



CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司\*

*(Incorporated in the Cayman Islands with limited liability)*



## Interim Report 2003

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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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 RMB7,915,000 for the six months ended 30th June, 2003, representing an approximately 42% increase as compared with that of the corresponding period in 2002
- Achieved a turnover of approximately RMB59,080,000 for the six months ended 30th June, 2003
- The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2003

## **INTERIM RESULTS**

The board of Directors (“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 30th June, 2003, respectively, with corresponding figures as follows:

**CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)**

	<i>Notes</i>	For the three months ended 30th June,		For the six months ended 30th June,	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Turnover	2	<b>38,949</b>	31,845	<b>59,080</b>	53,279
Cost of sales		<b>(29,047)</b>	(26,120)	<b>(42,360)</b>	(43,259)
Gross profit		<b>9,902</b>	5,725	<b>16,720</b>	10,020
Other revenue		<b>78</b>	54	<b>168</b>	175
Distribution costs		<b>(1,412)</b>	(878)	<b>(2,823)</b>	(1,310)
Administrative expenses		<b>(2,317)</b>	(1,590)	<b>(4,090)</b>	(2,343)
Research and development costs		<b>(39)</b>	–	<b>(79)</b>	–
Profit from operations		<b>6,212</b>	3,311	<b>9,896</b>	6,542
Finance costs		–	–	–	–
Profit before taxation		<b>6,212</b>	3,311	<b>9,896</b>	6,542
Taxation	3	<b>(412)</b>	–	<b>(675)</b>	–
Net profit before minority interests		<b>5,800</b>	3,311	<b>9,221</b>	6,542
Minority interests		<b>(741)</b>	(497)	<b>(1,306)</b>	(982)
Net profit attributable to shareholders		<b>5,059</b>	2,814	<b>7,915</b>	5,560
Dividend	4	–	5,406	–	5,406
Earnings per share – basic	5	<b>0.010</b>	0.006	<b>0.016</b>	0.012

**CONSOLIDATED BALANCE SHEET**

		(Unaudited) 30th June, 2003 RMB'000	(Audited) 31st December, 2002 RMB'000
	<i>Notes</i>		
<hr/>			
Non-current assets			
Property, plant and equipment		6,360	5,848
Development costs		3,422	3,228
Loans to employees		1,475	1,475
		<hr/> 11,257	<hr/> 10,551
Current assets			
Inventories		3,113	3,466
Trade receivables	6	49,731	34,085
Other receivables		17,312	13,945
Bank balances and cash		79,420	34,851
		<hr/> 149,576	<hr/> 86,347
Current liabilities			
Trade payables	7	22,549	13,529
Other payables		10,559	2,682
Provision for taxation		675	-
Bank loan		3,000	-
Amount due to a shareholder		-	630
Amount due to a related company		-	2,545
		<hr/> 36,783	<hr/> 19,386
Net current assets		<hr/> 112,793	<hr/> 66,961
Total assets less current liabilities		124,050	77,512
Minority interests		(12,878)	(11,572)
Net assets		<hr/> 111,172	<hr/> 65,940
Capital and reserves			
Share capital		33,920	118
Reserves		77,252	65,822
Shareholders' funds		<hr/> 111,172	<hr/> 65,940

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Translation reserve	General reserve	Enterprise expansion fund	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2002	118	42,833	49	-	-	8,937	51,937
Dividend paid	-	(5)	-	-	-	(5,401)	(5,406)
Net profit for the period	-	-	-	-	-	5,560	5,560
Appropriation	-	-	-	970	485	(1,455)	-
At 30th June, 2002	118	42,828	49	970	485	7,641	52,091
At 1st January, 2003	118	42,828	49	970	485	21,490	65,940
Net profit for the period	-	-	-	-	-	7,915	7,915
Capitalisation issues	25,322	(25,322)	-	-	-	-	-
Issue of shares under placement	8,480	45,792	-	-	-	-	54,272
Share issuing expenses	-	(16,960)	-	-	-	-	(16,960)
Exchange difference	-	-	5	-	-	-	5
At 30th June, 2003	33,920	46,338	54	970	485	29,405	111,172

## CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30th June,	
	2003	2002
	RMB'000	RMB'000
Cash flows from operating activities	5,600	(817)
Cash flows from investing activities	(707)	(9,154)
Cash flows from financial activities	39,676	(6,056)
Net increase (decrease) in cash and cash equivalents	44,569	(16,027)
Cash and cash equivalents at the beginning of the period	34,851	45,730
Cash and cash equivalents at the end of the period	79,420	29,703

Notes:

## 1. BASIS OF PRESENTATION

The financial statements of the Group have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the Rules Governing the Listing of Securities on GEM.

