中软国际

# CHINASOFT INTERNATIONAL LIMITED

# 中軟國際有限公司 *

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

(Stock code: 8216)

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

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

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

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

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



*This announcement, for which the directors of Chinasoft International Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

* *For identification purpose only*

## HIGHLIGHTS

### Interim Results for 2008

| | For the three months ended 30 June, | | | For the six months ended 30 June, | | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | changes | 2008 | 2007 | changes |
| | *RMB'000* | *RMB'000* | | *RMB'000* | *RMB'000* | |
| Total revenue | **216,969** | 207,756 | 4.4% | **449,672** | 326,764 | 37.6% |
| EBITDA | **36,781** | 31,738 | 15.9% | **65,583** | 50,895 | 28.9% |
| Profit for the period | **41,165** | 2,288 | 1,699.2% | **68,969** | 14,826 | 365.2% |
| Profit/(Loss) attributable to shareholders | **39,105** | (415) | N/A | **63,430** | 11,556 | 448.9% |
| Basic earnings/(loss) per share (cents) | **3.91** | (0.05) | N/A | **6.37** | 1.49 | 327.5% |

- Accomplished a net profit of approximately RMB68,969,000 (2007: RMB14,826,000) for the six months ended 30 June, 2008, representing an increase of approximately 365.2% as compared to the corresponding period in 2007.

- Achieved a turnover of approximately RMB449,672,000 (2007: RMB326,764,000) for the six months ended 30 June, 2008, representing an increase of approximately 37.6% as compared to the corresponding period in 2007.

- EBITDA of approximately RMB65,583,000 (2007: RMB50,895,000) for the six months ended 30 June, 2008, representing an increase of approximately 28.9% as compared to the corresponding period in 2007.

- Basic earnings per share and diluted earnings per share for the six months ended 30 June, 2008 of the Company were approximately RMB6.37 cents (2007: RMB1.49 cents) and RMB2.94 cents (2007: RMB2.87 cents) respectively.

- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June, 2008.

- No closure for the Register of Members of the Company.

## 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, 2008, respectively, with corresponding figures as follows:

## CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

| | | For the three months ended 30 June, | | For the six months ended 30 June, | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| | *Notes* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Turnover | *2* | **216,969** | 207,756 | **449,672** | 326,764 |
| Cost of sales | | **(144,013)** | (138,497) | **(304,324)** | (210,731) |
| Gross profit | | **72,956** | 69,259 | **145,348** | 116,033 |
| Other income | | **2,281** | 2,863 | **5,214** | 6,551 |
| Selling and distribution costs | | **(9,149)** | (8,047) | **(18,532)** | (14,975) |
| Administrative expenses | | **(38,068)** | (34,958) | **(77,714)** | (59,540) |
| Amortisation of intangible assets | | **(4,899)** | (2,983) | **(10,034)** | (5,966) |
| Profit from operations | | **23,121** | 26,134 | **44,282** | 42,103 |
| Finance costs | | **(532)** | – | **(536)** | – |
| Redeemable convertible preferred shares dividend | | **–** | (2,139) | **–** | (4,255) |
| Gain/(loss) arising from changes in fair value of redeemable convertible preferred shares | | **20,319** | (18,111) | **27,762** | (18,111) |
| Share of result of associates | | **1,061** | 591 | **2,698** | 1,519 |
| Profit before taxation | | **43,969** | 6,475 | **74,206** | 21,256 |
| Taxation | *3* | **(2,804)** | (4,187) | **(5,237)** | (6,430) |
| Profit for the period | | **41,165** | 2,288 | **68,969** | 14,826 |
| Attributable to: | | | | | |
| Equity holders of the parent | | **39,105** | (415) | **63,430** | 11,556 |
| Minority interests | | **2,060** | 2,703 | **5,539** | 3,270 |
| | | **41,165** | 2,288 | **68,969** | 14,826 |
| Dividend | *4* | **4,514** | 797 | **4,514** | 797 |
| Earnings(loss) per share | | | | | |
| – Basic (cents) | *5* | **3.91** | (0.05) | **6.37** | 1.49 |
| – Diluted (cents) | *5* | **1.54** | 1.69 | **2.94** | 2.87 |

## CONSOLIDATED BALANCE SHEET

| | Notes | (Unaudited) 30 June, 2008 RMB'000 | (Audited) 31 December, 2007 RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **67,978** | 68,723 |
| Intangible assets | | **71,897** | 76,155 |
| Goodwill | 6 | **459,345** | 445,005 |
| Interests in associates | | **14,289** | 11,591 |
| Available-for-sale investment | | **109** | 109 |
| Prepaid lease payments | | **1,115** | 1,276 |
| Deferred tax assets | | **1,806** | 1,806 |
| | | **616,539** | 604,665 |
| Current assets | | | |
| Inventories | | **35,915** | 51,713 |
| Trade and other receivables | 7 | **397,831** | 432,553 |
| Prepaid lease payments | | **166** | 177 |
| Amounts due from customers for contract work | | **138,191** | 36,701 |
| Amount due from related companies | | **33,701** | 1,524 |
| Pledged deposits | | **16,961** | 4,504 |
| Bank balances and cash | | **114,505** | 230,435 |
| | | **737,270** | 757,607 |
| Current liabilities | | | |
| Trade and other payables | 8 | **255,635** | 286,530 |
| Bills payable | | **8,083** | 35,132 |
| Amounts due to customers for contract work | | **2,367** | 10,428 |
| Amounts due to related companies | | **8,056** | 14,031 |
| Dividend payable to shareholders | | **233** | 238 |
| Taxation payable | | **1,996** | 4,528 |
| Borrowings | | **30,000** | 10,000 |
| Consideration payable on acquisition of technical expertise | | **–** | 731 |
| Consideration payable on acquisition of subsidiaries | | **–** | 2,923 |
| | | **306,370** | 364,541 |
| Net current assets | | **430,900** | 393,066 |
| Total assets less current liabilities | | **1,047,439** | 997,731 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | **7,170** | 7,170 |
| Borrowings | | **15,700** | 16,814 |
| Redeemable convertible preferred shares | | **157,162** | 199,059 |
| | | **180,032** | 223,043 |
| | | **867,407** | 774,688 |
| Capital and reserves | | | |
| Share capital | 9 | **51,959** | 51,398 |
| Share premium | | **519,803** | 505,483 |
| Reserves | | **251,087** | 178,788 |
| Equity attributable to equity holders of the Company | | **822,849** | 735,669 |
| Minority interests | | **44,558** | 39,019 |
| Total equity | | **867,407** | 774,688 |

# UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to the equity holders of the parent company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Ordinary share capital *RMB'000* | Ordinary share premium *RMB'000* | Translation reserve *RMB'000* | Share options reserve *RMB'000* | General reserve fund *RMB'000* | Statutory enterprise expansion fund *RMB'000* | Statutory surplus reserve fund *RMB'000* | Accu-mulated fund *RMB'000* | Total *RMB'000* | Minority interests *RMB'000* | Total *RMB'000* |
| At 1st January, 2007 | 40,184 | 128,899 | (6,942) | 11,243 | 9,714 | 8,868 | 341 | 20,528 | 212,835 | 20,820 | 233,655 |
| Exchange differences arising from translation of overseas operations | (2,243) | (7,723) | 10,864 | (402) | – | – | – | – | 496 | – | 496 |
| New issue of shares | 2,584 | 66,339 | – | (2,516) | – | – | – | – | 66,407 | – | 66,407 |
| Expenses incurred in connection to new issue of share | – | (114) | – | – | – | – | – | – | (114) | – | (114) |
| Recognition of equity-settled share based payments | – | – | – | 2,097 | – | – | – | – | 2,097 | – | 2,097 |
| Dividend paid for 2006 | – | – | – | – | – | – | – | (797) | (797) | – | (797) |
| Net profit for the period | – | – | – | – | – | – | – | 11,556 | 11,556 | 3,270 | 14,826 |
| At 30 June, 2007 | 40,525 | 187,401 | 3,922 | 10,422 | 9,714 | 8,868 | 341 | 31,287 | 292,480 | 24,090 | 316,570 |
| At 1 January, 2008 | 51,398 | 505,483 | (1,224) | 25,116 | 15,793 | 8,868 | 505 | 129,730 | 735,669 | 39,019 | 774,688 |
| Exchange differences arising from translation of overseas operations | – | – | 9,400 | – | – | – | – | – | 9,400 | – | 9,400 |
| New issue of shares | 397 | 11,881 | – | – | – | – | – | – | 12,278 | – | 12,278 |
| Recognition of equity-settled share based payments | – | – | – | 4,514 | – | – | – | – | 4,514 | – | 4,514 |
| New issue of shares upon exercise of share option | 164 | 2,439 | – | (531) | – | – | – | – | 2,072 | – | 2,072 |
| Dividend paid for 2007 | – | – | – | – | – | – | – | (4,514) | (4,514) | – | (4,514) |
| Net profit for the period | – | – | – | – | – | – | – | 63,430 | 63,430 | 5,539 | 68,969 |
| At 30 June, 2008 | 51,959 | 519,803 | 8,176 | 29,099 | 15,793 | 8,868 | 505 | 188,646 | 822,849 | 44,558 | 867,407 |

## CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

| | Six months ended 30 June, | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Net cash used in operating activities | **(96,549)** | (36,665) |
| Net cash used in investing activities | **(25,704)** | (33,605) |
| Net cash generated from financial activities | **6,882** | 68,357 |
| Net increase (decrease) in cash and cash equivalents | **(115,371)** | (1,913) |
| Effect of foreign exchange rate changes | **(559)** | – |
| Cash and cash equivalents at the beginning of the period | **230,435** | 133,571 |
| Cash and cash equivalents at the end of the period | **114,505** | 131,658 |

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION

The financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) and the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules"). They have been prepared under the historical cost convention.

### 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,** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | | 2007 | | **2008** | | 2007 | |
| | ***RMB'000*** | | *RMB'000* | | ***RMB'000*** | | *RMB'000* | |
| Solutions | **117,612** | **54.21%** | 149,038 | 71.74% | **264,664** | **58.86%** | 229,775 | 70.32% |
| IT outsourcing | **82,469** | **38.01%** | 49,780 | 23.96% | **160,850** | **35.77%** | 83,272 | 25.48% |
| IT consulting and training services | **5,066** | **2.33%** | 3,895 | 1.87% | **11,884** | **2.64%** | 7,904 | 2.42% |
| Standalone software product | **11,822** | **5.45%** | 5,043 | 2.43% | **12,274** | **2.73%** | 5,813 | 1.78% |
| | **216,969** | **100%** | 207,756 | 100% | **449,672** | **100%** | 326,764 | 100% |

### 3. TAXATION

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

On 16 March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% from 1 January, 2008.

Pursuant to an approval document issued by the State Bureau of Beijing Haidian District dated 21 November, 2000, Chinasoft Beijing, a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Beijing was entitled to the three year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profitmaking year with effect from 2000. As a result, Chinasoft Beijing is subject to the income tax computed at the rate of 7.5% for the three years ended 31 December, 2005 and at the rate of 15% on its taxable profit up to year 2007. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulation of the New Law.

Pursuant to an approval document issued by the Guangzhou Science and Technology Bureau dated 31 March, 2004, Chinasoft Guangzhou, a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, pursuant to another approval document issued by the Guangzhou National Tax Bureau dated 2 June, 2004, Chinasoft Guangzhou was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2003. The tax rate with effect from 2008, is 25% under the New Law.

Pursuant to an approval document issued by the State Bureau of Kunming City, Yunnan Province dated 15 June, 2007, Chinasoft Kunming, a subsidiary of the Company, had been designated as a technology development enterprise. As a result, Chinasoft Kunming was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2006. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulation of the New Law.

Pursuant to an approval document issued by the Hunan Science and Technology Bureau dated 13 June, 2006, Chinasoft Hunan, a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Hunan was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2006. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulation of the New Law.

Pursuant to an approval document issued by the State Bureau of Tianjin Economic and Technology Development Zone dated 20 February, 2003, Cyber Resources, a subsidiary of the Company, was established before the end of the year 1995 and was approved as an production enterprise and its income tax rate was reduced from 33% to 15%. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulation of the New Law.

Pursuant to an approval document issued by the Beijing Science and Technology Commission dated 25 June, 2004, Chinasoft Resources Beijing, a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Resources Beijing was entitled to the three year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2004. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulations of the New Law.

Pursuant to an approval document issued by the State Bureau of Shenzhen Nanshan District dated 1 March, 2005, Chinasoft Resources Shenzhen, a subsidiary of the Company, had been designated as a newly established software enterprise. As a result, Chinasoft Resources Shenzhen was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2004. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulations of the New Law.

Pursuant to an approval document issued by the Shanghai City District Bureau dated 27 February, 2007, Chinasoft Resources Shanghai, a subsidiary of the Company, was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction with effect from 2006. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulations of the New Law.

## 4. DIVIDEND

On 30 March, 2008, the Company declared final dividend amounting to HK$5,011,393 (equivalent to RMB4,514,000) for the year ended 31 December, 2007 to its shareholders. The amount was paid to its shareholders on 30 June, 2008.

