



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

CONSOLIDATED BALANCE SHEET

		(Unaudited) 30th June, 2003 RMB'000	(Audited) 31st December, 2002 RMB'000
	Notes		
Non-current assets			
Property, plant and equipment		6,360	5,848
Development costs		3,422	3,228
Loans to employees		1,475	1,475
		<u>11,257</u>	<u>10,551</u>
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
		<u>149,576</u>	<u>86,347</u>
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
		<u>36,783</u>	<u>19,386</u>
Net current assets		<u>112,793</u>	<u>66,961</u>
Total assets less current liabilities		124,050	77,512
Minority interests		(12,878)	(11,572)
Net assets		<u>111,172</u>	<u>65,940</u>
Capital and reserves			
Share capital		33,920	118
Reserves		77,252	65,822
Shareholders' funds		<u>111,172</u>	<u>65,940</u>

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 RMB'000	2002 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

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)

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