## 2. TURNOVER

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

	For the three months ended 30th June,		For the six months ended 30th June,	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Solutions	30,832	22,712	44,734	41,349
IT outsourcing	7,815	9,104	13,200	11,358
IT consulting and training services	302	29	778	572
Standalone software product	—	—	368	—
	<u>38,949</u>	<u>31,845</u>	<u>59,080</u>	<u>53,279</u>

## 3. TAXATION

Pursuant to an approval document issued by the State Bureau of Beijing Haidian District dated 21st November 2000, Beijing Chinasoft FE International Information Technology Limited ("Chinasoft FE"), 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.

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

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

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

#### 4. DIVIDEND

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

#### 5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and six months ended 30th June, 2003 was based on the net profit of approximately RMB5,059,000 and approximately RMB7,915,000 (three months and six months ended 30th June, 2002: net profit of approximately RMB2,814,000 and RMB5,560,000) divided by the weighted average number of shares issued during the three months ended 30th June, 2003 of 499,341,000 shares (2002: 480,000,000 shares) and six months ended 30th June, 2003 of 489,724,000 shares (2002: 480,000,000 shares) as if the sub-division of the Company's shares as described in Appendix VI of the prospectus of the Company dated 10th June, 2003 ("Prospectus") had taken place at the beginning of the relevant periods.

Diluted earnings per share is not presented for the three months and six months ended 30th June, 2003 and 2002 as there were no potential dilutive securities in existence during the relevant periods.

#### 6. TRADE DEBTORS

Aged analysis of trade debtors are as follows:

	(Unaudited) 30 June, 2003 RMB'000	(Audited) 31 December, 2002 RMB'000
0 – 90 days	34,412	25,127
91 – 180 days	11,202	5,971
181 – 365 days	3,997	2,261
Over 365 days	120	726
	<u>49,731</u>	<u>34,085</u>



## 7. TRADE CREDITORS

Aged analysis of trade creditors are as follows:

	(Unaudited) 30 June, 2003 RMB'000	(Audited) 31 December, 2002 RMB'000
0 – 90 days	15,969	7,878
91 – 180 days	3,747	3,572
181 – 365 days	2,783	2,029
Over 365 days	50	50
	<u>22,549</u>	<u>13,529</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 2003 and 2002, the Group had the following transactions with the following related parties:

	For the three months ended 30th June,		For the six months ended 30th June,	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
China National Computer Software & Technology Service Corporation ("CS&S") (Note a)				
- Provision of solution services (Note c)	-	-	-	640
- Rental expenses (Note d)	212	115	423	229
Chinasoft Network Technology Company Limited ("CNTC") (Note b)				
- Purchases of computer hardware and software products (Note d)	-	82	-	82
	<u>-</u>	<u>82</u>	<u>-</u>	<u>82</u>

*Notes:*

- (a) A director of CS&S is also a director of Chinasoft FE.
  - (b) A director of CNTC is also a director of Chinasoft FE.
  - (c) The transactions were carried out at cost plus a percentage mark up.
  - (d) The transactions were carried out in accordance with the relevant agreements.
- (ii) Pursuant to an agreement entered into between CS&S and Chinasoft FE on 10th May 2002 (the "Agreement"), CS&S has granted to Chinasoft FE an exclusive right for no consideration to use the trademark as defined on 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 Chinasoft FE for a period of 25 years.
- (iii) Under a trademark licence agreement ("Licence Agreement") dated 3rd June 2002 made between CS&S and Chinasoft FE, CS&S granted to Chinasoft FE a non-exclusive right for no consideration to use the trademarks as defined on Licence Agreement in the PRC for 10 years.