## 5. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

| | For the three months ended 30 June, | | For the six months ended 30 June, | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Earnings/(Loss) for the purposes of calculating basic earnings per share | **39,105** | (415) | **63,430** | 11,556 |
| Effect of dilutive potential ordinary shares: | | | | |
| Gain/(Loss) arising from changes in fair value of redeemable convertible preferred shares | **20,319** | (18,111) | **27,762** | (18,111) |
| Earnings for the purposes of calculating diluted earnings per share | **18,786** | 17,696 | **35,668** | 29,667 |

| | Number of shares | | Number of shares | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **1,001,115,501** | 789,216,965 | **995,476,938** | 774,101,197 |
| Effect of dilutive potential ordinary shares: | | | | |
| Issuable under the Company's share option scheme | **22,991,109** | 61,638,059 | **24,122,765** | 64,939,314 |
| Conversion of the redeemable convertible preferred shares | **194,500,000** | 194,500,000 | **194,500,000** | 194,500,000 |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | **1,218,606,610** | 1,045,355,024 | **1,214,099,703** | 1,033,540,511 |

## 6. GOODWILL

Goodwill arose mainly from the acquisition of the remaining 49% interest of a subsidiary, Chinasoft Resources Information Technology Services Limited (北京中軟資源信息科技服務有限公司) and the additional 50% interest in a subsidiary, CS&S Cyber Resources Software Technology (Tianjin) Co. Ltd. (中軟賽博資源軟件技術(天津)有限公司), 97.35% interest of Hinge Global Inc. and its subsidiaries in the previous years. An additional goodwill is recognised during the period arose from the acquisition of 100% interest in Japan Powerise Co. Ltd.

## 7. TRADE AND OTHER RECEIVABLES

| | **(Unaudited) 30 June, 2008** *RMB'000* | (Audited) 31 December, 2007 *RMB'000* |
|---|---|---|
| Trade receivables | **349,924** | 373,490 |
| Less: Allowance for doubtful debts | **(22,551)** | (17,984) |
| | **327,373** | 355,506 |
| Trade receivable from an associate | **–** | 491 |
| Trade receivables from related companies | **231** | 26,924 |
| | **327,604** | 382,921 |
| Advances to suppliers | **25,974** | 8,187 |
| Deposits, prepayments and other receivables | **44,253** | 41,445 |
| | **397,831** | 432,553 |

The average credit terms of the Group range from 30 to 90 days. An aged analysis of trade receivables (net of allowance for doubtful debts) is as follows:

| | **(Unaudited) 30 June, 2008** *RMB'000* | (Audited) 31 December, 2007 *RMB'000* |
|---|---|---|
| Within 90 days | **93,569** | 152,256 |
| Between 91-180 days | **37,175** | 87,884 |
| Between 181-365 days | **83,651** | 96,747 |
| Between 1-2 years | **86,521** | 40,669 |
| Over 2 years | **26,688** | 5,365 |
| | **327,604** | 382,921 |

The fair value of the Group's trade and other receivables at 30 June, 2008 was approximately equal to the corresponding carrying amount.

## 8. TRADE AND OTHER PAYABLES

| | **(Unaudited) 30 June, 2008** *RMB'000* | (Audited) 31 December, 2007 *RMB'000* |
|---|---|---|
| Trade payables | **136,284** | 151,649 |
| Deposits received from customers | **32,383** | 38,315 |
| Other payables and accrued charges | **86,968** | 96,566 |
| | **255,635** | 286,530 |

An aged analysis of trade payables is as follows:

| | **(Unaudited) 30 June, 2008** *RMB'000* | (Audited) 31 December, 2007 *RMB'000* |
|---|---|---|
| Within 90 days | **44,794** | 67,079 |
| Between 91-180 days | **12,194** | 23,508 |
| Between 181-365 days | **39,178** | 30,131 |
| Between 1-2 years | **30,455** | 23,147 |
| Over 2 years | **9,663** | 7,784 |
| | **136,284** | 151,649 |

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

The fair value of the Group's trade and other payables at 30 June, 2008 was approximately equal to the corresponding carrying amount.

## 9. SHARE CAPITAL

| | Ordinary shares | | |
|---|---|---|---|
| | Number of shares | Nominal value per share *HK$* | Ordinary shares capital *HK$* |
| **Authorised shares capital** | | | |
| At 1 January, 2007, 30 June, 2007, 1 January, 2008 and 30 June, 2008 | 1,500,000,000 | 0.05 | 75,000,000 |
| **Issued shares capital** | | | |
| At 1 January, 2007 | 758,817,476 | 0.05 | 37,940,874 |
| Issue of ordinary shares | 211,087,399 | 0.05 | 10,554,370 |
| Exercise of share option | 19,933,500 | 0.05 | 996,675 |
| At 31 December, 2007 and 1 January, 2008 | 989,838,375 | 0.05 | 49,491,919 |
| Issue of ordinary shares | 8,790,313 | 0.05 | 439,515 |
| Exercise of share option | 3,650,000 | 0.05 | 182,500 |
| At 30 June, 2008 | 1,002,278,688 | 0.05 | 50,113,934 |

## 10. 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.

## 11. RELATED PARTY TRANSACTIONS

(i) During the relevant periods in 2007 and 2008, the Group had the following transactions with the following related parties:

| | Notes | For the three months ended 30 June, 2008 RMB'000 | 2007 RMB'000 | For the six month ended 30 June, 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|---|---|
| Provision of IT outsourcing services | | | | | |
| – Microsoft | *(a) & (iv)* | **19,819** | 11,859 | **35,810** | 16,827 |
| – Microsoft (China) Co., Ltd. | *(a) & (iv)* | **17,543** | 13,953 | **31,703** | 23,710 |
| – Viador Inc. | *(b)* | **1,422** | – | **2,853** | – |
| Rental expenses | | | | | |
| – Chinasoft National Software and Service Company Limited | *(c), (d)* | **1,282** | 1,147 | **2,514** | 2,294 |
| – 上海和勤軟件技術有限公司 | *(e)* | **290** | – | **290** | – |
| Provision of technical development services | | | | | |
| – CNSS | *(c), (d)* | **–** | 342 | **–** | 342 |

*Notes:*

(a) Microsoft is a holder of the Series A Preferred Shares of the Company. Microsoft (China) Co., Ltd. is a subsidiary of Microsoft.

(b) Mr. Xi Wang, a common director of HGR and Viador Inc.

(c) Chinasoft National Software and Service Company Limited is a holding company of a shareholder of the Company.

(d) Mr. Cui Hui and Mr. Su Zhenming, directors of the Company, are also directors of CNSS.

(e) 上海和勤軟件技術有限公司 is a holding company of Scube Systems Limited, a shareholder of the Company.

(ii) Pursuant to a trademark license agreement ("Trademark Licence Agreement") entered into between CNSS and the Company on 20 December 2003, CNSS granted to the Company an exclusive right to use a trademark of 中軟總公司計算機培訓中心 as defined on the Trademark Licence Agreement for a period of 25 years for a consideration of RMB2,000,000. During the year ended 31 December 2006, CNSS obtained the trademark registration certificate from the Trademark Bureau of the PRC and the Company recognised the amount as prepaid lease payments in the consolidated balance sheet. The effective period of the registration is from 21 March 2006 to 20 March 2016. At 30 June 2008, the prepaid lease payments were analysed for reporting purposes as a non-current asset of RMB1,115,000 and current asset of RMB166,000 in the consolidated balance sheet.

