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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: 354)

INTERIM RESULTS REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2011

HIGHLIGHTS

Results for the first half of 2011

Income statement highlights	For the six months ended 30 June		% Increase (over the same period last year)
	(unaudited) 2011	(unaudited) 2010	
	RMB'000	RMB'000	
Revenue	945,595	686,539	37.7%
Revenue from service	852,382	594,739	43.3%
Gross profit	308,448	207,408	48.7%
Segment profit	102,638	69,015	48.7%
Profit for the period*	60,589	36,557	65.7%
EBITDA	127,262	71,081	79.0%
Business contribution profit**	138,740	82,314	68.5%

* Profit for the period represents the net profit excluding the changes in fair value of redeemable convertible preferred shares;

** Business contribution profit represents EBITDA excluding share option expense, net foreign exchange loss (gain) and allowance for doubtful debts

Statement of financial position highlights	(unaudited) 30 June	(audited) 31 December	% Increase
	2011	2010	
	RMB'000	RMB'000	
Total assets	2,700,781	2,372,623	13.8%
Total liabilities	(1,296,267)	(1,270,620)	2.0%
Total equity	<u>1,404,514</u>	<u>1,102,003</u>	27.5%

- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011.
- No closure for the Register of Members of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Key Operating Data

The key data (unaudited) of the consolidated statement of comprehensive income are set out as follows:

	First half of 2011 RMB'000	First half of 2010 RMB'000	% Increase (over the same period last year)
Revenue	945,595	686,539	37.7%
Revenue from service*	852,382	594,739	43.3%
Cost of sales	(637,147)	(479,131)	33.0%
Gross profit	308,448	207,408	48.7%
Other income, gains and losses	18,529	7,950	133.1%
Selling and distribution costs	(64,654)	(38,756)	66.8%
Administrative expenses	(150,689)	(114,925)	31.1%
Allowance for doubtful debts	(1,880)	(2,001)	-6.0%
Amortisation of intangible assets	(24,766)	(14,399)	72.0%
Finance costs	(10,572)	(2,295)	360.7%
Share of results of associates	1,393	255	446.3%
Profit before taxation	75,809	43,237	75.3%
Taxation	(15,220)	(6,680)	127.8%
Profit for the period***	60,589	36,557	65.7%
+Taxation	15,220	6,680	127.8%
+Finance costs	10,572	2,295	360.7%
+Depreciation of property, plant and equipment	17,508	11,405	53.5%
+Amortisation of intangible assets	24,766	14,399	72.0%
-Share of results of associates	(1,393)	(255)	446.3%
EBITDA**	127,262	71,081	79.0%
+Share option expenses	9,235	9,232	0.0%
+Net foreign exchange (gain) loss	363	-	N/A
+Provision for doubtful debts	1,880	2,001	-6.0%
Business contribution profit	138,740	82,314	68.5%

*Note**: For the revenue from service, please refer to the part on “revenue” in “operating results” below for detailed analysis.

*Note***: EBITDA and business contribution profit (EBITDA excluding share option expenses, net foreign exchange (gain) loss and provision for doubtful debts) are the true reflection of the business’ earnings capability. Please refer to the part on “earnings capability” below for detailed analysis.

*Note****: Profit for the period means the net profit excluding the changes in fair value of redeemable convertible preferred shares.

General Overview

The growth in key operating data of the Group for the first half of 2011 is set out as follows:

<i>RMB'000</i>	First half of 2011	First half of 2010	Growth rate
Revenue	945,595	686,539	37.7%
Revenue from service	852,382	594,739	43.3%
EBITDA	127,262	71,081	79.0%
Business contribution profit	138,740	82,314	68.5%

For the first half of 2011, segmental results of the Group increased substantially by 48.7% (extracted from note 3 of the consolidated financial statements) on the whole as compared with that of the previous year and the growth in revenue, revenue from service and results by business line are set out as follows:

<i>RMB'000</i>	Revenue			Revenue from Service			Results		
	First half of 2011	First half of 2010	Growth rate	First half of 2011	First half of 2010	Growth rate	First half of 2011	First half of 2010	Growth rate
Government and manufacturing	221,951	171,397	29.5%	184,610	134,058	37.7%	22,560	19,000	18.7%
Finance and banking	218,914	178,244	22.8%	163,042	123,783	31.7%	16,514	9,896	66.9%
IT outsourcing	475,342	315,050	50.9%	475,342	315,050	50.9%	62,362	39,670	57.2%
Training	29,388	21,848	34.5%	29,388	21,848	34.5%	1,202	449	167.7%
Total	945,595	686,539	37.7%	852,382	594,739	43.3%	102,638	69,015	48.7%

Note: “Segmental results” refer to the profit earned/loss incurred prior to distribution of impairment loss recognised on goodwill, corporate expenses, share-based payment and profit or loss arising from fair value change of redeemable convertible preferred shares, and the revenue, profit and loss items of some other companies. (Extracted from note 3 of the consolidated financial statements)

One may see that there was a relatively substantial growth in revenue, revenue from service and results of the Group’s business lines as compared with that of the previous year, with Finance and banking business line and IT outsourcing business line being the main sources of the increase of results.

Our major business growth drivers in the first half of 2011 were as follows:

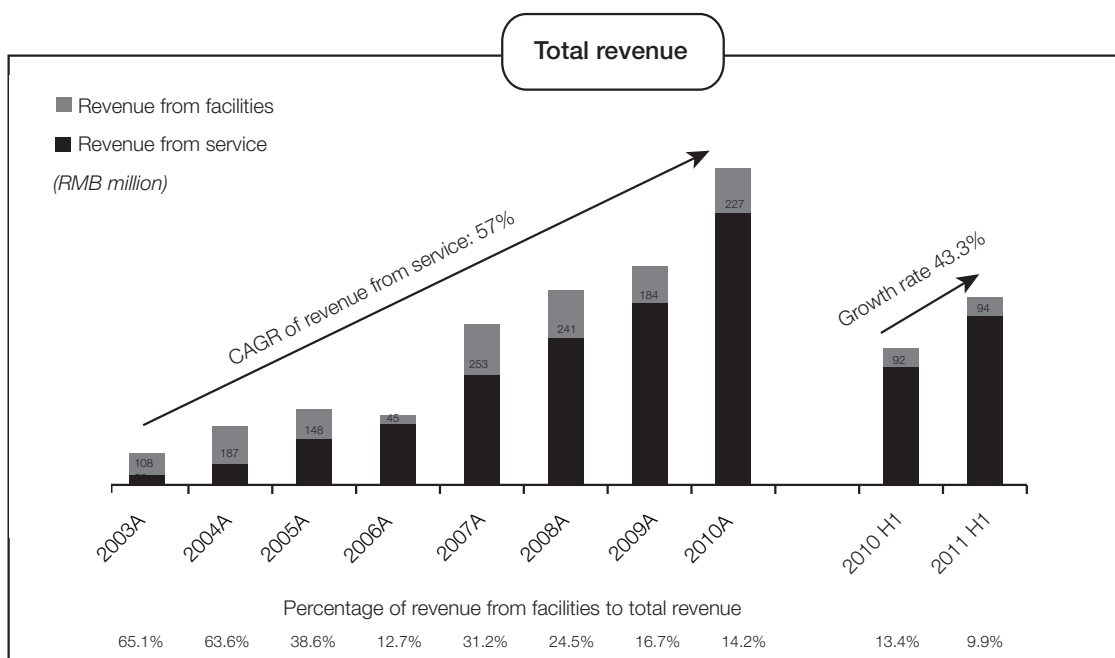
All of our main business sectors achieved strong results and simultaneous rapid growth, of which:

