

12. INVENTORIES

The substantial increase in inventories valuation was due to substantial increase in signed contracts in hand of RMB130,000,000 (coming sales revenue).

13. GOODWILL

Goodwill arose mainly from the acquisition of additional 15% interest of a subsidiary, Beijing Chinasoft International Information Tech. Ltd. (北京中軟國際信息技術有限公司) on 19 August, 2004.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June, 2005 (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results

The Group's turnover increased from approximately RMB116,355,000 to RMB163,546,000 during the six months period under review, representing an approximately 40.56% increase as compared with last corresponding period. Such increase was mainly attributable to the increase in provision of e-Tobacco and e-Audit solutions services.

The Group recorded a gross profit of approximately RMB47,262,000 with the gross profit margin maintained at approximately 28.9%, a slight increase of approximately 0.3% as compared with last corresponding period.

Other operating income of approximately RMB255,000 was mainly interest received from bank deposits.

The distribution costs for the six months ended 30 June 2005 was approximately RMB10,947,000, representing an approximately 64.2% increase as compared with last corresponding period. The increase in distribution cost was mainly due to the increase in the Group's sales of 40.56% and the expansion of the sales and distribution team.

The administrative expenses for the six months ended 30 June 2005 was approximately RMB16,315,000, representing an approximately 46.2% increase as compared with last corresponding period. The increase in administrative expenses was due to increase in headcount, depreciation and amortization in intangible assets and expansion of research and marketing team which is essential for further expansion of business and development.

The net profit attributable to shareholders of the Group during the six months ended 30 June 2005 was approximately RMB18,202,000, a 43.86% increase when compared with last corresponding period. Such increase was attributable to the Group's continuous efforts in marketing through the expansion of the sales and marketing team for the market penetration and development of new market, and maintaining our Group's good quality, branding and reliability.

Financial resources and liquidity

As at 30 June 2005, shareholders' funds of the Group amounted to approximately RMB210,203,000. Current assets amounted to approximately RMB276,773,000, of which approximately RMB26,346,000 were cash and bank deposits. The Group had no other non-current liabilities except Deferred tax liabilities of RMB1,521,000 and its current liabilities amounted to approximately RMB126,776,000, mainly consists of trade creditors, deposits received and accrued charges. The net asset value per share was RMB0.3. The Group expresses its gearing ratio as a percentage of bank borrowing and long-term debts over equity. As at 30 June 2005, the Group had a gearing ratio of nil.

The Group recorded an increase in trade and other receivables as at 30 June 2005 as compared with the same in December 2004. This was mainly due to the substantial increase in sales at the end of the 2005 interim period in relation to the sales of Group's solutions services, in particular the e-Tobacco and e-Audit. The Group maintains a stringent credit policy to minimize its credit risk including credit control, negotiations and discussion with customers, issuance of demand letters.

During the six months ending 30 June 2005, as all the Group's sales and purchases were substantially denominated in Renminbi, the Board considers that potential risk relating to foreign exchange has limited effect on the Group.

USE OF PROCEEDS FROM THE PLACING

The net proceeds raised from the listing of the Company on the GEM on 20 June 2003 was approximately HK\$34,013,000.

As at 30 June, 2005, the Company had incurred the following amount to achieve its business objectives as set out in the Prospectus:

Major areas stated in the Prospectus	Intended use of proceeds stated in the Prospectus up to 30 June, 2005	Actual amount used up to 30 June, 2005	Unused balance
	HK\$' million	HK\$' million	
1. Development of new solutions and enhancement of the Group's existing solutions	9	9	-
2. Development of new standalone software products and enhancement of the Group's existing solutions	9	9	-
3. Development of business of IT consulting and training	2	3	-
4. Development of business of IT outsourcing	2.5	2.5	-
5. Sales and Marketing	4.8	4.8	-
	27.3	28.3	-

All unused proceeds from listing have been deposited at bank for future use as set out in the section headed "Future Plans and Prospects" in the Prospectus.

