中軟國際

2010 Interim Report

CHINASOFT INTERNATIONAL LIMITED
中軟國際有限公司*

(Incorporated in the Cayman Islands with Limited Liability)
(Stock Code:0354)

* for identification purpose only

HIGHLIGHTS

	For the six months ended 30 June, 2010 RMB'000	2009 RMB'000	Increase (Decrease)
Income statement highlights			
Total Revenue	**686,539**	441,613	55.46%
Development & service income	**594,739**	385,134	54.42%
EBITDA	**71,081**	27,341	159.98%
Profit from operations	**45,277**	6,203	629.92%
Loss arising from changes in fair value of redeemable convertible preferred shares	**(31,543)**	(32,005)	(1.44%)
Profit/(loss) for the period	**5,014**	(30,461)	N/A
Profit/(loss) attributable to owners of the Company	**4,127**	(31,855)	N/A
Earnings/(Loss) per share			
– Basic (cents)	**0.40**	(3.16)	N/A
– Diluted (cents)	**2.74**	0.01	27,300%

	(Unaudited) 30 June, 2010 RMB'000	(Audited) 31 December, 2009 RMB'000	Increase (Decrease)
Balance sheet highlights			
Total assets	**1,615,354**	1,468,512	10.00%
Total liabilities	**(752,440)**	(691,498)	8.81%
Total equity	**862,914**	777,014	11.06%

- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June, 2010.
- 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 six months ended 30 June, 2010 with corresponding figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

		For the six months ended 30 June,	
	Notes	**2010 RMB'000**	2009 RMB'000
Turnover	*3*	**686,539**	441,613
Cost of sales		**(479,131)**	(309,347)
Gross profit		**207,408**	132,266
Other income, gains and losses		**7,950**	7,020
Selling and distribution costs		**(38,756)**	(27,016)
Administrative expenses		**(114,925)**	(86,404)
Allowance for doubtful debts		**(2,001)**	(7,888)
Amortisation of intangible assets		**(14,399)**	(11,775)
Finance costs	*4*	**(2,295)**	(1,681)
Share of result of associates		**255**	1,114
Loss arising from changes in fair value of redeemable convertible preferred shares		**(31,543)**	(32,005)
Profit/(loss) before taxation		**11,694**	(26,369)
Taxation	*5*	**(6,680)**	(4,092)
Profit/(loss) for the period		**5,014**	(30,461)
Other comprehensive income			
Exchange differences arising on transaction of foreign operations		**(952)**	(87)
Total comprehensive income for the period		**4,062**	(30,548)
Profit/(loss) for the period attributable to:			
Owners of the Company		**4,127**	(31,855)
Non-controlling interests		**887**	1,394
		5,014	(30,461)
Total comprehensive income attributable to:			
Owners of the Company		**3,190**	(31,898)
Non-controlling interests		**872**	1,350
		4,062	(30,548)
Earnings/(Loss) per share	*7*		
– Basic (cents)		**0.40**	(3.16)
– Diluted (cents)		**2.74**	0.01

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	(Unaudited) 30 June, 2010 RMB'000	(Audited) 31 December, 2009 RMB'000
Non-current assets			
Property, plant and equipment		**104,369**	95,131
Intangible assets		**83,460**	83,197
Goodwill		**420,562**	414,615
Interests in associates		**17,683**	17,428
Prepaid lease payments		**776**	867
Prepayment for acquisition of technical knowledge		**5,216**	5,216
Deferred tax assets		**3,528**	3,528
		635,594	619,982
Current assets			
Inventories		**23,484**	14,457
Trade and other receivables	*8*	**506,151**	362,278
Prepaid lease payments		**166**	166
Amounts due from customers for contract work		**209,861**	161,019
Amount due from related companies		**–**	711
Pledged deposits		**10,067**	12,870
Bank balances and cash		**230,031**	297,029
		979,760	848,530
Current liabilities			
Trade and other payables	*9*	**340,420**	283,272
Bills payable		**5,147**	1,255
Amounts due to customers for contract work		**64,271**	79,745
Amounts due to related companies		**34**	128
Dividend payable to shareholders		**81**	82
Taxation payable		**9,996**	11,568
Borrowings		**146,898**	104,071
Consideration payable on acquisition of business		**13,565**	22,296
Consideration payable on acquisition of additional interest in a subsidiary		**–**	844
		580,412	503,261
Net current assets		**399,348**	345,269
Total assets less current liabilities		**1,034,942**	965,251
Non-current liabilities			
Deferred tax liabilities		**9,208**	9,208
Consideration payable on acquisition of business		**11,374**	11,374
Redeemable convertible preferred shares		**151,446**	167,655
		172,028	188,237
		862,914	777,014
Capital and reserves			
Share capital	*10*	**54,599**	52,357
Share premium		**582,582**	519,389
Reserves		**166,727**	154,311
Equity attributable to equity holders of the Company		**803,908**	726,057
Non-controlling interests		**59,006**	50,957
Total equity		**862,914**	777,014