1. Government and manufacturing business line achieved a year-on-year increase of 29.5% and 37.7% in revenue and revenue from service respectively. During the reporting period, the Golden Auditing Project has been reaching its peak, and our new businesses, such as “private cloud” in auditing and BPO service, had established their preferable market condition; the Group had been awarded the tender from the Ministry of Finance for the transaction managing system project and undertook the construction of core financial business; awarded the tender from the Ministry of Environment Protection, for emission reduction support platform and system integration project, as well as the underground water environmental base condition inspection information system; awarded tender for MES projects in the tobacco industry.
2. Finance and banking business line achieved a year on year increase of 22.8% and 31.7% in revenue and revenue form service respectively. During the period, the deficiency-free start-up of the new generation of Shanghai Bank credit card system deficiency and the successful start-up of the card system of Ping An Bank received high appreciation from the customers. Meanwhile, the Group had been awarded the tender for the railway traffic payroll system in Wuxi, Ningbo, Shanghai and Tianjin; signed a contract with CPIC Group in relation to its national data centralization project; signed a contract in relation to a platform construction project with a well-known convenience card operator, which was another involvement in the mobile payment platform market after the Shanghai “mobile wallet” project. The Group also obtained the central bank collaboration third party payment licenses, which enable it to participate in payment business and capture the timing in the sector. Certain scope of outsourcing revenues were generated from HSBC, Ping An and Unionpay, which can be seen as indicators of the rise of end-to-end service in the financial industry.
3. IT outsourcing business line achieved a year-on-year increase of 50.9% in revenue and revenue form service, which was mainly due to the continuous growth of original business and newly added mobile Internet operations that keep up the growth of outsourcing business. During the reporting period, the Group maintained its comprehensive strategic partnership with a world-leading Chinese telecom equipment provider, and became one of its top 3 suppliers, and explored the national market for wireless connection usage; became the first Top 10 Microsoft MSIT supplier in the PRC, and captured a leading position in the transition of MSIT business towards China; achieved from a strategic customer, which is a world top 100 enterprise, that the software development of outsourcing business

had become the driver of the software maintenance and operation business, and the Group successfully signed the Oracle ERB long term maintenance service contract in China and Britain; successfully signed with certain top 500 enterprise for the financial procedure outsourcing business, and achieved a breakthrough in the outsourcing of high end business procedures.

4. Training business line achieved a year –on-year increase of 34.5% in revenue and revenue from service. During the period, 26 new schools were signed for deep cooperation (total: 44), 18 of which were co-established schools/departments (total: 27); the schools concerned continuing supplied junior technician for the standardization of the Group’s business, for instance, in the first half of the year, 200 personnel were trained by ETC for certain outsourcing business department, representing an increase of 95.8% over last year; the Group also participated in “excellent engineer campaign” of the education ministry, developed ”practical education center” solution; proactively developed “the Internet of things laboratory”, “mobile internet laboratory”, and promoted to the high schools of the deep cooperation.

Since the listing on the Growth Enterprise Market in 2003, the Group’s revenue and revenue from service have maintained rapid growth, recording a CAGR of 38% and 57% over the period from 2003 to 2010 respectively. Revenue from service recorded a year-on-year increase of 43.3%, and the details are set out as follows:



Customer

For the first half of 2011, revenue from service from the top five customers accounted for 38.3% of the Group's total revenue from service, while revenue from service from the top ten customers accounted for 43.8% of the Group's total revenue from service. With the Group's continuous development of new customers and intensive tapping of existing customers in the vertical industries, it is expected that the proportion of revenue from service from the top ten customers in the Group's total revenue from service will further decline.

There were 628 active customers for the first half of 2011, 147 of which were new customers. For the first half of the year, the Group had 17 customers from which over RMB 6,000,000 of revenue from service had been derived.

Market

The Group operated its businesses mainly in Greater China.

In the first half of 2011, the Group continued to set Greater China market as an important sector for development. China's strong economic growth and the immense market potentials embedded in Greater China led to long-term growth opportunities for the Group. At the same time, several of our large multinational corporate customers also expressed to set China as the most crucial part of their global layout, which was a clear indication of their confidence in the Chinese economy and the rare development opportunities for our businesses.

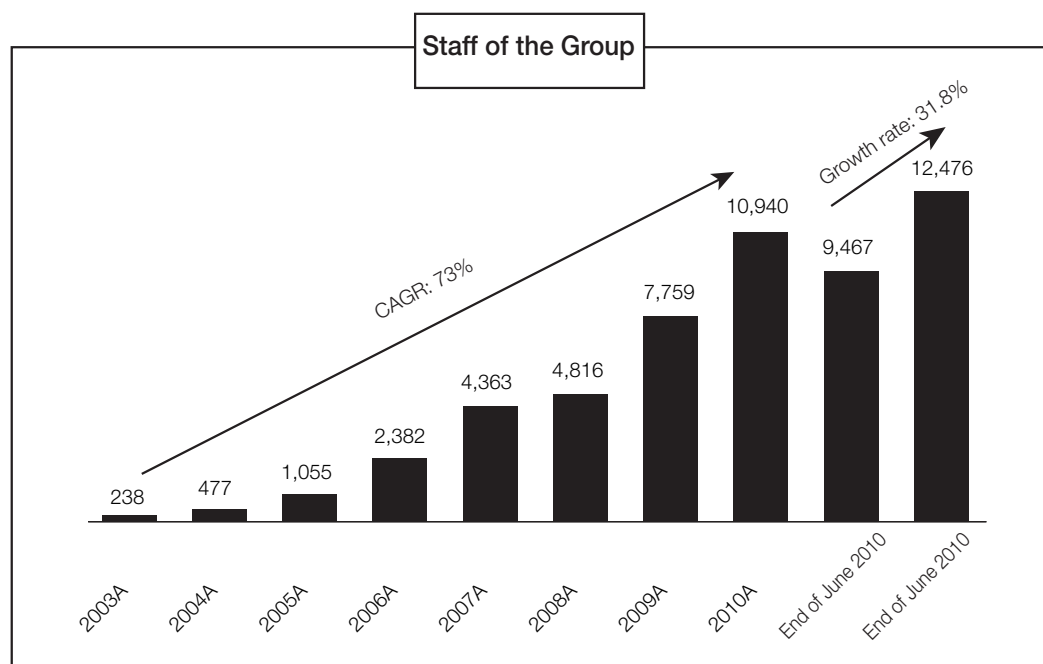
Human Resources

As of the end of the first half of 2011, the Group had altogether 12,476 employees, representing an increase of 31.8% over 9,467 employees as of the end of the first half of 2010.