BUSINESS REVIEW

- With a 40.56% increase in sales revenue as compared with the corresponding period of last year, orders on hand amounted to RMB130,000,000.
- The deployment of phase two of “Tobacco Production and Operation Decision System of the Tobacco Industry” was virtually completed.
- The Group successfully bid phase one project of Anhui Tobacco Business Information Management System.
- The Group successfully bid a project of Yunnan Tobacco Resources and Ancillary Items Company (雲南煙草物資配套公司).
- The Group successfully bid Guangdong Tobacco Business Operation Digital Management and Control System Project.
- The Group started the promotion of “e-Audit Project” and signed six provincial/municipal business contracts.
- The Group contracted the Audit Management Information System Project of China National Petroleum Corporation and commenced with the internal audit project.
- The Group successfully bid various software and hardware development projects for “e-Quality Projects”.
- Agreement to acquire 51% equity interest of Chinasoft Resources Information Technology Services Limited (北京中軟資源信息科技服務有限公司).
- The Group established Chinasoft International (Kunming) Information Technology Limited (中軟國際(昆明)信息技術有限公司).

With a 40.56% increase in sales revenue as compared with the corresponding period of last year, orders on hand amounted to RMB130,000,000

During the reporting period, sales revenue has a significant increase as compared with the corresponding period of last year, which clearly shows the Group's ability to attain continuous growth. At the same time, orders on hand maintain at a level of more than 100 million, which sets a foundation for future profits. The directors believe that the majority of the orders currently on hand will be completed within this year and the relevant receivables will then be collected.

The deployment of phase two of "Tobacco Production and Operation Decision System of the Tobacco Industry" was virtually completed

After the phase two construction, the promotion and implementation of the Tobacco Production and Operation Decision Management System in the industry was virtually completed. State Tobacco Control Bureau decided to activate the system in the next quarter of the year.

1. To implement the system successfully, the State Tobacco Control Bureau issued a notice and notified the Group that it would conduct examinations and visits in relation to the implementation and operations of each of the metropolitan industrial and business enterprises, find out problems therein and ensure the smooth running of the system once implemented:
 - (1) The targets of such examinations and visits would be metropolitan, industrial and commercial enterprises of which the system has been operating.
 - (2) Through such examinations and visits, the Group would fully understand project implementation and operation at the current stage, collect corporate advice and suggestions, resolve actual problems occurred in the system operation process, facilitate participation of the Group's project team and raise the standard of their service and secure safe and steady operation of the entire system.
2. Apart from the visits, State Tobacco Control Bureau also organized joint coordination task force to evaluate the Tobacco Production and Operation Decision System of the Tobacco Industry:
 - (1) Scope of the joint coordination: All units which have deployed and implemented the decision system in the entire industry, including the state bureaus, provincial-level bureaus (companies), industrial companies and various industrial and commercial enterprises.

(2) Contents of the joint coordination:

- (1) using the decision system for analyzing, communicating and encoding of the quarterly tobacco production plan by the state bureaus, provincial-level bureaus (companies), industrial companies and industrial enterprises;
- (2) coding and decoding of tobacco products of industrial enterprises;
- (3) scanning and decoding of tobacco products of industrial enterprises which moves out of the warehouse;
- (4) confirming, scanning and decoding upon arrival of tobacco products of business enterprises;
- (5) gathering business data through the industrial and business data gathering system and report to the relevant authority by industrial and commercial enterprises;
- (6) showing the data center and applications of the state bureau;
- (7) trial connection of the Tobacco Control Bureau's operation permit management system and decision system.

The Group successfully bid phase one project of Anhui Tobacco Business Information Management System

As the Group has an increasing influence in the tobacco industry and can accurately estimate the demand therein, the Group has been offered more opportunities in the industry. The Group successfully bid the Anhui Tobacco Business Information Management System Project.

The Project includes planning, implementing, operating and establishing an effective, flexible, open, integrated and safe information management platform so as to lay a foundation for information integration and comprehensive usage of the entire Anhui Tobacco industry as well as to satisfy Anhui Tobacco's internal demand for information application following rapid improvements on the management and operation level, so as to face intensifying market competition.

The objective of Phase one of the Project is to adopt an effective information platform to establish an integrated business enterprise management information system and realize the two-level separate management in province and municipality: establish an accurate and consistent data standard through the industry's data management center (coding center) and realize dynamic update; establish a complete information database in business operation through the marketing management system; handle and satisfy client's demand effectively and rapidly; standardize and manage the offline and online of clients through the sales management system to strengthen the effort on management and control of the tobacco market; establish the working platform of different levels of staff in the enterprise through the client management system, and satisfy the enterprise's management and examination requirements towards every level of staff within the enterprise; form a consistent and complete client profile through setting up a business data center; integrate internal and external business data by using the database technique and conduct analysis on clients, market and products etc. to provide all levels of staff and all departments with effective information and realize support for decision making.