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the owners of the company										
	Share capital RMB'000	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	Non-controlling interests RMB'000	Total RMB'000
At 1 January, 2009	52,178	516,306	(1,338)	39,964	15,793	8,868	1,712	191,858	825,341	44,771	870,112
Profit for the period	–	–	–	–	–	–	–	(31,855)	(31,855)	1,394	(30,461)
Exchange differences arising from translation of overseas operations	–	–	(43)	–	–	–	–	–	(43)	(44)	(87)
Total comprehensive income for the period	–	–	(43)	–	–	–	–	(31,855)	(31,898)	1,350	(30,548)
New issue of shares upon exercise of share option	93	2,019	–	(547)	–	–	–	–	1,565	–	1,565
Recognition of equity-settled share based payments	–	–	–	6,851	–	–	–	–	6,851	–	6,851
Dividend paid to minority interest	–	–	–	–	–	–	–	(5,880)	(5,880)	5,880	–
At 30 June, 2009	52,271	518,325	(1,381)	46,268	15,793	8,868	1,712	154,123	795,979	52,001	847,980
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	–	–	(937)	–	–	–	–	4,127	3,190	872	4,062
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	54,599	582,582	(2,828)	73,940	15,793	12,978	4,121	62,723	803,908	59,006	862,914

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Six months ended 30 June,	
	2010	2009
	RMB'000	RMB'000
Net cash used in operating activities	**(54,506)**	(48,945)
Net cash used in investing activities	**(27,473)**	(16,546)
Net cash generated from/used in financial activities	**15,000**	(10,012)
Net decrease in cash and cash equivalents	**(66,979)**	(75,503)
Effect of foreign exchange rate changes	**(19)**	(1,017)
Cash and cash equivalents at the beginning of the period	**297,029**	265,804
Cash and cash equivalents at the end of the period	**230,031**	189,284

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, 2009.

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").

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendment)	Vesting conditions and cancellations
HKFRS 7 (Amendment)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – INT 9 and HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 13	Customer loyalty programmes
HK(IFRIC) – INT 15	Agreements for the construction of real estate
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation

3. TURNOVER AND SEGMENT INFORMATION

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

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group's operating segments as compared with the primary segments determined in accordance with HKAS 14.

In prior years, segment information reported externally was analysed on the basis of the types of goods supplied or services provided (i.e. (i) Solutions, (ii) IT outsourcing, (iii) IT consulting and training services and (iv) Sales of standalone software and hardware products). However, information reported to the chief operating decision maker, the Chief Executive Officer of the Company, is more specifically focused on the category of customers for each type of goods supplied or services provided by the Group's operating divisions. The Group's operating segments under HKFRS 8 are therefore 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. Amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8.