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

## 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 30th June 2003 is presented below:

**Income statement**

	Solutions RMB'000	IT outsourcing RMB'000	IT consulting and training services RMB'000	Standalone software product RMB'000	Consolidated RMB'000
Turnover	44,734	13,200	778	368	59,080
Segment result	13,287	2,568	498	367	16,720
Unallocated corporate revenue					168
Unallocated corporate expenses					(6,992)
Finance costs					-
Profit before taxation					9,896
Taxation					(675)
Net profit before minority interests					9,221

- (ii) Segment information about these businesses for the six months ended 30th June 2002 is presented below:

**Income statement**

	Solutions RMB'000	IT outsourcing RMB'000	IT consulting and training services RMB'000	Standalone software product RMB'000	Consolidated RMB'000
Turnover	41,349	11,358	572	-	53,279
Segment result	7,620	2,233	167	-	10,020
Unallocated corporate revenue					175
Unallocated corporate expenses					(3,653)
Profit before taxation					6,542
Taxation					-
Net profit before minority interests					6,542

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 INFORMATION**

The remuneration for the employees of the Group amounted to approximately RMB5,340,000, including the directors' emoluments of approximately RMB280,000 during the six months ended 30th June, 2003 (2002: approximately RMB3,486,000, including the directors' emoluments of approximately RMB186,000). The increase in employee remuneration resulted from the increase in number of employees from 90 to 145 and the increase in bonus to individual staff during the period.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2003 (2002: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

#### *Results*

The Group has achieved a substantial growth in the operational results for the six months period ended 30th June 2003. The increase in net profit was attributable to the Group's continuous efforts in marketing through the expansion of the sales and marketing team to develop relationships with prospective customers and attending various seminars to promote the Group's solutions, particularly the e-Park and e-Audit. As a results, new large contracts were made during the first half of 2003 with Dalian ETDA and the National Audit Office of the PRC. For the three months ended 30th June, 2003, the Group generated revenue of approximately RMB38,949,000 and a net profit of approximately RMB5,059,000. This represents a growth of 80% in net profit compared to the same period in the previous year. For the six months ended 30th June, 2003, the Group generated revenue of approximately RMB59,080,000 and a net profit of approximately

RMB7,915,000, representing a 42% growth in net profit. By compared with last period, the increase in gross profit margin for the six months ended 30th June, 2003 from 19% to 28% was due to large and high gross profit margin of solution contracts such as e-Park in Dalian ETDA and e-Audit in State Audit Office of the PRC were signed and completed during the current period. The distribution costs for the period were approximately RMB2,823,000, an increase of approximately 115% from the last period. The increase in distribution cost was mainly due to the expansion of the Group's sales and marketing team from 28 to 46 personnel during the period. The administrative expenses for the period was approximately RMB4,090,000, an increased of approximately 75% from the last period. The increase in administrative expenses was mainly due to the further expansion of human resources from 16 to 24 personnel in administration and additional rental expenses incurred for the new Hong Kong office during the current period.

#### *Financial Resources and liquidity*

As at 30th June, 2003, shareholders' funds of the Group amounted to approximately RMB111,172,000. Current assets amounted to approximately RMB149,576,000, of which approximately RMB79,420,000 were cash and bank deposits. The Group had no non-current liabilities and its current liabilities amounted to approximately RMB36,783,000, mainly its trade payables, accruals, bank loan and current account with a related company. The net asset value per share was RMB0.17. The Group expresses its gearing ratio as a percentage of bank borrowing and long-term debts over total assets. As at 30th June, 2003, the Group had a gearing ratio of 2%. The bank loan of RMB3,000,000 taken out during the current period was mainly used for the financing general working capital of Chinasoft FE.

The Group recorded an increase in trade receivables as at 30th June, 2003 as compared to last December, 2002 mainly due to the substantial increase in sales during the period end of the 2003 interim in relation to the Group's solutions services, particularly the e-Park and e-Audit as a results of the Group's continuous efforts in marketing. As a result of the SARS outbreak in Beijing, the payment application process by the Group's customers was affected as a result of longer collection period. However, the Group has stringent a credit policy to minimise its credit exposure including credit control, negotiations and discussion with customers, issue of reminders and letters threatening legal action. After the control of the SARS outbreak, the Directors believe that trade receivables will be reduced.

During the six months ending 30th June, 2003, as all the Group's sales and purchases were substantially denominated in Renminbi, the Board of Directors considers that the potential foreign exchange exposure of the Group is limited.

## **USE OF PROCEEDS FROM THE PLACING**

The Company listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited on 20th June, 2003, proceeds from the placing amounted to approximately HK\$35.2 million as described in the Prospectus (the “Placing”) which remains unutilized as at 30th June, 2003.

## **BUSINESS REVIEW**

The Group was facing the challenges in the wave of e-government system construction in the PRC by steadily innovating and improving e-government solution and performing research and development as well as emphasizing market promotion in relation to software and related services. The Group aims to build a leading brand name in the PRC’s e-government market.