Contents of Construction of Phase one project of "Anhui Tobacco Business Information Management System":

- (1) Coding and Data Management Center
- (2) Sales Management Information System
- (3) Marketing Management Information System
- (4) Client Relation Management Information System

The Group successfully bidded a project of Yunnan Tobacco Resources and Ancillary Items Company (雲南煙草物資配套公司)

As the original local area network and external network systems of Yunnan Tobacco Resources and Ancillary Items Company (雲南煙草物資配套公司) became obsolete and could no longer satisfy current work requirement, the Group was entrusted to modify the software and hardware condition so as to form a solid foundation for future software needs.

The Group successfully bid Guangdong Tobacco Business Operation Digital Management and Control System Project

During the reporting period, the Group again won the tender for software project of the Guangdong Tobacco Business Operation Digital Management and Control System.

The Guangdong Tobacco Operation and Management Analysis and Monitoring System is built to achieve the goal of building an integrated business data centre within the Guangdong Tobacco Business System for the purpose of integrating the data of various business systems, and on this basis, developing and building data inquiry, simple statement statistics, data analysis and decision making support platforms catering for provincial offices (companies) by means of business intelligence technology, and thereby building the Guangdong Tobacco Operation Management, Analysis and Monitoring System, through which the decision making and management personnel of provincial offices (companies) may conduct search and analysis, and obtain comprehensive, timely and accurate information about the operation and management in the industry or a business unit as well as monitor and appraise the operation and management of various business units in a comprehensive, timely and accurate manner, and the system may also provide accurate and scientific bases for implementing economic and operation adjustments within and determining strategies of the industry. In order to lay a foundation for informationalization of the tobacco industry in Guangdong Province, three specific targets are to be achieved:

- (1) unified basic code and indicator system
- (2) unified data output and statistics specifications
- (3) building a multi-layer analysis and assessment, management and monitoring system.

During the reporting period, the Group won tenders in Anhui, Hunan, Yunnan and Guangdong, which represent the initial effect of the Group's strategies of localization and customized services. In the future, the Group will continue to capitalize on its advantages deriving from the State Tobacco Control Bureau in order to rapidly consolidate and enhance its market share and leading position in the tobacco industry with the help of the influence of the central authority on local places.

The Group started the promotion of “e-Audit Project” and signed six provincial/municipal business contracts

1. The Group and the Audit Office of Hebei Province, Zhongshan, Guangdong Province, Jiangsu Province, Shaanxi Province, Songjiang District, Shanghai and Hechi, Guangxi Province entered into a contract for the deployment of On-site Audit Implementation Management System.

Being the major product in the Group's “e-Audit Project”, the On-site Audit Implementation Management System has been bringing good revenue for the Group. As in the previous contract, this contract charged implementation fees as well as the first-year servicing fee. All the Audit Office being promoted will be charged by the Group servicing fee for the second year and each of the following years, and this could ensure a sustainable profit for the Group. With the support of the National Audit Office of China, the promotion of “e-Audit Project” in the PRC has already commenced, the implementation of the project shall bring in good revenue for the Group in the year and in the coming future.

2. The Group entered into a consultation contract in relation to “e-Audit Project” with the Audit Department of Ningbo, Zhejiang Province

With the Group's distinguished status in the industry, the Audit Department of Ningbo invited the Group to become its strategic partner and compiled ‘the Five-Year Plan of “e-Audit Project” of Ningbo’ and ‘the Implementation Plan of “e-Audit Project” of Ningbo’, pursuant to which the Group shall provide a variety of plans from hardware, software to their application.

3. The Group contracted the Audit Management and Information System Project of China National Petroleum Corporation and commenced the internal audit project

China National Petroleum Corporation (hereinafter referred to as “CNPC”) is a large-scale petrochemical enterprise conglomerate and a state-owned and authorised investment enterprise. It is a leader in the production and processing market of Chinese petroleum and natural gas. CNPC ranked 10th out of the world's 50 largest petroleum companies by “Petroleum Intelligence Weekly” in the U.S., and 52th out of the world's 500 strongest enterprises by the “Fortune” magazine in 2004. Within the North East, North, North West, South West areas of China, CNPC owns 13 large-scale oil and gas field enterprises, 16 large-scale refining and chemical enterprises, 19 petroleum sales enterprises, a large group of petrochemical research institutes and enterprises involving petroleum exploring and operation, technology services and machinery manufacturing in various parts of China. It is also engaged in nearly 30 oil and gas exploitation and production construction projects in the Middle East, North Africa, Central Asia, Russia, South America etc.. PetroChina Company Limited is the largest subsidiary of CNPC which has been listed in Hong Kong and New York successfully since April 2000, and 90% of its equity interest is currently owned by CNPC.