(iii) In September 2005, the Company entered into a Commercial Agreement with Microsoft for a period of three years. Pursuant to the Commercial Agreement, the Company and Microsoft agreed to drive revenue associated with delivering software solutions using certain Microsoft software products and to assist the Company in growing its IT service business in the PRC. The transactions under the Commercial Agreement constitute non-exempt continuing connected transactions for the Company under the GEM Listing Rules as Microsoft is a connected person (as defined under the GEM Listing Rules) of the Company after subscription of the Series A Preferred Shares on 6 January 2006.

(iv) During the year ended 31 December 2006, the Company entered into a Global Master Services Agreement ("the GMS Agreement") with Microsoft for a term of five years to provide a framework of the agreed general terms and conditions for the provision of the IT outsourcing services by subsidiaries of the Group. Each project to be undertaken by subsidiaries of the Group for Microsoft under the GMS Agreement would be subject to specific terms on the amount of fee, particulars of the project and expected timetable. The entering into the GMS Agreement, and the projects undertaken by subsidiaries of the Group thereunder, constituted non-exempt continuing connected transactions for the Company under the GEM Listing Rules as Microsoft was a connected person (as defined under the GEM Listing Rules) of the Company. The above were approved by the independent shareholders at an extraordinary general meeting held by the Company on 27 October 2006. During the year ended 31 December 2007, Microsoft ceased to be a connected person of the Company as its interest in the shares of the Company dropped below 10% by dilution.

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.

## 12. 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, 2008 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 | 264,664 | 160,850 | 11,884 | 12,274 | 449,672 |
| Segment result | 77,151 | 57,270 | 4,936 | 5,991 | 145,348 |
| Unallocated corporate revenue | | | | | 32,976 |
| Unallocated corporate expenses | | | | | (106,280) |
| Finance costs | | | | | (536) |
| Share of result of an associate | | | | | 2,698 |
| Profit before taxation | | | | | 74,206 |
| Taxation | | | | | (5,237) |
| Net profit before minority interests | | | | | 68,969 |

(ii) Segment information about these businesses for the six months ended 30 June, 2007 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 | 229,775 | 83,272 | 7,904 | 5,813 | 326,764 |
| Segment result | 79,319 | 29,111 | 4,568 | 3,035 | 116,033 |
| Unallocated corporate revenue | | | | | 6,551 |
| Unallocated corporate expenses | | | | | (102,847) |
| Finance costs | | | | | – |
| Share of result of an associate | | | | | 1,519 |
| Profit before taxation | | | | | 21,256 |
| Taxation | | | | | (6,430) |
| Net profit before minority interests | | | | | 14,826 |

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.

## 13. EMPLOYEE AND OTHER INFORMATION

The remuneration for the employees of the Group amounted to approximately RMB160,725,000, including the directors' emoluments of approximately RMB1,103,000 during the six months ended 30 June, 2008 (2007: approximately RMB83,445,000, including the directors' emoluments of approximately RMB1,547,000). The increase in employee remuneration resulted from the increase in the number of employees from 2,679 to 4,697 and the increase in bonus to individual staff during the relevant period.

The amortisation charge of intangible assets and depreciation during the six months ended 30 June, 2008 of the Group amounted to approximately RMB10,034,000 (2007: RMB5,996,000) and approximately RMB11,267,000 (2007: RMB2,826,000), respectively.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June, 2008 (2007: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

For the six months ended 30 June, 2008, the Company reported an unaudited turnover of approximately RMB449,672,000 (2007: RMB326,764,000), representing an increase of approximately 37.6% as compared with the corresponding period last year. The increase in turnover was attributable to an increase in total solution to approximately RMB264,664,000 from last year of approximately RMB229,775,000, representing an increase of 15.2% and substantial increase in IT outsourcing to approximately RMB160,850,000 from last year of approximately RMB83,272,000, representing an increase of 93.2% and finally an increase in consulting and training to approximately RMB11,884,000 from last year of approximately RMB7,904,000, representing an increase of 50.4%.

For the six months ended 30 June 2008, the Company accomplished an unaudited gross profit of approximately RMB145,348,000 (2007: RMB116,033,000), representing an increase of approximately 25.3% as compared with last year. The gross profit margin for the six months was 32.3% (2007: 35.5%). The EBITDA for the six months ended 30 June 2008 was approximately RMB65,583,000 (2007: RMB50,895,000) representing an increase of approximately 28.9% The EBITDA margin for the six months was 14.6% (2007: 15.6%). The slighly drop in the gross profit margin and EBITDA margin were mainly due to the decrease in gross profit margin from software and hardware sales compared to the same period last year. In addition, according to our development strategy, the percentage share of IT sourcing has increased and the gross profit margin of sourcing business was slightly lower than that of solutions business. Moreover, the gross profit margin of HGR's business acquired in the second half of 2007 was lower than that of the original business of the Group. The above three factors have resulted in a slight decrease in overall gross profit margin of the Group during the reporting period. With the development of our business management and the gradual surfacing of the synergy effect from acquisitions, our gross profit margin and EBITDA margin will improve and increase accordingly.

The selling and distribution cost was approximately RMB18,532,000 (2007: RMB14,975,000), representing an increase of 23.8% as compared with last year which is in line with an increase of 37.6% in turnover. The ratio of selling and distribution cost to turnover was 4.1% (2007: 4.6%) representing a mild drop of 0.5%.

The administrative expenses (excluding depreciation of approximately RMB11,267,000) for the six months ended 30 June 2008 was approximately RMB66,447,000 (2007: RMB56,714,000), representing an increase of approximately 17.2%. The ratio of administrative expenses (excluding depreciation) to turnover is 14.8% (2007: approximately 17.4%) representing an decrease of 2.6%.

Basic EPS for the six months ended 30 June 2008 was RMB6.37 cents (2007: RMB1.49 cents) representing an increase of 327.5%.