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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
SGM	**171,397**	145,473	**19,000**	2,202
SFI	**178,244**	104,173	**9,896**	6,627
IT outsourcing	**315,050**	181,480	**39,670**	22,048
Training	**21,848**	10,487	**449**	(958)
	686,539	441,613	**69,015**	29,919

Segment revenue by products and services:

	For the six months ended 30 June,	
	2010	2009
	RMB'000	RMB'000
Sale of software and hardware products	**91,800**	56,479
Provision of services		
Solutions – SGM	**134,058**	106,865
Solutions – SFI	**123,783**	86,302
IT outsourcing	**315,050**	181,480
Training	**21,848**	10,487
	594,739	385,134
	686,539	441,613

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

	For the six months ended 30 June,	
	2010	2009
	RMB'000	RMB'000
Segment results	**69,015**	29,919
Other income, gains and losses	**311**	2,024
Corporate expenses	**(32,769)**	(30,399)
Loss arising from changes in fair value of redeemable convertible preferred shares	**(31,543)**	(32,005)
Profit (Loss) before taxation	**5,014**	(30,461)

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, 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,	
	2010	2009
	RMB'000	RMB'000
Interest on borrowings wholly repayable within five years:		
Bank loans	**2,295**	1,681

5. TAXATION

	For the six months ended 30 June,	
	2010	2009
	RMB'000	RMB'000
Tax charge comprises:		
PRC Enterprise Income Tax	**6,679**	4,091
Hong Kong Profits Tax	**–**	–
The US Federal and State Income taxes	**–**	–
Japan Income Tax	**1**	1
	6,680	4,092

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, 2009 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,	
	2010	2009
	RMB'000	RMB'000
Earnings/(loss) for the purposes of calculating basic earnings per share	**4,127**	(31,855)
Effect of dilutive potential ordinary shares:		
(Loss) arising from changes in fair value of redeemable convertible preferred shares	**(31,543)**	(32,005)
Earnings for the purposes of calculating diluted earnings per share	**35,670**	150

	Number of shares	
	2010	2009
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,027,152,836**	1,007,549,765
Effect of dilutive potential ordinary shares:		
Issuable under the Company's share option scheme	**89,574,177**	2,212,484
Conversion of the redeemable convertible preferred shares	**184,886,740**	194,500,000
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,301,613,753**	1,204,262,249

8. TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June, 2010 RMB'000	(Audited) 31 December, 2009 RMB'000
Trade receivables	**458,785**	304,569
Less: Allowance for doubtful debts	**(62,632)**	(55,768)
	396,153	248,801
Trade receivables from related companies	**7,047**	5,985
	403,200	254,786
Advances to suppliers	**47,213**	59,432
Deposits, prepayments and other receivables	**55,738**	48,060
	506,151	362,278

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, 2010 RMB'000	(Audited) 31 December, 2009 RMB'000
Within 90 days	**285,690**	189,043
Between 91-180 days	**46,941**	13,675
Between 181-365 days	**21,105**	16,856
Between 1-2 years	**31,814**	34,702
Over 2 years	**17,650**	510
	403,200	254,786

The fair value of the Group's trade and other receivables at 30 June, 2010 was approximately equal to the corresponding carrying amount.

9. TRADE AND OTHER PAYABLES

	(Unaudited) 30 June, 2010 RMB'000	(Audited) 31 December, 2009 RMB'000
Trade payables	**142,606**	119,627
Trade payable to a related company	**1,351**	921
	143,957	120,548
Deposits received from customers	**15,565**	6,300
Other payables and accrued charges	**180,898**	156,424
	340,420	283,272

An aged analysis of trade payables is as follows:

	(Unaudited) 30 June, 2010 RMB'000	(Audited) 31 December, 2009 RMB'000
Within 90 days	**70,263**	48,165
Between 91-180 days	**20,455**	18,419
Between 181-365 days	**22,780**	14,543
Between 1-2 years	**17,174**	27,331
Over 2 years	**13,285**	12,090
	143,957	120,548

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, 2010 was approximately equal to the corresponding carrying amount.