The Group will establish an Audit Management Information System for CNPC and shall ultimately realize audit management through the main network of CNPC. Its main functions will include:

- (1) Establish the Audit Information Processing Centre at the head office of CNPC, to enable the processing of audit information by three levels of auditing authorities of CNPC.
- (2) Each level of audit authority operates according to the flow of audit business, and to realize the processing flow as follows: audit draft, audit information card, audit information account, audit statistics statement and audit information analysis etc.
- (3) Provide ancillary decision management function as the basis for management to make macro decisions.
- (4) Users of the Audit Management Information System include the three levels of auditing authorities, leaders of relevant departments and other participants. The audit functions of each level of audit authority are basically the same. Users use their relevant functions according to the authorities allocated.

To satisfy the above functions, the Group planned the Audit Management Information System of CNPC to include audit planning management, audit operation documents management, audit project management, information card information gathering management, audit account management, audit statement management, corporate staff management, functional management which supports ancillary decision and business management at the same time. It worked with supporting software of the lower level to complete three kinds of technology support management, including supervisory and control management, safety management and system maintenance management.

The entering into this contract symbolizes the Group has successfully made use of the influence of “e-Audit Project” and engaged in the internal audit of large-scale enterprises. The product line of the Group’s audit business covers the government, enterprises and individuals.

The Group successfully bid various software and hardware developments for “e-Quality Projects”

During the reporting period, the Group successfully bid for the construction of Da Tong Guan backbone network (大通關骨幹網) of Beijing, Jiangsu Province and Shanghai to construct the software and hardware environment for each of them. The Group has started to get involved in the core project of “e-Quality Project” since then.

Agreement to acquire 51% of the equity interest of Chinasoft Resources Information Technology Services Limited (北京中軟資源信息科技服務有限公司)

Chinasoft Resources Information Technology Services Limited (北京中軟資源信息科技服務有限公司) (hereinafter referred to as "Chinasoft Resources") is a company incorporated in April 2004 in Beijing and involved in the business of contracting outsourcing business. As at 31 December 2004, the audited net profit of Chinasoft Resources after tax and the interest of minority shareholders amounted to RMB9,060,000. Chinasoft Resources is the first strategic partner of Microsoft in China and is one of the 15 core service providers of IBM in China, having a long-term and stable client base including Microsoft, IBM, Oracle, Huawei Technologies (華為技術), HP, Nokia, Lucent and CA.

During the reporting period, the Group entered into an agreement with China National Computer Software & Technology Service Corporation (Hong Kong) Limited (hereinafter referred to as CS&S (HK)) for acquisition of 51% of the equity interest of Chinasoft Resources, the consideration for which was by issuing new shares at two separate times. At first, 34,872,453 shares will be issued to CS&S (HK) after the conditions of the acquisition agreement are met. If the audited consolidated net profit of Chinasoft Resources after tax and the interest of the minority shareholders as at 31 December 2005 amounts to no less than RMB12,000,000, the Group will then issue 23,248,302 new shares to CS&S (HK). Meanwhile, CS&S (HK) has the right to demand the Group to make payment of HK\$17,901,193 in place of the shares to be issued at the second time.

The acquisition made by the Group this time mainly aimed at long-term development of outsourcing sector within the country as IDC's information indicated that market demand for outsourcing in 2004 amounted to US\$449,400,000 and will reach US\$1,985,400,000 in 2008. The Group believes that Chinasoft Resources will bring in decent profits for the Company.

The Group established Chinasoft International (Kunming) Information Technology Limited (中軟國際(昆明)信息技術有限公司)

In order to further enhance local implementation and its ability to operate in the market, the Group established Chinasoft International (Kunming) Information Technology Limited (中軟國際(昆明)信息技術有限公司) with the professional tobacco informationalization team of Kunming Fangyuanli Technology Co Ltd (昆明方元利科技有限責任公司) as its core team. The company will be principally responsible for the Group's business in Yunnan while expanding into the southwest region simultaneously. To date, the Group has expanded its localized services to Eastern China, Southern China and the Southwest. The Group plans to continue expanding its localized services in the future.