## BUSINESS REVIEW

For the six months ended 30 June 2008, the Group's overall business revenue amounted to RMB450,000,000, of which revenue of services business amounted to RMB337,000,000, representing an increase of 38% and 58% compared to the same period last year. Regarding the business structure, revenue from services for solutions business and IT outsourcing accounted for 49% and 48% of the overall revenue from services (same period of 2007: 50% and 46%). EBITDA amounted to RMB65,583,000, representing an increase of 29% compared to the same period last year. During the reporting period, our gross profit margin and EBITDA margin were 32.3% and 14.6% respectively (same period of 2007: 35.5% and 15.6% respectively), representing slight decreases compared to the same period last year. The main reasons for the decreases of gross profit margin and EBITDA margin were, as compared with the same period last year, the decrease in gross profit margin from software and hardware sales compared to the same period last year. In addition, according to our development strategy, the percentage share of IT sourcing has increased and the gross profit margin of sourcing business was slightly lower than that of solutions business. Moreover, the gross profit margin of HGR's business acquired in the second half of 2007 was lower than that of the original business of the Group. The above three factors have resulted in a slight decrease in overall gross profit margin of the Group during the reporting period. With the development of our business management and the gradual surfacing of the synergy effect from acquisitions, our gross profit margin will improve and increase accordingly.

In order to meet the sizable growth of the business, as at 30 June 2008, we employed a total of 4,697 staff, representing a large increase of 1,938 compared to the same period last year. 49% of the growth in headcount was due to the increase in IT sourcing business, 50% was due to the increase in industry solution. The growth in headcount was fully in line with the balanced development of our different business lines.

## INDUSTRY SOLUTION BUSINESS

During the reporting period, the Group's industry solution business followed the development ideas of vertical penetration and expansion with competitive advantage, implemented the strategy of industry integration in full force based on continuous enhancement of our technical innovation, secured leading position in industries with competitive advantages and extended business coverage onto other industries and furthered our efforts to become an influential service provider of industry solutions.

The Group's industry solution business covers banking and financial services industry, government and public utilities industry. During the reporting period, revenue from the solution business amounted to RMB165,000,000, representing an increase of 54% compared to the same period last year, of which revenue from the banking and financial services industry amounted to RMB72,600,000; revenue from the government and public utilities industry amounted to RMB92,100,000. However, excluding the impact of acquiring HGR, growth of the actual results was slower than previous years. It was mainly because most of our business and profit contribution were from the PRC which has been hit by a series of natural disasters such as snowstorm and earthquake in the first half of 2008. In addition, the change of focus brought forward by the Olympics has caused certain government institutions to adjust their IT build-up plans and postpone the IT implementation originally scheduled in the reporting period. As government institutions are the main clients of our solution business, the adjustment has resulted in a slowdown effect in the gain and profit of our business during the reporting period.

## FINANCIAL AND BANKING SERVICES INDUSTRY

During the reporting period, for the banking and financial services industry, the Group continued to develop in the payment domain, settlement domain, exchange domain and the research and application of the card business. With the experience of the past few years and building up of techniques, we gradually improved the consolidated front-office platform, workflow-integrated platform, core transaction system development platform, management system development platform, BI analysis system platform, transaction clearing system platform and public technical platform such as the safety management system, etc. It not only further reduced the development cost, but also lowered the technical risk.

During the reporting period, projects activated by the Group in financial and banking services industry include:

- Financial payment, exchange and card-based businesses domains: the Group has core competitive advantage in the bank card business and peripheral applications, internet payment, risk control and inter-bank linkage and has formulated solutions for systems focusing on retail banking, wholesale banking, credit cards, e-commerce, etc. During the reporting period, the Group was successfully awarded the tenders of and activated projects such as the personal loan system of Xingye Bank, Guangdong Development Bank, Pufa Bank, Chengdu City Commercial Bank, operation and maintenance of debit card for Agriculture Bank of China, debit card system of 吴江農商行, real time clearing system of Standard Chartered Bank, etc.

- Quasi-financial payment domain: The Group's technique accumulation of payment and exchange domains in the financial industry were successfully transferred to Quasi-financial payment domain, particularly on domain such as e-ticketing service, city public transport and small amount payment smart card, etc, which already had mature solutions. During the reporting period, the Group was awarded the tenders of and activated projects such as the ticketing system of Shanghai World Expo 2010, the Hefei Communications Card, the Shenzhen Smart Card, the "E-Tong-Ka" System of Wuhan Municipal, the AFC system of Shanghai Metro Line No. 7 and 11, movable contactless IC card payment system, China Telecom Number Bai Shi Tong World Expo ticketing platform, billing system of Xiaoshan International Airport, etc. The implemented and completed Harbin public transport smart card was recognized as a sample project by the Ministry of Construction of the PRC.

At the same time during the reporting period, the National Post Remittance Macro Centralized Project developed by the Group has successfully passed inspection. The system is the first authentic national macro centralized system of the Postal and Savings Bank. It was a software development and integration project with biggest milestone meaning in the financial informationization process of the Postal and Savings Bank. In addition, the external system of Agriculture Bank of China's credit card has smoothly relocated. Shanghai Mobile e-Commerce Platform (Phase I) has passed trial run; The e-Government Exchange Platform has passed inspection; the testing system of Guangzhou Metro has delivered trial run. The successful submission of those projects marked the Group's technological strength in financial payment, exchange and card-based business as well as quasi-financial payment domains, which is fully recognised by clients. At the 15th anniversary celebration of national "Gold Card Project" organised by the Ministry of Information industry, the "Urban Multi-pass Software System" developed by the Group obtained the highest award of Gold Card Project: "The Best Software Platform Award" of the "Golden Ant Award Series" while the "railroad transport one ticket all transit funds classification software" developed in the same period was awarded one of the ten most innovative software product in the PRC in 2008（「2008中國十大創新軟件產品」）by the Chinasoft Software Association.

**Government and public utilities industry**

During the reporting period, with the "e-" projects of national informationization and business and technical competitive advantage accumulated over the years in various supervisory domains, the Group's government and public utilities sectors will work hard to find out business needs in these newly explored sectors, refine business delivery management to cater for the whole supply chain of the sectors and develop these into new strategic industry.

During the reporting period, the main government and public utilities projects that we signed contracts for and started services included:

- E-Audit Project:

  During the reporting period, the Group continued to promote the application, implementation and deployment of the two systems of e-Audit project Phase 1 at the city and district levels. The advanced technology, stability, functions and scale of this system as well as our good services were highly recognized by audit system clients.

As of the end of the reporting period, the On-site Audit Implementation System (AO) of e-Audit project Phase 1 issued over 70,000 packages to audit authorities in China. Based on the fact that there are 80,000 audit personnel in the audit authorities in China, a situation where each audit personnel has one On-site Audit Implementation System (AO) is nearly reached, and the On-site Audit Implementation System (AO) has become a necessary tool for all audit personnel in China.

During the reporting period, the Group continued to carry out nationwide deployment of Audit Management System (OA), signed contracts with clients such as the Audit Bureau of Xinzhou and the Audit Bureau of Baise etc., and realized intensive coverage of OA deployment on a nationwide scale, of which 35 out of the total 37 provincial audit authorities, with a coverage of 95%, 252 out of 329 audit authorities at the district and city level, with a coverage of 77%, and 1,685 out of 2,862 counties, with a coverage rate of 59%.