The average turnover rate of the Group through the first half of 2011 was 13.8%, which was lower than the sector average level. Despite that the costs of human resources have increased continuously in recent years, the Group was still able to increase earnings capability constantly through the continuous increase in the scale of business income and a series of cost and performance management measures (including reasonable human resources allocation structure for stabilising overall cost levels, continuous input of resources into research and development for increasing the re-use of technology and priority incentive policy for improving production efficiency among employees).

The Group cooperated with over 380 colleges and education institutions in setting up training centers in Beijing, Tianjin, Dalian, Changsha, Wuxi, Chongqing, Xiamen, Nanjing, Chengdu and Nanchang to customise development training programmes for the business divisions of the Group. Each business division could participate in the course design, process tracking and evaluation to select quality students from a huge resource pool, hence ensuring constant supply of practical personnel.

Since the listing on the Growth Enterprise Market in 2003, the size of the Group's personnel has maintained rapid growth, recording a CAGR of 73% over the period from 2003 to 2010. The figure in the first half of 2011 recorded a year-on-year increase of 31.8%. The details are set out as follows:



Earnings Capability

In the first half of 2011, the Group's EBITDA was RMB127.262 million (first half of 2010: RMB71.081 million), representing a growth of 79.0% over the same period of previous year. EBITDA ratio was 13.5% in the first half of 2011, representing a year-on-year increase of 3.1% (first half of 2010: EBITDA ratio was 10.4%). EBITDA ratio measured on the basis of revenue from service was 14.9%, representing an increase of 2.9% over the same period of the previous year (first half of 2010: 12.0%). Details from the profit for the period to EBITDA adjustments are set out as follows:

<i>RMB'000</i>	First half of 2011	First half of 2010	Growth%
Profit for the period	60,589	36,557	65.7%
+Taxation	15,220	6,680	127.8%
+Finance costs	10,572	2,295	360.7%
+Depreciation of property, plant and equipment	17,508	11,405	53.5%
+Amortisation of intangible assets and prepaid rental payments	24,766	14,399	72.0%
–Share of results of associates	(1,393)	(255)	446.3%
EBITDA	127,262	71,081	79.0%

In order to assist our vast shareholders and investors in comparing the Group with different business trends during the reporting period and in understanding the Group's continuous business achievements clearer and to facilitate the comparison of the Group's business achievements with other similar companies, we have excluded impacts on the

profit and loss of non-business and non-cash nature in the EBITDA (for example: share option expenses, net foreign exchange loss and allowance for doubtful debts) in our calculation of the business contribution profit for the first half of 2011. Details from EBITDA to business contribution profit are set out as follows:

<i>RMB'000</i>	First half of 2011	First half of 2010	Change%
EBITDA	127,262	71,081	79%
+Share option expenses	9,235	9,232	0.0%
+Net foreign exchange loss	363	–	n/a
+Allowance for doubtful debts	1,880	2,001	–6.0%
Business contribution profit	138,740	82,314	68.5%

In the first half of 2011, the Group's business contribution profit was RMB138.740 million (first half of 2010: RMB82.314 million), representing a year-on-year growth of 68.5%. The ratio of business contribution profit was 14.7%, representing an increase of 2.7% over the same period of the previous year (first half of 2010: 12.0%). The ratio of business contribution profit measured on the basis of revenue from service was 16.3%, representing an increase of 2.5% over the same period of the previous year (first half of 2010: 13.8%).

OPERATING RESULTS

The following chart sets out the Group's consolidated statement of comprehensive income for first half of 2010 and 2011 (unaudited):

	First half of 2011	Percentage of revenue	Percentage of revenue from service	First half of 2010	Percentage of revenue	Percentage of revenue from service
	<i>RMB'000</i>			<i>RMB'000</i>		
Revenue	945,595			686,539		
<i>Revenue from service</i>	852,382			594,739		
Cost of sales	(637,147)	–67.4%		(479,131)	–69.8%	
Gross profit	308,448	32.6%	36.2%	207,408	30.2%	34.9%
Other income, gains and losses	18,529	2.0%	2.2%	7,950	1.2%	1.3%
Selling and distribution costs	(64,654)	–6.8%	–7.6%	(38,756)	–5.6%	–6.5%
Administrative expenses	(150,689)	–15.9%	–17.7%	(114,925)	–16.7%	–19.3%
Allowance for doubtful debts	(1,880)	–0.2%	–0.2%	(2,001)	–0.3%	–0.3%
Amortisation of intangible assets	(24,766)	–2.6%	–2.9%	(14,399)	–2.1%	–2.4%
Finance costs	(10,572)	–1.1%	–1.2%	(2,295)	–0.3%	–0.4%
Share of results of associates	1,393	0.1%	0.2%	255	0.0%	0.0%
Loss arising from changes in fair value of redeemable convertible preferred shares	(53,057)	–5.6%	–6.2%	(31,543)	–4.6%	–5.3%
Profit before taxation	22,752	2.4%	2.7%	11,694	1.7%	2.0%
Taxation	(15,220)	–1.6%	–1.8%	(6,680)	–1.0%	–1.1%
Profit for the period	<u>7,532</u>	0.8%	0.9%	<u>5,014</u>	0.7%	0.8%

Comparison of the results of the first half of 2011 and 2010:

REVENUE

In the first half of 2011, revenue of the Group amounted to RMB945.595 million (First half of 2010: RMB686.539 million), representing a growth of 37.7% compared to that of the previous year. Of which, revenue from service was RMB852.382 million (First half of 2010: RMB594.739 million), representing a growth of 43.3% over the same period last year, which was mainly derived from IT outsourcing business of Telecommunication sector.