Yunnan Province has an important position in the tobacco industry of China. Being a major supplier of tobacco in China, a number of nationwide well-known brandnames such as “Hong Tan Shan”, “Yun Yan” and “Yuxi” are manufactured in Yunnan. The Group is confident that it can gain a leading position in the province.

FUTURE PROSPECT

The Group will contact the State Tobacco Control Bureau in relation to the promotion of the third phase “Tobacco Production and Operation Decision System” after the preliminary completion of the promotion of the second phase “Tobacco Production and Operation Decision System.” The promotion programme of the third phase “Tobacco Production and Operational Decision System” is expected to be launched within this year.

In the meantime, the Group will take advantage of its strong position in the tobacco industry and the branch companies in various regions to actively develop local business within the tobacco industry.

The Group will continue to promote e-Audit Project while devoting effort in developing the business of internal auditing of enterprises. As there are approximately 40,000 large state-owned enterprises across the country, private enterprises and foreign-invested enterprises are fast growing along with economic development, a huge market demand for internal auditing of enterprises has been formed and will keep on growing. The Group, therefore, will obtain additional profits from the audit sector.

The Group submitted tender for initial design of the “e-Quality Project” (first phase). After the first phase feasibility study report prepared by the Group for the “e-Quality Project” had been examined and approved, the Group submitted tender for its initial design. In accordance with the objectives and content of construction of the “e-Quality Project” (first phase) stipulated by the National Development and Reform Commission in the approval of the “e-Quality Project” (first phase) feasibility study report and based on analysis of the project requirements, the Group’s initial design of the “e-Quality Project” (first phase) technical plan will include: on the basis of the requirements and inquiries and analysis, the design of information technology standard and system and regulation of information management and the establishment of relevant technological targets and systems; the initial design and construction of quality examination hardware, network platform and construction of application software platform, of which the main scope of hardware and network design will aim at serving the State Administration for Quality Supervision, Inspection and Quarantine (including the Certification and Accreditation Administration of the PRC and Standardization Administration of the PRC), the Quality and Technology Supervision Bureau of 36 provinces (including independently planned cities) and 35 centrally administered inspection and quarantine offices, 16 trial inspection and quarantine branch offices, the WANs of 16 trial inspection and quarantine offices, the LANs of the State Administration for Quality Supervision, Inspection and Quarantine and the LANs of the centrally administered offices, trial branch offices and offices. The design of software platform will include the initial design of basic quality inspection database of the State Administration for Quality Supervision, Inspection and Quarantine such as the state standardization information database and enterprise quality database as well as the related application in business. The design of application system will include the initial design of related security and protection systems.

In the initial design of the systems, it is necessary to determine the business functions, business process, structure and its software and hardware configuration and define the interface between various items. In the design of application functions, detailed explanation will be given as to the industry (or business unit) to be monitored and the scope of deployment, and in particular, a reasonable forecast of the anticipated effect will be made. The objectives of this project are feasible, realistic and effective.

The directors are of confidence that the Group can win the tender and take this opportunity to secure a leading position in the industry.

After the consecutive acquisitions of CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd and Chinasoft Resources, the Group will devote efforts to develop the business of IT outsourcing in order to bring in sustainable income for the Group.

Chinasoft discovers from the previous business that, after realizing basic application needs, clients have higher demand on service and consultation. Thus Chinasoft gives immediate response by developing IT outsourcing business. On one hand, it rapidly develops the share of outsourcing market by foreign enterprises so as to maintain stable income and at the same time, absorb consultation service experience to be applied in the domestic market. On the other hand, by making use of the advantages of Chinasoft in the e-government business, Chinasoft is provided with high-end consultation and services to carry on its BPO business in the domestic market. Moving from the focus of e-government solutions, Chinasoft is now heading for development in both IT consultation outsourcing and solutions.

As a result of CS&S (HK) continuing to purchase shares of the Company in the market and the issue of new shares by the Company to CS&S (HK) for the acquisition from it of 51% equity interest in Chinasoft Resources Information Technology Services Limited, CS&S (HK) has now become the largest substantial shareholder of the Group. The holding company of CS&S (HK) is China National Software and Service Company Limited (“CNSS”), a company listed on the Shanghai Stock Exchange (A Share 600563).