In addition, the promotion and implementation works of the intranet audit business have got a quicker progress. During the reporting period, the Qingdao Social Security Intranet Audit System constructed by the Group has passed inspection and expansion of trial runs has started in places such as Chongqing, Henan, etc. For land tax intranet audit, the Nanjing Land Tax Intranet Audit System has started its online operation and trial application has been expanded further to land tax in Henan.

- Formally Signed the contract of “e-AgricUlture” Phase 1 general integration and development of related systems project from Ministry of Agriculture

During the reporting period, the Group formally signed contract with Ministry of Agriculture and started “e-Agriculture” Phase 1 general integration project. The purpose of “e-Agriculture” Phase 1 project is to create a uniform agriculture e-Government support environment, standardize software connection standard and increase substantially the degree of re-usability of the agriculture business system and the inter-linkage, inter-connection and mutual operation among systems. Through the set up of the project, it will effectively create a “agriculture e-Government support platform” suitable for agriculture sector application and development characteristics and achieve information exchange and business synergy between the state and local level vertically, and with bodies involved in agriculture horizontally.

- Complete development of the “System for management of information system for punishment and prevention of corruption of central enterprises” from State Owned Assets Supervision and Administration

  The “System for management of information system for punishment and prevention of corruption of central enterprises”, targeted the current state of affairs of State Owned Assets Supervision and Administration, various central enterprises and their respective subsidiaries, is based on ResourceOne, the mature integration platform of the e-Government application system from the Group, and was designed and developed by a structural method. The setup includes the three-tier application among State Owned Assets Supervision and Administration, first class central enterprises and central member enterprises, and data transmission channels supporting its communication. The whole system is divided into six main application systems: public information, anti-corruption work, daily duties, discipline inspection business, information statistics and appraisal and evaluation alert. The setup of this system can cater for the needs of the State Owned Assets Supervision and Administration, the Discipline Commission and all levels of discipline inspection institutions for central enterprises. It provides a reliable informationalisation work platform for the daily tasks of discipline inspection of enterprises and special projects regarding punishing and managing commercial corruption, while creating a database for ethical central enterprise leaders.

  During the reporting period, the Group entered into the Prevention System Setup Agreement with approximately 30 central enterprises including China Petrochemical Corporation, China National Aviation Holding Company, Dongfeng Motor Corporation, China Mobile Group Company.

- Information Management System for Administrative Permit of the State Food and Drug Administration Project

  During the reporting period, the Group and the State Food and Drug Administration entered into the memorandum of understanding, under which the Group will utilise the platform software it developed to design a set of unified technology and platform for the FDA and provide integrated services including consultation, project management, application development, technical support and training for the informationalisation of the food and drug system.

According to the Group's cooperation experience with the State Tobacco Monopoly Administration, the Information Management System for Administrative Permit of the State Food and Drug Administration Project is also a project that realised an effective duplication of the vertical commercial model by first cooperation with a central regulatory authority which will boost the application of the system in all provinces, cities, counties and various enterprises ends, so that the Group's solution for the drug regulatory industry of the Group could be promoted on a nationwide scale.

## CONSUMER PACKAGED GOODS INDUSTRY

As a long term strategic partner of the State Tobacco Monopoly Administration, we provides full services from management consultancy, business consultation, software development, project implementation to day-to-day system operation maintenance for the tobacco industry in China, our business scope covers ERP, MES, industrial and commercial logistics, industrial and commercial marketing, commercial network set up, data centre, office automation, enterprise application integration etc. During the reporting period, the Group further fueled the promotion and implementation of the "State Tobacco Monopoly Administration carton–level tobacco track and trace system and purchase order information collecting system" project on a nationwide scale. Implementation and deployment services for more than 300 tobacco companies was provided. As at the end of the reporting period, we have passed the final examination and approval stage of 104 clients and 148 were in pilot stage.

- Upgrade and Development Project for Management System for Nationwide Cigarette Transactions

  To carry out more effective inspection and supervision on cigarette transactions in the state, the Group and China Cigarette Distribution Company entered into the Upgrade and Development Project for Management System for Nationwide Cigarette Transactions so as to organise the core transaction activities of cigarettes in the state for clients and provide a better technical and informational support.

  The setup of the project included transplanting of the database platform, rewriting of the logic of business at database level and re-setup of the application server. Meanwhile, as the old business system was still in operation, a switching process will take place between the new and old systems and the old platform will transit to the new platform by level to realise a stable relocation.

## SOFTWARE SERVICES OUTSOURCING BUSINESS

The Group's IT outsourcing (ITO and BPO) service businesses cover a full range of low end to high end technical services such as BPO (including Call Center, Data-entry and CAD), Testing, Localization & Globalization, Products engineering, Application Development and Packaged Software Services. The Group's revenue of IT outsourcing services during the reporting period arrived at RMB160,000,000, representing an increase of approximately 93% compared to the same period last year.

During the reporting period, the Group intensicely launched the development strategy of Dual-shore outsourcing business and continue to strengthen the development task on overseas strategic partners business. As at the end of the reporting period, the Group has 5 strategic clients, of which outsourcing business revenue from 5 strategic clients represented 60% of total revenue from outsourcing (as compared to the same period last year, the number of strategic clients was 5 and the percentage of revenue from strategic partner was approximately 86%.)

During the reporting period, the percentage share of onsite and offshore outsourcing business revenues were 41% and 59% respectively. Our outsourcing business classified by clients indicated that the main source was from multinational clients, and when classified according to the place of head office, they were mainly in the two main regions of Europe and America and Japan, with a percentage share of 64% and 32% of the outsourcing business revenue respectively.

## TRAINING BUSINESS

During the reporting period, the Group's training business supported the construction of the "IT Industry Human Resources Supply Chain" of the Group with comprehensive IT talents, meanwhile, the training business realized an interactive and sizable mutual development with the industry solution business and IT software outsourcing services business.

In the construction of Excellence Training Centers, based on its successful model in Beijing, the Group selected cities with rich educational resources and well positioned for the development of software industry, and built practical training centers of 3,000 square meters in Changsha, Wuxi, Chongqing, Xiamen respectively. The ETC practical training centers have been based on five actual situations (actual corporate environment, actual training items, actual project managers, actual project pressure, as well as actual job opportunities), they provided university graduates with practical training in software items, actually built up the "last mile" bridge from universities to enterprises, thus were warmly welcome among university teaching staff and students. As of the end of the reporting period, 120 higher education institutes have established cooperation relationships with practical training centers of the Group, and a total of 3,800 students joined such practical training courses.

During the reporting period, traditional IT training business in the training centers developed steadily, a total of 96 classes were offered, with 3,100 students completed such training. During the reporting period, training centers of the Group commenced intensive cooperation with an increasing number of multinationals: the Sharepoint talent training project was jointly developed with Microsoft, the Chinasoft International IBM SOA practical training center was jointly established with IBM, the Chinasoft International-Sun Java advanced technology practical training center was jointly constructed with Sun, with also the only authorized training center of REDHAT in the northern part of China, and the only internationally recognized examination center for Cisco in Beijing.