The Group's revenue and revenue from service by contract model in the first half of 2011 and as compared with the corresponding period of the previous year are set out as follows:

	First half of 2011	Proportion	First half of 2010	Proportion
Revenue from service	RMB'000		RMB'000	
Fixed Price	422,101	49.5%	293,366	49.3%
T&M (Time & Material)	398,310	46.7%	270,902	45.6%
Volume Base	31,971	3.8%	30,471	5.1%
Total	<u>852,382</u>	<u>100%</u>	<u>594,739</u>	<u>100%</u>

COST OF MAIN BUSINESSES

In the first half of 2011, cost of the Group's main businesses accounted for 67.4% of the revenue (First half of 2010: 69.8%), representing a decrease of 2.4% over the same period of the previous year. Cost of main businesses of the Group amounted to RMB637.147 million (first half of 2010: RMB479.131 million), representing an increase of 33.0% over the same period last year.

GROSS PROFIT

In the first half of 2011, the Group's gross profit was approximately RMB308.448 million (First half of 2010: RMB207.408 million), representing an increase of 48.7% over the first half of 2010. The Group's gross profit margin was 32.6% (First half of 2010: 30.2%), representing a growth of 2.4% compared with that of the previous year. The gross profit margin for revenue from service was 36.2% in the first half of 2011 (First half of 2010: 34.9%), representing an increase of 1.3%.

The Group will increase gross profit margin going forward through following measures:

- business management of the Group will be strengthened with optimized business structure to increase the overall gross profit margin of the Group;
- submission centers will be set up at "third-tier cities" to reduce the overall labor cost of the Group;
- cultivation of teams will be enhanced through ETC to improve management standard and production efficiency, and thereby raising gross profit margin.

OTHER INCOME, GAINS AND LOSSES

In the first half of 2011, other income, gains and losses amounted to RMB18.529 million (first half of 2010: RMB7.950million), representing an increase of 133.1% over the same period of the previous year which was mainly attributed to the increase in government subsidies in the first half of 2010.

OPERATING EXPENSES

In the first half of 2011, selling and distribution costs amounted to RMB64.654 million (first half of 2010: RMB38.756 million), representing a growth of 66.8% over the first half of 2010 and the proportion of selling and distribution costs in revenue was 6.8% as compared to 5.6 % in the first half of 2010, representing an increase of 1.2%, which was mainly attributed to the Group's increased effort in developing market.

In the first half of 2011, administrative expenses amounted to RMB150.689 million (first half of 2010: RMB114.925 million), representing an increase of 31.1% over the same period in 2010. The proportion of administrative expenses in revenue was 15.9%, a decrease of 0.8% compared with 16.7% for the same period of 2010, which was mainly due to the Group's enhancement of standardised administrative platform resulting in saved resources.

EBITDA AND BUSINESS CONTRIBUTION PROFIT

In the first half of 2011, the Group recorded an EBITDA of approximately RMB127.262 million (first half of 2010: RMB71.081 million), representing a substantial increase of 79.0% over the previous year. EBITDA to revenue was 13.5%, representing a remarkable growth of 3.1%. EBITDA to revenue from service was 14.9%, representing an increase of 2.9% over the same period of 2010. In the first half of 2011, business contribution profit amounted to RMB138.740 million (first half of 2010: RMB82.314million), representing an increase of 68.5% over that of last year. In the first half of 2010, the business contribution profit margin grew by 2.7% over the same period of 2010 to 14.7%. Business contribution profit margin based on revenue from service was 16.3%, representing a growth of 2.5% over the same period of 2010.

The Group believes that the operating expenses can be reduced through the following two measures: 1) cross-sales between different business lines to lower the overall selling and distribution costs of the Group; 2) implementation of ERP human resources and financial segments across the Group to lower the administrative expenses through standardising the operations and rationalising the resources and development regional platform, so as to enhance the EBITDA and business contribution profit margin.

OTHER NON-CASH EXPENSES

In the first half of 2011, depreciation of property, plant and equipment to revenue was 1.9%, an increase of 0.2% as compared with 1.7% in the same period of 2010. Depreciation of property, plant and equipment amounted to RMB17.508 million (first half of 2010: RMB11.405 million), representing an increase of 53.5% over the first half of 2010, mainly attributable to personnel expansion and increase in depreciation due to purchase of fixed assets during the period.

In the first half of 2011, amortisation of intangible assets to revenue was 2.6%, an increase of 0.5% as compared with 2.1% in the same period in the first half of 2010. Amortisation of intangible assets and prepaid lease payments amounted to RMB24.766 million (first half of 2010: RMB14.399 million), representing an increase of 72% over 2010, primarily due to the increase in amortisation of intangible assets and prepaid lease payments arising from the newly acquired mobile Internet business.

In the first half of 2011, share option expense to revenue was 1.0%, a decrease of 0.3% as compared with 1.3% in the same period of 2010. Share option expense amounted to RMB9.235 million (first half of 2010: RMB9.232 million), representing a similar level over the first half of 2010.

In the first half of 2011, allowance for bad debt amounted to RMB1.880 million (first half of 2010: RMB2.001 million), representing a decrease of 6.0% over the same period of 2010,

In the first half of 2011, the Group had no impairment loss recognised in respect of goodwill (nil for the same period in the previous year).

In the first half of 2011, Loss arising from changes in fair value of redeemable convertible preferred shares amounted to RMB53.057 million (first half of 2010: RMB31.543 million), representing an increase of 68.2% over the same period of last year, mainly attributable to the surge in share price of the Group in the first half of 2011.

PROFIT FOR THE PERIOD AND EARNINGS PER SHARE

In the first half of 2011, excluding the effect of loss arising from changes in fair value of redeemable convertible preferred shares, the Group recorded a profit for the period of RMB60.589 million (first half of 2010: RMB36.557 million), representing a substantial increase of 65.7%. Profit for the period to revenue was approximately 6.4% (first half of 2010: 5.3%), representing a growth of 1.1% over the same period of last year; profit for the period to revenue from service was approximately 7.1% (first half of 2010: 6.1%), representing a growth of 1.0% over the same period of last year.

Based on the said profit for the period, earnings per share for the first half of 2011 amounted to approximately RMB0.048 (first half of 2010: RMB0.0347), representing a substantial increase of 38.3% over the same period of last year.