### **Improvements to the Group’s solution**

The Group has already completed the feasibility study of e-Park and the research and development of the module in a relation to a one-stop office and customer relation management (“CRM”). Such marked progress will enhance the function of e-Park. The user-friendly edition of e-Park developed by the Group has been successfully applied to Langfang ETDA. Meanwhile, the Group has been continuously expanded the software module base. As at 30th June, 2003, the Group’s software modules had already reached 300.

### **New software development and existing software improvement**

Market demand for intelligent e-government service is gradually being formed as a result of the steady development of e-government. In response to this market demand, the Group has completed the development of intelligent e-government module with the additional functions of data integration, data analysis and data display on the base of ResourceOne V2.0.

### **Further development of IT consulting and training and IT outsourcing**

The Group has been practising the idea of “consultation on the basis of training” in e-government, and incessantly enhancing the Group’s e-government consulting training ability. The Group has provided tailor-made e-government construction design service to the National Audit Office of the PRC and Guangzhou ETDA. The Group, entrusted by the Ministry of Information Industry, also conducted e-government-related technology training.

## Marketing and sales

The Group actively promotes its e-government solutions, software products and their related services to ETDA's and government institutions in a bid to increase the Group's market share. The Group makes efforts to build sales partnerships with other firms. Chinasoft FE, the subsidiary of the Group, has established the Consultant & Integrator Partner relations with IBM (China) Limited to conduct joint market programs.

## Awards

The Group's ResourceOne V2.0 was recognized by the Torch High-Tech Industry Development Centre of the Ministry of Science and Technology of the PRC as the State's level Torch Plan project.

## FUTURE PROSPECTS

The PRC witnessed dramatic developments in e-government construction over the past few years. Since a series of related policies, laws and rules were introduced, the PRC has clearly experienced a process of e-government development with ideas for an overall framework, a channelling network infrastructure to application basis, and a process of security system to e-government standardization. The e-government market in the PRC has developed into a thriving market from a previously potential one. The reform of government institutions as well as the administrative system following the sixteenth plenary session of the National People's Congress will set the goals and requirements for e-government construction. To bolster national economic growth of the PRC, e-government construction is still to be established as the goal and policy of the Chinese government. 2003 and the years to come will be a peak time for investment in e-government construction in our areas. It is expected that more provincial and municipal governments in the PRC will be set to launch e-government construction projects. According to an estimation made by CCW Research, the PRC's e-government market demand for 2003 will amount to RMB35 billion. According to the forecast by CCID, the total market size of the e-government market will reach RMB44 billion in 2003; whilst the PRC software society forecasts that China's e-government market demand will exceed RMB40 billion in the next two or three years.

In order to build the Group into a brand name in the PRC's IT industry and a first-class brand name in the PRC's e-government sector, research and development and market promotion for e-government solutions, related IT training and IT outsourcing will be strengthened in the second

half of 2003. The Group will make the following efforts and explore new business opportunities to reach the above-mentioned goal:

- To develop new e-government solutions for information management engineering projects initiated by the State. With the enhanced e-Audit solution, the solutions for other public affair management will also be developed. These solutions include those currently required by the central government bodies, such as the State Tobacco Control Bureau (國家煙草專賣局), for large scale e-government constructions.
- To improve research and development as well as market promotion for e-Park solution by developing intelligent logistics modules on the basis of existing solutions and expanding the market share of e-Park solution.
- To jointly conduct and propel the trial e-government trainings across the country with the computer training centre of the Ministry of Information Industry and the State Informatization Office.
- To maximise the utilisation the Group's strong software programming and product development team by continue to explore business opportunities in the IT outsourcing business.
- To consolidate the Group's advantageous position in the high-end market of e-government in China by practising the idea of "motivated by consultation on the basis of training" in e-government, building and strengthening strategic partnerships, pooling related resources and creating a first-class e-government consulting team within the country.
- To further enhance the market promotion and sales of solutions, products and related services by establishing permanent sales offices in Guangzhou and other areas.

The Directors believe that the Group, with the joint efforts of the staff, advanced ideas, leading technologies and first-class service, will lead the development of e-government in China and hence greatly contribute to China's e-government construction.