In 1990, China National Computer Software and Technology Service Corporation (“CS&S”) was established with investment from China Electronics Corporation under the approval of the National Development and Reform Commission. It is the largest State-owned software enterprise. In 2002, Chinasoft Network Technology Company Limited (“CNTC”), a subsidiary of CS&S listed on the Shanghai Stock Exchange (A Share 600536). In 2004, CNTC acquired its parent company CS&S with China Electronics Corporation becoming its largest substantial shareholder and changed into CNSS.

It is of strategic significance for CNSS to become the largest substantial shareholder of the Company. After the joining of CNSS, the Group will be able to gain more support for its business from the State. Moreover, as CNSS is a major supplier of software in the PRC, the Group may further strengthen its technological and business cooperation with CNSS.

In the meantime, the Group is in active contact with international investors for the purpose of introducing new strategic investors to the Group and speeding up the Group’s entry into the international market. The investments from strategic investors will be applied to the acquisition of companies of high quality in the industry and the Group’s internal research and development on new solutions.

REVIEW OF BUSINESS OBJECTIVES

The following is a comparison of the business objectives as stated in "Future Plans and Prospects" the Prospectus with the actual business progress of the Group:

Major Scope	Major business objective stated in the Prospectus	Actual business progress
1. Strengthen the Group's Solutions	<ul style="list-style-type: none"> • Continue to form new business partnership/strategic partnership with technology companies for joint development of solutions • Evaluate the features of existing "e-Government" solution 	<ul style="list-style-type: none"> • Completed the formation of new business partnership/strategic partnership with technology companies for joint development of solutions • Evaluated the features of existing "e-Government" solution
2. Development of new standalone software products and enhancement of existing standalone software products	<ul style="list-style-type: none"> • Enhance the features of existing intermediates and application software • Commence the research and development of brand new standalone software products 	<ul style="list-style-type: none"> • Developed Resources One V3.1 version and the updated version of "Chinasoft Audit" AE product • Commenced the research and development of brand new standalone software products
3. Development of the business of IT consulting and training and IT outsourcing	<ul style="list-style-type: none"> • Continue to monitor existing customers' systems and provide them with consulting and training services • Evaluate the materials for consultation and training • Evaluate the resources of IT outsourcing provided by the Group 	<ul style="list-style-type: none"> • Successfully acquired 51% equity interest of Chinasoft Resources Information Technology Service Limited • Evaluated the materials for consultation and training • Evaluated the resources of IT outsourcing provided by the Group
4. Sales and marketing	<ul style="list-style-type: none"> • Send employees to attend related exhibitions and conferences to promote the Group's "e-Government" solution • Seek appropriate distributors when the Group proposes sales 	<ul style="list-style-type: none"> • Attended several exhibitions and conferences which were influential within the country • Developed several distributors

DIRECTORS' INTERESTS IN SHARES

As at 30 June, 2005, the following Directors had interests in the underlying shares of the Company set out below as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules:

Options to subscribe for shares of the Company

Name of Directors	Exercise Price (HK\$)	No. of share options outstanding as at 30 June, 2005	Percentage of total issued share capital of the Company	Note
Chen Yuhong	0.58	1,200,000	0.17%	(1)
	0.65	5,000,000	0.72%	(2)
Cui Hui	0.65	500,000	0.07%	(2)
Duncan Chiu	0.65	1,000,000	0.14%	(2)
Peng Jiang	0.58	800,000	0.11%	(1)
	0.65	3,000,000	0.43%	(2)

Notes:

- (1) These share options were offered on 13 August, 2003 under the share option scheme of the Company adopted on 2 June, 2003 (the "Share Option Scheme") and were accepted on 27 August, 2003. The share options are exercisable for a period of ten years from the date of offer, subject to the following conditions:

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

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

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

Save as disclosed above and so far as was known to the Directors, as at 30 June, 2005 none of the Directors or chief executive of the Company had any interests or short positions in the shares, debentures or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

As at 30 June, 2005, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December, 2004 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by, or leased to the Company or any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at 30 June, 2005, none of the Directors were materially interested in any subsisting contract or arrangement and which is significant in relation to the business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

During the six months ended 30 June, 2005, none of the Directors was granted options to subscribe for shares of the Company. As at 30 June, 2005, none of the Directors had any rights to acquire shares in the Company save as disclosed above.