INTERIM RESULTS

The board of Directors (the “Board”) of Chinasoftware International Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June, 2011 with corresponding figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

		For the six months ended 30 June,	
	<i>Notes</i>	2011 RMB'000	2010 RMB'000
Turnover	3	945,595	686,539
Cost of sales		(637,147)	(479,131)
Gross profit		308,448	207,408
Other income, gains and losses		18,529	7,950
Selling and distribution costs		(64,654)	(38,756)
Administrative expenses		(150,689)	(114,925)
Allowance for doubtful debts		(1,880)	(2,001)
Amortisation of intangible assets		(24,766)	(14,399)
Finance costs	4	(10,572)	(2,295)
Share of result of associates		1,393	255
Loss arising from changes in fair value of redeemable convertible preferred shares		(53,057)	(31,543)
Profit before taxation		22,752	11,694
Taxation	5	(15,220)	(6,680)
Profit for the period		7,532	5,014
Other comprehensive income			
Exchange differences arising on transaction of foreign operations		(679)	(952)
Total comprehensive income for the period		6,853	4,062
Profit for the period attributable to:			
Owners of the Company		6,668	4,127
Non-controlling interests		864	887
		7,532	5,014
Total comprehensive income attributable to:			
Owners of the Company		6,004	3,190
Non-controlling interests		849	872
		6,853	4,062
Earnings per share	7		
– Basic (cents)		0.54	0.40
– Diluted (cents)		0.50	0.37

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		(Unaudited) 30 June, 2011 <i>RMB'000</i>	(Audited) 31 December, 2010 <i>RMB'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		114,957	108,871
Intangible assets		162,702	181,316
Goodwill		729,111	729,111
Interests in associates		48,151	21,758
Prepaid lease payments		584	643
Deferred tax assets		9,025	9,025
		<hr/> 1,064,530	<hr/> 1,050,724
Current assets			
Inventories		37,682	18,441
Trade and other receivables	8	742,872	557,160
Prepaid lease payments		157	178
Amounts due from associate		–	2,430
Amounts due from customers for contract work		288,018	251,278
Amount due from related companies		451	414
Pledged deposits		6,787	8,826
Bank balances and cash		560,284	484,172
		<hr/> 1,636,251	<hr/> 1,322,899
Current liabilities			
Trade and other payables	9	477,567	460,799
Bills payable		387	6,213
Amounts due to customers for contract work		26,493	58,066
Amounts due to related companies		862	147
Dividend payable to shareholders		77	79
Taxation payable		19,299	14,770
Borrowings		169,000	186,950
Consideration payable on acquisition of business		62,444	74,430
		<hr/> 756,129	<hr/> 801,454
Net current assets		<hr/> 880,122	<hr/> 521,445
Total assets less current liabilities		<hr/> 1,944,652	<hr/> 1,572,169

		(Unaudited) 30 June, 2011 <i>RMB'000</i>	(Audited) 31 December, 2010 <i>RMB'000</i>
	<i>Notes</i>		
Non-current liabilities			
Deferred tax liabilities		32,779	32,784
Borrowings		20,000	–
Consideration payable on acquisition of business		17,830	17,830
Redeemable convertible preferred shares		307,499	254,443
Convertible loan notes		162,030	165,109
		<u>540,138</u>	<u>470,166</u>
		<u>1,404,514</u>	<u>1,102,003</u>
Capital and reserves			
Share capital	10	70,179	61,133
Share premium		1,104,228	807,664
Reserves		163,703	167,651
		<u>1,338,110</u>	<u>1,036,448</u>
Equity attributable to equity holders of the Company		<u>1,338,110</u>	<u>1,036,448</u>
Non-controlling interests		<u>66,404</u>	<u>65,555</u>
		<u>1,404,514</u>	<u>1,102,003</u>
Total equity		<u>1,404,514</u>	<u>1,102,003</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the owners of the company											
	Share capital	Share premium	Translation reserve	Share options reserve	Convertible loan notes reserve	General reserve fund	Statutory enterprise expansion fund	Statutory surplus reserve fund	Accumulated fund	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January, 2010	52,357	519,389	(1,891)	64,714	-	15,793	12,978	4,121	58,596	726,057	50,957	777,014
Profit for the period	-	-	-	-	-	-	-	-	4,127	4,127	887	5,014
Exchange differences arising from translation of overseas operations	-	-	(937)	-	-	-	-	-	-	(937)	(15)	(952)
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>(937)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,127</u>	<u>3,190</u>	<u>872</u>	<u>4,062</u>
New issue of shares upon conversion of series A preferred share	1,315	42,895	-	-	-	-	-	-	-	44,210	-	44,210
New issue of consideration shares	404	12,027	-	-	-	-	-	-	-	12,431	-	12,431
New issue of shares upon exercise of share option	523	8,271	-	(1,295)	-	-	-	-	-	7,499	-	7,499
Recognition of equity-settled share based payments	-	-	-	10,521	-	-	-	-	-	10,521	-	10,521
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	7,177	7,177
At 30 June, 2010	<u>54,599</u>	<u>582,582</u>	<u>(2,828)</u>	<u>73,940</u>	<u>-</u>	<u>15,793</u>	<u>12,978</u>	<u>4,121</u>	<u>62,723</u>	<u>803,908</u>	<u>59,006</u>	<u>862,914</u>
At 1 January, 2011	61,133	807,664	(706)	80,480	36,522	15,793	15,136	7,661	12,765	1,036,448	65,555	1,102,003
Profit for the period	-	-	-	-	-	-	-	-	6,668	6,668	864	7,532
Exchange differences arising from translation of overseas operations	-	-	(664)	-	-	-	-	-	-	(664)	(15)	(679)
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>(664)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,668</u>	<u>6,004</u>	<u>849</u>	<u>6,853</u>
New issue of subscription share	6,237	225,211	-	-	-	-	-	-	-	231,448	-	231,448
New issue of shares upon exercise of share option	2,809	71,353	-	(19,187)	-	-	-	-	-	54,975	-	54,975
Recognition of equity-settled share based payments	-	-	-	9,235	-	-	-	-	-	9,235	-	9,235
At 30 June, 2011	<u>70,179</u>	<u>1,104,228</u>	<u>(1,370)</u>	<u>70,528</u>	<u>36,522</u>	<u>15,793</u>	<u>15,136</u>	<u>7,661</u>	<u>19,433</u>	<u>1,338,110</u>	<u>66,404</u>	<u>1,404,514</u>

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Six months ended	
	30 June,	
	2011	2010
	RMB'000	RMB'000
Net cash used in operating activities	(101,363)	(54,506)
Net cash used in investing activities	(64,693)	(27,473)
Net cash generated from financial activities	242,966	15,000
Net increase/(decrease) in cash and cash equivalents	76,910	(66,979)
Effect of foreign exchange rate changes	(798)	(19)
Cash and cash equivalents at the beginning of the period	484,172	297,029
Cash and cash equivalents at the end of the period	560,284	230,031

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at their fair values.

The accounting policies used in these condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December, 2010.

In the current interim period, the Group has applied the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK (IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold and services rendered during the period.

Information reported to the Chief Executive Officer of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the category of customers for each type of goods supplied or services provided by the Group's operating divisions.