## BUSINESS OBJECTIVES REVIEW

The following section compares the Group's actual business progress to the information provided in the section headed "Future plan and prospects" as set out in the Prospectus:

	<b>Anticipated progress of projects</b>	<b>Actual progress of projects</b>
<b>1. Strengthen the Group's Solutions</b>	<ul style="list-style-type: none"> <li>• Continue to enrich the Group's software component bank by evaluating and upgrading existing components, and development new Solutions.</li> <li>• Conduct feasibility study on upgrading existing e-Park solution (V1.0) including the installation of additional new modules such as one-stop office function module and customer relationship management module.</li> </ul>	<p>Total number of the Group's software modules reached 300.</p> <p>Feasibility study for the upgrade of e-Park has been completed. Research and development for one-stop CRM module has been completed.</p>
<b>2. Development of new standalone software products and enhancement of existing standalone software products</b>	<ul style="list-style-type: none"> <li>• Upgrade ResourceOne (V2.0) by installing and integrating new modules such as the intelligent e-commerce module.</li> <li>• Conduct feasibility study on the development of new standalone software products.</li> </ul>	<p>Development and testing for the intelligent e-government module in ResourceOne V2.0.</p> <p>Related feasibility study has been completed.</p>

	<b>Anticipated progress of projects</b>	<b>Actual progress of projects</b>
<b>3. Development of the business of IT consulting and training and IT outsourcing</b>	<ul style="list-style-type: none"> <li>• Continue to monitor existing customers' systems and provide consulting and training services to them.</li> <li>• Upgrade existing e-government training materials.</li> <li>• Continue to enhance the utilization of the Group's resource by the provision of IT outsourcing.</li> </ul>	<p>Completed.</p> <p>Training materials for e-government have been upgraded.</p> <p>Completed.</p>
<b>4. Sales and marketing</b>	<ul style="list-style-type: none"> <li>• Promote e-government solutions to government authorities and enterprises in ETDA's and government authorities.</li> <li>• Seek suitable distributors as the Group's sales offer.</li> </ul>	<p>Completed.</p> <p>The Group has set up a "Consultant and Integrator Partner" relationship with IBM China.</p>

## **DIRECTORS' INTERESTS IN SHARES**

As at 30th June, 2003, the Directors have no interests and short positions in the shares, debentures or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which have been required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which have been required, pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Save as disclosed above, during the six months ended 30th June, 2003, none of the Directors was granted options to subscribe for shares of the Company. As at 30th June, 2003, none of the Directors had any rights to acquire shares in the Company.

## **SHARE OPTION SCHEME**

The Company has conditionally adopted the share option scheme. A summary of the principle terms and conditions of the share option scheme are set out in the section headed "Share Options" in Appendix IV of the Prospectus. Up to 30th June, 2003, no option has been granted pursuant to such share option scheme.

## **SUBSTANTIAL SHAREHOLDERS**

So far as known to the Directors, as at 30th June, 2003, the following, not being a Director, have an interest or short position in the equity securities or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the

Group, or substantial shareholders as recorded in the register required to be kept by the Company under section 336 of the SFO:

*Long positions in Shares*

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

*Notes:*

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

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

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

3. The entire issued share capital of Authorative is beneficially owned by Mr. Yue Qianming.
4. The entire issued share capital of ITG is beneficially owned by Mr. Zhou Qi.
5. The entire issued share capital of Prosperity is beneficially owned by Mr. Joseph Tian Li.

Save as disclosed above, the Company had not been notified of any other interests representing 5% or more of the Company's issued share capital as at 30th June, 2003, or substantial shareholders as recorded in the register required to be kept by the Company under section 336 of the SFO.

## **COMPETING INTERESTS**

Mr. Cui Hui, and executive Director, was interested in approximately 1.34% of the issued share capital of CNTC and also served as a director of CNTC. Although the Directors are of the view that the principal activities of CNTC do not directly compete with those of the Group currently, the Group and CNTC however are also engaged in the provision of IT outsourcing.

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

## **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 interest in the share capital of the Company as at 30th June, 2003 pursuant to Rules 6.35 and 18.63 of the GEM Listing Rules.

Pursuant to the agreement dated 9th June, 2003 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 20th June, 2003 to 31st December, 2005 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

## **AUDIT COMMITTEE**

The Company established an audit committee on 2 June, 2003 with written terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises the two independent non-executive directors, namely Mr. He Ning and Mr. Zeng Zhijie and a non-executive director, Dr. Chen Qiwei.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company from the date of its shares listed on GEM on 20th June, 2003 to the six months ended 30th June, 2003.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures since its shares are listed on GEM on 20th June, 2003.

On behalf of the Board

**Chen Yuhong**

*Managing Director*

8 August, 2003, Beijing