As the training base of the Group, the training business not only provides a large number of back up personnel for the Group internally, but also improves the existing staff's technical and project management ability through sustainable internal training such that they grow up rapidly to become business key personnel meeting work requirements. During the reporting period, a total of 311 internal staff of the Group participated the internal training from the Training Centre.

## AWARDS RECEIVED

During the reporting period, the Group had the following rewards and recognitions:

- Chinasoft International has become a top partner for IBM's Service Oriented Architecture (SOA) and will construct an SOA Creative Center together with IBM. The Chinasoft SOA Creative Center will strive to apply the SOA idea, technology and method to the development and management of industry applications, provide customers with advanced and flexible SOA solutions. IBM will provide assistance in training, team building and application promotion in the construction and promotion of the center. Meanwhile, the Group will integrate IBM's leading SOA experience with its own advantages in the industry information area, push for the development of the SOA market in China, and provide customers with SOA solutions adapted for local needs. The construction of the center is an important milestone for the Group in the promotion of Sino-foreign interactive strategy.

- Chinasoft International was awarded "IBM Asia Pacific Outstanding Business Cooperation Partner 2008" by IBM

- Chinasoft International ranked fifth on Outsourcing China's "China Services Outsourcing Enterprises Top 50 Best Practice Ranking"

- Chinasoft International was awarded "Top 10 Chinese Enterprises in Software R&D Capacity 2008" and "Top 10 Chinese Enterprises in Software Outsourcing R&D Capacity 2008" at the "Sixth China International Software Cooperation Forum"

- "Communications One Card System" of Shanghai Huateng, a subsidiary of the Group focusing on financial and banking businesses, was awarded the "Best Software Platform" of the "Golden Ants Award Series", the highest award of the state "Gold Card Project" granted by the Office of the State Gold Card Project Coordination Group at the fifteenth anniversary of the "Gold Card Project" held by the Ministry of Information Industry

- Dalian Xinhua, a subsidiary of the Group focusing on BOP business, was awarded the "ChinaSourcing First Session BOP Top 10 Outstanding Outsourcing Enterprises" at the 2008 ChinaSourcing Summit, where the "Award Presentation of ChinaSourcing First Session Outstanding Outsourcing Enterprises" was held during the "CHinaSourcing China Software and Information Services Outsourcing Summit"

## CAPITAL OPERATION

- 100% acquisition of Zhongke Jiuhui Information Automation Company Limited

  Zhongke Jiuhui is a technical type of manufacturer, it has been focusing on the development in the tobacco industry for years, and possesses ERP/MES core technologies and mature solutions, which may effectively complement each other with the Group in business structures as well as technology solutions. Through the 100% acquisition of Zhongke Jiuhui, the Group may achieve its strategic target of a quick entering into the core business information areas of industrial and commercial enterprises, thus formulate the Group's specialized capability in production execution systems in the tobacco industry, build its competitive edge, and form a solid foundation for the Group's sustainable development in the area of tobacco industry.

- Further increase of shareholdings of the Group in its controlled subsidiary, Shanghai Chinasoft Resources Information Technology Services Limited

  During the reporting period, in order to further enhance its ITO business, strengthen and develop its cooperation relationship with strategic clients, the Group agreed with other shareholders of Shanghai Chinasoft Resources to increase percentage of shareholdings of the Group in the subsidiary, thus achieved absolute control over Shanghai Chinasoft Resources, and effectively enhanced the overall strategies of the Group.

- Entering into letter of intent of cooperation with Zhnoghuawang Software Company

  During the reporting period, the Group entered into a letter of intent of cooperation with Zhnoghuawang Software Company, so as to fully utilize the existing resources of the parties, to commence overall cooperation in the industry solutions market in China and the international IT services market, thus enjoy the synergy effect and the win-win development. Meanwhile, together with such upgrade in cooperation, the parties will further explore cooperation opportunities in capital nvestments.

## DIRECTORS' INTERESTS IN SHARES

As at 30 June, 2008, the following Directors had interests in the shares and 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:

**Long positions in issued ordinary shares of HK$0.05 each in the capital of the Company ("Shares")**

| Name of Director | Total No. of Shares | Approximate percentage of total issued ordinary share capital as at 30 June 2008 |
|---|---|---|
| CHEN Yuhong | 66,187,608 | 6.60% |
| CUI Hui | 20,000,000 | 2.00% |
| WANG Hui | 9,517,838 | 0.95% |
| TANG Zhenming | 11,747,765 | 1.17% |

### Options to subscribe for Shares

| Name of the Director | Exercise Price (HK$) | Number of share options outstanding as at 30 June, 2008 | Approximate percentage of the total number of the Shares in issue as at 30 June, 2008 | Number of underlying Shares interested in | Note |
|---|---|---|---|---|---|
| CHEN Yuhong | 0.97 | 1,200,000 | 0.12% | 10,000,000 | (3) |
| | 1.78 | 3,800,000 | 0.38% | | (4) |
| | 1.37 | 5,000,000 | 0.50% | | (5) |
| CUI Hui | 0.65 | 500,000 | 0.05% | 500,000 | (1) |
| Duncan CHIU | 0.65 | 1,000,000 | 0.10% | 11,000,000 | (1) |
| | 1.37 | 10,000,000 | 0.10% | | (5) |
| TANG Zhenming | 0.58 | 80,000 | 0.01% | 6,180,000 | (1) |
| | 0.65 | 1,300,000 | 0.13% | | (2) |
| | 0.97 | 800,000 | 0.08% | | (3) |
| | 1.78 | 2,000,000 | 0.20% | | (4) |
| | 1.37 | 2,000,000 | 0.20% | | (5) |
| WANG Hui | 0.58 | 250,000 | 0.02% | 7,600,000 | (1) |
| | 0.65 | 1,750,000 | 0.17% | | (2) |
| | 0.97 | 1,000,000 | 0.10% | | (3) |
| | 1.78 | 2,000,000 | 0.20% | | (4) |
| | 1.37 | 2,600,000 | 0.26% | | (5) |
| ZENG Zhijie | 1.78 | 750,000 | 0.75% | 750,000 | (4) |

*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 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:

| **Exercisable 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 13 May, 2004 under the Share Option Scheme and accepted on 10 June, 2004. These share options are exercisable for a period of 10 years from the date offer, subject to the following conditions:–

| **Exercisable 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 |

(3) These share options were offered on 30 March, 2006 under the Share Option Scheme and accepted on 27 April, 2006. These share options are exercisable for a period of 10 years from the date of offer, subject to the following conditions:–

| **Exercisable Period Commencing** | **Ending** | **Number of share options exercisable** |
|---|---|---|
| 30/03/2006 | 29/03/2016 | 25% of the total number of share options granted |
| 30/03/2007 | 29/03/2016 | 25% of the total number of share options granted |
| 30/03/2008 | 29/03/2016 | 25% of the total number of share options granted |
| 30/03/2009 | 29/03/2016 | 25% of the total number of share options granted |