Specifically, the Group's reportable segments are as follows:

1. Solutions for government and manufacturing entities ("SGM") – development and provision of solutions services to government and manufacturing entities, and to a lesser extent, sales of standalone software and hardware products
2. Solutions for financial institutions ("SFI") – development and provision of solutions services to banks and other financial institutions; and to a lesser extent, sales of standalone software and hardware products
3. IT outsourcing
4. Training

Information regarding the above segments is reported below.

Segment revenues and results

The following is an analysis of the Group's revenues and results by operating segment:

	For the six months ended 30 June,			
	Segment revenue		Segment results	
	2011	2010	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
SGM	221,951	171,397	22,560	19,000
SFI	218,914	178,244	16,514	9,896
IT outsourcing	475,342	315,050	62,362	39,670
Training	29,388	21,848	1,202	449
	945,595	686,539	102,638	69,015

Segment revenue by products and services:

	For the six months ended 30 June,	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Sale of software and hardware products	<u>93,213</u>	<u>91,800</u>
Provision of services		
Solutions – SGM	184,610	134,058
Solutions – SFI	163,042	123,783
IT outsourcing	475,342	315,050
Training	29,388	21,848
	<u>852,382</u>	<u>594,739</u>
	<u>945,595</u>	<u>686,539</u>

Reconciliation of segment results to profit (loss) before taxation:

	For the six months ended 30 June,	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Segment results	102,638	69,015
Other income, gains and losses	8,520	311
Corporate expenses	(29,620)	(26,089)
Effective interest on convertible loan notes	(5,729)	–
Loss arising from changes in fair value of redeemable convertible preferred shares	(53,057)	(31,543)
	<u>22,752</u>	<u>11,694</u>
Profit before taxation	<u>22,752</u>	<u>11,694</u>

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in either year.

Segment results represent the profit earned by/loss from each segment without allocation of corporate expenses, share-based payment, effective interest on convertible loan notes, loss arising from changes in fair value of redeemable convertible preferred shares and certain items of other income, gains and losses recorded at corporate level. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

4. FINANCE COSTS

	For the six months ended 30 June,	
	2011	2010
	RMB'000	RMB'000
Interest on borrowings wholly repayable within five years	4,681	2,295
Imputed interest expenses on consideration payable for acquisition of a business	162	–
Effective interest on convertible loan notes	5,729	–
	<u>10,572</u>	<u>2,295</u>

5. TAXATION

	For the six months ended 30 June,	
	2011	2010
	RMB'000	RMB'000
Tax charge comprises:		
PRC Enterprise Income Tax	15,220	6,679
Hong Kong Profits Tax	–	–
The US Federal and State Income taxes	–	–
Japan Income Tax	–	1
	<u>15,220</u>	<u>6,680</u>

No provision for Hong Kong Profits Tax has been made for both periods as the Company and its subsidiaries have no assessable profit arising in Hong Kong.

PRC Enterprise Income Tax is calculated at the rates prevailing in relevant districts of the PRC.

Taxation for other jurisdictions are calculated at the rates prevailing in the relevant jurisdictions.

6. DIVIDEND

The Company did not declare final dividend for the year ended 31 December, 2010 to its shareholders.

7. 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 six months ended 30 June,	
	2011	2010
	RMB'000	RMB'000
Earnings for the purposes of calculating basic and diluted earnings per share	<u>6,668</u>	<u>4,127</u>

	Number of shares	
	2011	2010
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>1,245,531,132</u>	<u>1,027,152,836</u>
Effect of dilutive potential ordinary shares: Issuable under the Company's share option scheme	<u>99,252,009</u>	<u>89,574,177</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u><u>1,344,783,141</u></u>	<u><u>1,116,727,013</u></u>

The computation of diluted earnings per share for the period ended 30 June 2011 and 2010 did not assume the conversion of the redeemable convertible preferred shares or convertible loan notes as the conversion would result in an increase in the diluted earnings per share.

8. TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June, 2011 RMB'000	(Audited) 31 December, 2010 RMB'000
Trade receivables	682,184	510,761
Less: Allowance for doubtful debts	(63,313)	(61,890)
	<u>618,871</u>	<u>448,871</u>
Trade receivables from related companies	6,221	6,140
Trade receivables from associates	7	–
	<u>625,099</u>	<u>455,011</u>
Advances to suppliers	39,280	42,856
Deposits, prepayments and other receivables	78,493	59,293
	<u>742,872</u>	<u>557,160</u>

The credit terms of the Group range from 30 to 180 days. An aged analysis of trade receivables (net of allowance for doubtful debts) is as follows:

	(Unaudited) 30 June, 2011 RMB'000	(Audited) 31 December, 2010 RMB'000
Within 90 days	417,148	370,973
Between 91-180 days	103,223	40,565
Between 181-365 days	71,466	16,347
Between 1-2 years	28,484	26,073
Over 2 years	4,778	1,053
	<u>625,099</u>	<u>455,011</u>

The fair value of the Group's trade and other receivables at 30 June, 2011 was approximately equal to the corresponding carrying amount.

9. TRADE AND OTHER PAYABLES

	(Unaudited) 30 June, 2011 <i>RMB'000</i>	(Audited) 31 December, 2010 <i>RMB'000</i>
Trade payables	229,904	183,656
Trade payable to a related company	3,246	2,153
	<u>233,150</u>	<u>185,809</u>
Deposits received from customers	42,898	23,519
Other payables and accrued charges	201,519	251,471
	<u>477,567</u>	<u>460,799</u>

An aged analysis of trade payables is as follows:

	(Unaudited) 30 June, 2011 <i>RMB'000</i>	(Audited) 31 December, 2010 <i>RMB'000</i>
Within 90 days	133,013	74,129
Between 91-180 days	30,873	30,630
Between 181-365 days	31,522	37,414
Between 1-2 years	23,829	31,807
Over 2 years	13,913	11,829
	<u>233,150</u>	<u>185,809</u>

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, 2011 was approximately equal to the corresponding carrying amount.