10. SHARE CAPITAL

	Ordinary shares		
	Number of shares	Nominal value per share HK$	Ordinary shares capital HK$
Authorised shares capital			
At 1 January, 2009, 30 June, 2009, 1 January, 2010 and 30 June, 2010	1,500,000,000	0.05	75,000,000
Issued shares capital			
At 1 January, 2009	1,007,278,688	0.05	50,363,935
Exercise of share option	4,070,000	0.05	203,500
At 31 December, 2009 and 1 January, 2010	1,011,348,688	0.05	50,567,435
Exercise of share option	11,910,500	0.05	595,525
Conversion of redeemable convertible preferred shares	30,000,000	0.05	1,500,000
Issue of consideration shares	9,208,126	0.05	460,406
At 30 June, 2010	1,062,467,314	0.05	53,123,366

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 2009 and 2010, the Group had the following transactions with the following related parties:

	Notes	For the six month ended 30 June, 2010 RMB'000	2009 RMB'000
Provision of IT outsourcing services			
– Viador Inc.	*(a)*	**1,045**	976
– 日本國株式會社 CDI	*(b)*	**6,086**	6,814
– 大連中軟軟件有限公司	*(c)*	**240**	115
Rental expenses			
– Chinasoft National Software and Service Company Limited	*(d), (e)*	**2,285**	1,660

Notes:

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

(b) 日本國株式會社 CDI is a shareholder of Tokyo Xinhua, a subsidiary of the Group.

(c) 大連中軟軟件有限公司 is a subsidiary of CNSS.

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

(e) Mr. Cui Hui, director of the Company, is also director of CNSS.

(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, 2010, the prepaid lease payments were analysed for reporting purposes as a non-current asset of RMB776,000 and current asset of RMB166,000 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 RMB316,763,000, including the directors' emoluments of approximately RMB2,123,000 during the six months ended 30 June, 2010 (2009: approximately RMB207,838,000, including the directors' emoluments of approximately RMB1,047,000). The increase in employee remuneration resulted from the increase in the number of employees from 5,904 to 9,467 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, 2010 of the Group amounted to approximately RMB14,399,000 (2009: RMB11,775,000) and approximately RMB11,405,000 (2009: RMB9,363,000), respectively.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June, 2010 (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2010, the Company recorded an unaudited turnover of RMB686,539,000 (2009: RMB441,613,000). Regarding the business itself, turnover from the provision of solutions to government and manufacturing industry, provision of solutions to financial institutes, IT outsourcing and training, the Group's four major businesses, accounted for 25%, 26%, 46% and 3% (2009: 33%, 24%, 41% and 2%) of the Group's overall revenue respectively. Turnover increased 55% as compared to the same period last year , which was mainly driven by the businesses of IT outsourcing services and provision of solutions to financial institutes.

Among these, unaudited revenue from development and services amounted to RMB594,739,000 (2009: RMB385,134,000). The four major businesses accounted for 23%, 21%, 52% and 4% (2009: 28%, 22%, 47% and 3%) of the overall development and service income, representing an increase of 54% as compared to the same period last year, of which IT outsourcing service made the most contribution.

Gross Profit

For the six months ended 30 June 2010, the Company achieved an unaudited gross profit of approximately RMB207,408,000, representing an increase of 57% as compared to 2009. The Group's gross profit margin amounted to approximately 30.2% (2009: 30.0%) and the gross profit margin of development and service income amounted to 34.9% (2009: 34.3%), basically similar to the same period last year.

Earnings Before Interests, Taxations, Depreciations and Amortizations (EBITDA)

For the six months ended 30 June 2010, the Company achieved an unaudited EBITDA of approximately RMB71,081,000 (2009: RMB27,341,000), representing an increase of 160% as compared to the same period last year. The Group's EBITDA Margin amounted to approximately 10.4% (2009: 6.2%), representing an increase of 4.2 percentage points as compared to the same period last year. The increase in EBITDA was mainly attributable to the increase in development and service income and the decrease in the percentage of selling and distribution costs and management expenses.

Expenses

The ratio of selling and distribution costs to turnover was 5.6%, representing a decrease of 0.5 percentage points as compared with 6.1% in 2009.

The ratio of administrative expenses (excluding depreciation and amortization) to turnover decreased by 3.8 percentage points to 15.4% as compared with 19.2% in the same period of 2009.