(4) These share options were offered on 10 April, 2007 under the Share Option Scheme and accepted on 8 May, 2007. These share options are exercisable for a period of 10 years from the date of offer, subject to the following conditions:–

| Exercisable Period Commencing | Ending | Number of share options exercisable |
|---|---|---|
| 10/04/2007 | 09/04/2017 | 25% of the total number of share options granted |
| 10/04/2008 | 09/04/2017 | 25% of the total number of share options granted |
| 10/04/2009 | 09/04/2017 | 25% of the total number of share options granted |
| 10/04/2010 | 09/04/2017 | 25% of the total number of share options granted |

(5) These share options were offered on 14 April, 2008 under the Share Option Scheme and accepted on 12 May, 2008. These share options are exercisable for a period of 3 years from the date of offer, subject to the following conditions:–

| Exercisable Period Commencing | Ending | Number of share options exercisable |
|---|---|---|
| 14/04/2008 | 13/04/2011 | 50% of the total number of share options granted |
| 14/04/2009 | 13/04/2011 | 50% of the total number of share options granted |

## SHARE OPTION SCHEME

As at 30 June, 2008, there were share options to subscribe for an aggregate of 117,976,500 Shares granted to certain Directors and employees of the Group pursuant to the Share Option Scheme outstanding.

During the six months ended 30 June, 2008, an aggregate of 3,650,000 share options were exercised and an aggregate of 32,700,000 share options were granted under the Share Option Scheme.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the six months ended 30 June, 2008 none of the Directors was granted options to subscribe for shares of the Company and as at 30 June, 2008 none of the Directors had any rights to acquire shares in the Company.

## REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the six months ended 30 June, 2008, 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, 2008.

## THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June, 2008, the Company had fully complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 30 June, 2008, 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 total issued ordinary share capital of the Company** |
|---|---|---|---|
| China National Computer Software & Information Technology Service Corporation (Hong Kong) Limited ("CS&S (HK)") *(Note 1)* | Beneficial interest | 199.01 | 19.86% |
| Chinasoft National Software and Service Company Limited ("CNSS") *(Note 1)* | Interest of controlled corporation | 199.01 | 19.86% |
| Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)") *(Note 2)* | Interest of persons acting in concert | 199.01 | 19.86% |

| Name | Nature of interest | Approximate number of Shares *(million)* | Approximate percentage of total issued ordinary share capital of the Company |
|---|---|---|---|
| Far East Holdings International Limited ("Far East Holdings") *(Note 3)* | Beneficial interest | 131.27 | 13.10% |
| Greater Pacific Capital Partners, LP ("GPC") *(Note 4)* | Beneficial interest | 99.27 | 9.90% |
| International Finance Corporation ("IFC") *(Note 5)* | Beneficial interest | 97.25 | 9.70% |
| Microsoft Corporation ("Microsoft") *(Note 5)* | Beneficial interest | 97.25 | 9.70% |
| Dr. Chen Yuhong *(Note 6)* | Beneficial interest | 66.19 | 6.60% |
| The Royal Bank of Scotland Group plc. *(Note 7)* | Beneficial interest | 60.08 | 5.99% |

*Notes:*

1. CNSS was taken to be interested in the Shares in which CS&S (HK) is interested. CNSS holds approximately 99.3% of the total voting rights of CS&S (HK). The number of Shares in which CS&S (HK) is interested includes 23,248,302 Shares which may be issued by the Company to CS&S (HK) pursuant to an acquisition agreement between Chinasoft (HK) and CS&S (HK) dated 28 April, 2005 subject to fulfillment of a condition and the exercise of a cash option.

2. Chinasoft (HK) and CS&S (HK) are parties to agreements to acquire interests in the Company which include provisions imposing restrictions with respect to the disposal of interests acquired, and Chinasoft (HK) is taken to be interested in the Shares in which CS&S (HK) is interested pursuant to section 318 of the SFO.

3. Mr. Duncan Chiu, a non-executive Director, is nominated by Far East Holdings. Mr. Duncan Chiu is a director of Far East Holdings.

4. GPC was interested in 99,268,639 Shares.

5. IFC and Microsoft were each interested in 97,250,000 Shares which could be issued to each of them upon the conversion of the 97,250,000 series A preferred shares of HK$0.05 each in the capital of the Company ("Series A Preferred Shares") allotted and issued to each of them on 6 January, 2006. Each of IFC and Microsoft holds 50% of the total 194,500,000 Series A Preferred Shares in issue.

6. Dr. Chen Yuhong, an executive Director, was interested in 66,187,608 issued Shares and options to subscribe for 10,000,000 shares. Please refer to the section headed "Directors' interests in Shares" for further details.

7. The Royal Bank of Scotland Group plc. was interesed in 60,080,000 shares.

Save as disclosed above, as at 30 June, 2008, 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

As at 30 June, 2008, Dr. Cui Hui, an executive Director, was interested in approximately 1.34% of the issued share capital of CNSS. Dr. Cui Hui also served as a director of CNSS. In addition, Mr. Su Zhenming, a non-executive Director, had been appointed as directors of CNSS since September 2006. Although the Directors are of the view that the principal activities of CNSS do not directly compete with those of the Group currently, the Group and CNSS however are both engaged in the provision of information technology outsourcing.

Save as disclosed above, as at 30 June, 2008, 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.

## AUDIT COMMITTEE

The Company established an audit committee on 2 June, 2003 with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises the three independent non-executive directors, namely Mr. Xu Zeshan and Mr. Zeng Zhijie and Dr. Leung Wing Yin Patrick.

The audit committee of the Company has reviewed the Interim results of the Group for the six months ended 30 June, 2008.

## 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, 2008.

On behalf of the Board
**Dr. Chen Yuhong**
*Managing Director*

14 August, 2008, Beijing, PRC

As at the date of this announcement, the Directors are as follows:

**Executive Directors:**
Dr. Chen Yuhong *(Managing Director)*
Dr. Tang Zhenming
Mr. Wang Hui

**Non-executive Directors:**
Mr. Su Zhenming *(Chairman)*
Dr. Cui Hui
Mr. Duncan Chiu
Mr. Timothy Chen Yung Cheng
Mr. Liu Zheng

**Independent Non-executive Directors:**
Mr. Xu Zeshan
Mr. Zeng Zhijie
Dr. Leung Wing Yin

*This announcement will remain on the "Latest Company Announcements" page on the GEM website for at least 7 days from the date of its posting.*

* *For identification purpose only*