10. SHARE CAPITAL

Ordinary shares of HK\$0.05 each:

		Number of shares	Nominal amount HK\$
Authorised			
At 1 January, 2010 and 30 June 2010		1,500,000,000	75,000,000
Addition (<i>note a</i>)		500,000,000	25,000,000
		<u>2,000,000,000</u>	<u>100,000,000</u>
At 1 January, 2011		2,000,000,000	100,000,000
Addition (<i>note b</i>)		2,000,000,000	100,000,000
		<u>4,000,000,000</u>	<u>200,000,000</u>
			Amount shown in the financial statements RMB'000
	Number of shares	Nominal amount HK\$	
Issued and fully paid			
At 1 January, 2010	1,011,348,688	50,567,434	52,357
Exercise of options	11,910,500	595,525	522
Conversion of redeemable convertible preferred shares	30,000,000	1,500,000	1,319
Issue of consideration shares	9,208,126	460,406	403
	<u>1,062,467,314</u>	<u>53,123,366</u>	<u>54,601</u>
At 30 June, 2010	1,062,467,314	53,123,366	54,601
Exercise of options	41,526,000	2,076,300	1,795
Issue of consideration shares	110,333,945	5,516,697	4,737
	<u>1,214,327,259</u>	<u>60,716,363</u>	<u>61,133</u>
At 31 December, 2010 and 1 January, 2011	1,214,327,259	60,716,363	61,133
Exercise of options	67,203,000	3,360,150	2,809
Issue of subscription shares	150,000,000	7,500,000	6,237
	<u>1,431,530,259</u>	<u>71,576,513</u>	<u>70,179</u>

Notes:

- (a) Pursuant to written resolution of the shareholders passed on 18 November, 2010, inter alia, the authorised ordinary share capital of the Company was increased from HK\$75,000,000 divided into 1,500,000,000 ordinary shares of HK\$0.05 each to HK\$100,000,000 divided into 2,000,000,000 ordinary shares of HK\$0.05 each.
- (b) Pursuant to written resolution of the shareholders passed on 18 May, 2011, inter alia, the authorised ordinary share capital of the Company was increased from HK\$100,000,000 divided into 2,000,000,000 ordinary shares of HK\$0.05 each to HK\$200,000,000 divided into 4,000,000,000 ordinary shares of HK\$0.05 each.

11. 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.

12. RELATED PARTY TRANSACTIONS

- (i) During the relevant periods in 2010 and 2011, the Group had the following transactions with the following related parties:

		For the six month ended 30 June,	
	Notes	2011 RMB'000	2010 RMB'000
Provision of IT outsourcing services			
– 大連中軟軟件有限公司	(a)	156	240
– 聯想(北京)有限公司	(b)	72*	–
Rental expenses			
– Chinasoft National Software and Service Company Limited (“CNSS”)	(c)	2,285	2,285
– 融科物業投資有限公司	(b)	794*	–

* It represents the transaction amount occurred in June 2011.

Notes:

- (a) 大連中軟軟件有限公司 is a subsidiary of CNSS, CNSS ceased to be a connected person of the Company as its interest in the shares of the Company dropped below 10% during June 2011.
- (b) 聯想(北京)有限公司 and 融科物業投資公司 are related companies of Keen Insight Limited, a substantial shareholder of the Company. Keen Insight Limited commenced to be a connected person of the Company as its interest in the shares of the Company accumulated over 10% during June 2011.
- (c) Chinasoft National Software and Service Company Limited is a holding company of a shareholder of the Company. CNSS ceased to be a connected person of the Company as its interest in the shares of the Company dropped below 10% during June 2011 by disposal.
- (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, 2011, the prepaid lease payments were analysed for reporting purposes as a non-current asset of RMB584,000 and current asset of RMB157,000 in the consolidated statement of financial position.

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.

13. EMPLOYEE AND OTHER INFORMATION

The remuneration for the employees of the Group amounted to approximately RMB473,292,000, including the directors' emoluments of approximately RMB2,295,000 during the six months ended 30 June, 2011 (2010: approximately RMB316,763,000, including the directors' emoluments of approximately 2,123,000). The increase in employee remuneration resulted from the increase in the number of employees from 9,467 to 12,476.

The amortisation charge of intangible assets and depreciation during the six months ended 30 June, 2011 of the Group amounted to approximately RMB24,766,000 (2010: RMB14,399,000) and approximately RMB17,508,000 (2010: RMB11,405,000), respectively.

DIRECTORS' INTERESTS IN SHARES

As 30 June, 2011, the following Directors had interests in the shares and underlying shares of the Company and shares in an associated corporation (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) of the Company as set out below and recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of listed issuers.

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

Name of Director	Total No. of Preferred Shares	Approximate percentage of total issued preferred share capital* of the Company as at 30 June, 2011	Total No. of Ordinary Shares	Approximate percentage of total issued ordinary share** of the capital of the Company as at 30 June, 2011	Approximate voting percentage of the Company as at 30 June, 2011
Chen Yuhong	38,300,000	23.28%	73,220,136	5.11%	4.59%
Tang Zhenming	–	–	11,747,765	0.82%	0.74%
Jiang Xiaohai	–	–	6,872,447	0.48%	0.43%
Wang Hui	–	–	4,227,838	0.30%	0.26%
Zeng Zhijie	–	–	300,000	0.02%	0.02%

* As at 30 June, 2011, a total number of 164,500,000 Series A Preferred Share was issued.

** As at 30 June, 2011, a total number of 1,431,530,259 Ordinary Share was issued.

Options to subscribe for Shares

Name of Director	Exercise Price (HK\$)	No. of share options outstanding as at 1 January, 2011	No. of share options exercised during the period	No. of share options outstanding as at 30 June, 2011	Percentage of total issued ordinary share capital of the Company as at 30 June, 2011	No of underlying ordinary shares interested in	Note
Chen Yuhong (Note 1)	1.78	3,800,000	-	3,800,000	0.27%	3,800,000	(7)
	1.37	5,000,000	(5,000,000)	-	-		
Cui Hui	0.65	500,000	-	500,000	0.03%	500,000	(5)
Tang Zhenming (Note 2)	0.58	80,000	-	80,000	0.01%	4,180,000	(4)
	0.65	1,300,000	-	1,300,000	0.09%		(5)
	0.97	800,000	-	800,000	0.06%		(6)
	1.78	2,000,000	-	2,000,000	0.14%		(7)
	1.37	2,000,000	(2,000,000)	-	-		
Wang Hui (Note 3)	0.65	250,000	-	250,000	0.02%	3,250,000	(5)
	0.97	1,000,000	-	1,000,000	0.07%		(6)
	1.78	2,000,000	-	2,000,000	0.14%		(7)
	1.37	1,150,000	(1,150,000)	-	-		
Zeng Zhijie	1.78	450,000	-	450,000	0.03%	450,000	(7)

Notes:

- (1) An aggregate of 5,000,000 share options were exercised by Dr. Chen Yuhong at the exercise price of HK\$1.37 each during the period. Hence, following the exercise of those share options, the number of share options outstanding reduced to 3,800,000 as at 30 June, 2011.
- (2) An aggregate of 2,000,000 share options were exercised by Dr. Tang Zhenming at the exercise price of HK\$1.37 each during the period. Hence, following the exercise of those share options, the number of share options outstanding reduced to 4,180,000 as at 30 June, 2011.
- (3) An aggregate of 1,150,000 share options were exercised by Mr. Wang Hui at the exercise price of HK\$1.37 each during the period. Hence, following the exercise of those share options, the number of share options outstanding reduced to 3,250,000 as at 30 June, 2011.