SHARE OPTION SCHEME

As at 30 June, 2005, share options to subscribe for an aggregate of 63,740,000 shares of HK\$0.05 each in the capital of the Company ("Shares") were granted to certain directors and employees of the Group pursuant to the Share Option Scheme with terms on the exercise of the share options granted as set out in Notes (1) and (2) in the section headed "Directors' Interests in Shares" above.

Save as disclosed above, no option has been granted, exercised and lapsed pursuant to such Share Option Scheme as at 30 June, 2005.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the six months ended 30 June, 2005, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the Directors, the Directors had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the six months ended 30 June, 2005.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 30 June, 2005, the interest of the persons (not being a Director or chief executive of the Company) in the shares of the Company which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in Shares

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of shareholding as at 30 June, 2005
Far East Technology International Limited ("Far East") (Note 1)	Beneficial interest	169.89	24.36%
CS&S (HK) (Note 2)	Beneficial interest	140.89	20.20%
CNSS (Note 2)	Interest of controlled corporation	140.89	20.20%
Authorative Industries Limited ("Authorative") (Note 3)	Beneficial interest	57.49	8.24%
Yang Haimo (Note 3)	Interest of controlled corporation	57.49	8.24%
Prosperity International Investment Corporation ("Prosperity") (Note 4)	Beneficial interest	39.79	5.70%
Joseph Tian Li (Note 4)	Interest of controlled corporation	39.79	5.70%
ITG Venture Capital Limited ("ITG") (Note 5)	Beneficial interest	36.94	5.30%
Zhou Qi (Note 5)	Interest of controlled corporation	36.94	5.30%

Notes:

1. Mr. Duncan Chiu and Mr. David Chiu, an executive Director and a non-executive Director of the Company respectively, are nominated by Far East. Both Mr. Duncan Chiu and Mr. David Chiu are directors of Far East.
2. CNSS is taken to be interested in the Shares which CS&S (HK), its subsidiary in which it holds approximately 99.3% of the total voting rights, is interested in.
3. Mr. Yang Haimo controls the exercise of more than one-third of the voting power at general meetings of Authorative. Mr. Yang Haimo is taken to be interested in the Shares held by Authorative.
4. The entire issued share capital of Prosperity is beneficially owned by Mr. Joseph Tian Li. Mr. Joseph Tian Li is taken to be interested in the Shares held by Prosperity.
5. The entire issued share capital of ITG is beneficially owned by Mr. Zhou Qi. Mr. Zhou Qi is taken to be interested in the Shares held by ITG.

Save as disclosed above, as at 30 June, 2005, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

COMPETING INTERESTS

Mr. Cui Hui, an executive Director, was interested in approximately 1.34% of the issued share capital of CNSS and also served as a director of CNSS as at 30 June 2005. In addition, Ms. Tang Min and Dr. Chen Yuhong had been appointed as a director of 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 herein, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competed or might compete with the business of the Group as at 30 June 2005.

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, Oriental Patron Asia Limited ("Oriental Patron"), neither Oriental Patron nor its directors, employees or associates had any interests in the share capital of the Company as at 30 June, 2005 pursuant to Rules 6.36 and 18.75 of the GEM Listing Rules.

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

AUDIT COMMITTEE

The Company established an audit committee on 2 June, 2003 and had amended its written terms of reference to comply with the requirements in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises the two independent non-executive Directors, namely Mr. He Ning and Mr. Zeng Zhijie and a non-executive Director, Dr. Chen Qiwei.

The audit committee of the Company has reviewed the interim results of the Group for the six months ended 30 June, 2005.

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

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June, 2005.

CORPORATE GOVERNANCE

The Company had complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules for the six months ended 30 June, 2005.

On behalf of the Board

Dr. Chen Yuhong

Managing Director

8 August, 2005, Beijing

Executive Directors:

Ms. Tang Min (*Chairman*)

Dr. Chen Yuhong (*Managing Director*)

Mr. Cui Hui

Mr. Peng Jiang

Mr. Duncan Chiu

Non-executive Directors:

Mr. David Chiu

Mr. Liu Zheng

Dr. Chen Qiwei

Independent Non-executive Directors:

Mr. He Ning

Mr. Zeng Zhijie

Mr. Peter Au Yeung Shiu Kau