- (4) 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

- (5) 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

- (6) 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

- (7) 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

SHARE OPTION SCHEME

As at 30 June, 2011, there were share options to subscribe for an aggregate of 289,853,000 Shares granted to certain Directors and employees of the Group pursuant to the Share Option Scheme outstanding.

During the six months ended 30 June, 2011, an aggregate of 67,203,000 share options were exercised, an aggregate of 316,000 share options were lapsed and no 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, 2011 none of the Directors was granted options to subscribe for shares of the Company and as at 30 June, 2011 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, 2011, the Company had adopted The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules relating to dealings in securities. Having made specific enquiry with all the Directors, the Directors had complied with the Model Code regarding securities transactions during the six months ended 30 June, 2011.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June, 2011, the Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules, except that there is no separation of the roles of Chairman and Chief Executive Officer as stipulated in the code provision A.2.1. Dr. Chen Yuhong currently assumes the roles of both the Chairman and the Chief Executive Officer of the Company. The Board believes that by holding both roles Dr. Chen will be able to provide the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies of the Group. As such, the structure is beneficial to the business prospects of the Group.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 30 June, 2011, 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 of the Company	Approximate percentage of total issued share* of the Company
Keen Insight Limited (“Keen Insight”) (Note 1)	Beneficial interest	271.48	18.96%	15.85%
Hony Capital Fund 2008, L.P. (Note 1)	Interest of controlled corporation	271.48	18.96%	15.85%
Hony Capital Fund 2008 GP L.P. (Note 1)	Interest of controlled corporation	271.48	18.96%	15.85%
Hony Capital Fund 2008 GP Limited (Note 1)	Interest of controlled corporation	271.48	18.96%	15.85%
Hony Capital Management Limited (“Hony Capital”) (Note 1)	Interest of controlled corporation	271.48	18.96%	15.85%
Zhao John Huan (Note 2)	Interest of controlled corporation	271.48	18.96%	15.85%
Right Lane Limited (Note 2)	Interest of controlled corporation	271.48	18.96%	15.85%
Legend Holdings Limited (“Legend Holdings”) (Note 3)	Interest of controlled corporation	271.48	18.96%	15.85%
Chinese Academy of Sciences Holdings Co., Ltd. (Note 4)	Interest of controlled corporation	271.48	18.96%	15.85%

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of ordinary share of the Company	Approximate percentage of total issued share* of the Company
Chinese Academy of Sciences (Note 4)	Interest of controlled corporation	271.48	18.96%	15.85%
Beijing Lian Chi Zhi Yuan Management Consulting Center (Note 5)	Interest of controlled corporation	271.48	18.96%	15.85%
Beijing Lian Chi Zhi Tung Management Consulting Ltd. (Note 5)	Interest of controlled corporation	271.48	18.96%	15.85%
Greater Pacific Capital Partners, LP (“GPC”) (Note 6)	Beneficial interest	119.27	8.33%	6.96%
EJF Capital LLC (“EJF”) (Note 7)	Beneficial interest	116.40	8.13%	6.80%
Far East Holdings International Limited (“Far East Holdings”) (Note 8)	Beneficial interest	113.99	7.96%	6.66%
China National Computer Software & Information Technology Service Corporation (Hong Kong) Limited (“CS&S(HK)”) (Note 9)	Beneficial interest	100.32	7.01%	5.86%
Chinasoft National Software and Service Company Limited (“CNSS”) (Note 9)	Interest of controlled corporation	100.32	7.01%	5.86%
Microsoft Corporation (“Microsoft”) (Note 10)	Beneficial interest	97.25	6.79%	5.68%

Notes:

1. Hony Capital Fund 2008, L.P. holds the entire issued share capital of Keen Insight. Hony Capital Fund 2008 GP, L.P. is the sole general partner of Hony Capital Fund 2008, L.P.. Hony Capital Fund 2008 GP Limited, a wholly-owned subsidiary of Hony Capital, is the sole general partner of Hony Capital Fund 2008 GP, L.P.. Hony Capital is taken to be interested in the Shares in which Keen Insight is interested.
2. Zhao John Huan and Right Lane Limited are interested in 55% and 45% interests in Hony Capital respectively.

3. Legend Holdings Limited owns 100% interest in Right Lane Limited.
4. Chinese Academy of Sciences Holdings Co., Ltd, which is 100% owned by Chinese Academy of Sciences is taken to be interested in the Shares in which Keen Insight is interested. Chinese Academy of Sciences Holdings Co., Ltd owns 36% interest in Legend Holdings.
5. Beijing Lian Zhi Tung Management Consulting Ltd is the sole general partner of Beijing Lian Chi Zhi Yuan Management Consulting Center is taken to be interested in the Shares in which Keen Insight is interested. Beijing Lian Chi Zhi Yuan Management Consulting Center owns 35% interest in Legend Holdings.
6. GPC is interested in interested in 119,268,639 Ordinary Shares.
7. EJF is an investment advisor registered under the Securities and Exchange Commission of the United States of America. EJF is interested in 116,404,949 Ordinary Shares which could be issued upon the full conversion of the Convertible Notes in the principal amount of RMB 200 million took place on 29 November 2010.
8. Far East Holdings is interested in 113,989,822 Ordinary Shares.
9. CNSS is 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).
10. Microsoft is interested in 97,250,000 Ordinary Shares which could be issued 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 on 6 January 2006. Microsoft holds 59.12% of the total 164,500,000 Series A Preferred Shares in issue.

Save as disclosed above, as at 30 June, 2011, 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, 2011, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the 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 and amended its written terms of reference in compliance with the requirements as set out in the Code on Corporate Governance Practices of the Listing Rules. The primary duties of the audit committee are to review and to supervise the financial reporting process and internal control system of the Group. The audit committee comprises of 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, 2011.

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, 2011.

On behalf of the Board
Dr. Chen Yuhong
Chairman & Managing Director

8 August, 2011, Hong Kong

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

Executive Directors:

Dr. Chen Yuhong (*Chairman and Managing Director*), Dr. Tang Zhenming, Mr. Wang Hui, Mr. Jiang Xiaohai

Non-executive Directors:

Dr. Zhang Yaqin, Ms. Shen Lipu, Dr. Song Jun, Mr. Zhao John Huan, Mr. Lin Sheng

Independent Non-executive Directors:

Mr. Xu Zeshan, Mr. Zeng Zhijie, Dr. Leung Wing Yin

* *For identification purpose only*