Profit From Operation

For the six months ended 30 June 2010, the Company achieved a profit from operation of approximately RMB45,277,000 and the profit margin from operation reached 6.6%, representing a significant increase as compared with RMB6,203,000 and 1.4% respectively for the same period last year. The increase in profit from operation was mainly attributable to three factors: firstly, IT outsourcing business continued its growth that became the largest profit attributor of the Group; secondly, during the reporting period, the disadvantageous effects from economic conditions on clients of solution industry last year came to abatement, that let the solution projects be rolled out as usual, and brought the business size and profitability into a normal level; lastly, as the size of operation increased, expenditure rate was lower as compared with that of corresponding period last year, and that project-based profit margins were increased.

Earnings Per Share

For the six months ended 30 June 2010, as the unaudited profit for the period of the Company increased, earnings per share changed from a basic loss per share of RMB 3.16 cents for the same period last year to a basic earnings per share of RMB 0.4 cents and diluted earnings per share increased significantly from RMB 0.01 cents for the same period last year to RMB 2.74 cents for the period.

BUSINESS REVIEW

In year 2010, the Group continued consolidating the competitive positions of all its businesses in the existing industries while also attached great importance to expanding into new industries and markets. During the reporting period, along with the revitalizing policies for the information industries in respect of the national political strategies and the growth of the outsourcing market at home and abroad, the Group's overall operations picked up and the result indications also had a breakthrough as compared to the same period of last year. During the reporting period, the Group's overall revenue for its businesses reached RMB686,539,000, representing an increase of 55% as compared with the same period of last year, which was mainly attributable to the growth at different levels in the four major businesses, of which the IT outsourcing business recorded the most significant growth. During the reporting period, the solutions business was driven by major projects and the growth in the Group's turnover was driven by the increase in overall volume of IT outsourcing business, which contributed an increase of 6%, 17%, 29% and 3% to the Group's turnover respectively.

Revenue from development and services reached RMB594,739,000, representing an increase of 54% as compared with the same period of last year. The four major businesses contributed an increase of 7%, 10%, 34% and 3% to the development and service income of the Group respectively, of which the IT outsourcing service contributed the most significant growth with solutions came the second.

The Company positioned itself to provide integrated software and information services, ie. "end-to-end" IT service, which included IT consultation service, IT technology service and IT outsourcing service. (IT technology service mainly engaged in solution service whereas IT outsourcing service included ITO and BPO services.)

Meanwhile, the Company established a system of practical training centers for information technology (ETC) nationwide in order to ensure the human resources of main businesses.

The services provided by the Company covered seven industries, namely government, finance, telecommunication, advanced technology, manufacture and circulation, transportation and logistics and similar finance, among which the similar finance industry is an emerging and integrated industry. Regarding the solution service, the Company provided 13 solutions, including e-government, audit and regulation, credit card, front-end system for transactions, credit operation, payment and settlement; cell phone payment, e-commerce for operators; Manufacturing Execution System, goods-tracked system; rail transit AFC/ACC, City Card and intellectual traffic.

The Company owned ResourceOne, a SOA middleware platform product with independent intellectual property right, which had been developed for ten years and experienced four generations. The product provided an application platform to support the solution business and the platform had been upgraded to a services supported platform.

During the reporting period, the Group's principal businesses gained steady growth. On one hand, the solution business continued its steady and healthy development. In the segment of solutions, the Group continued exploring vertical industries, and further expanded into IT outsourcing services for domestic and overseas customers in this industry and other similar industries based on the extensive business experience and technology and skills that our solution business accumulated through conducting the business in dominant industries; on the other hand, we kept exploring and innovating in the segment of IT outsourcing business. We assisted multinational companies in expanding into the solution business in China using the experience we had in domestic industries. Through introducing advanced industrial management experience worldwide and the technology solution, the Group could also deeply explore the business needs of domestic industrial customers and help them expand their solution businesses. The support by the Group's powerful integration ability could ensure the rapid development of the enterprises by mergers and acquisitions coupled with organic growth in business and building point-to-point service ability gradually, which, in return, transformed Chinasoft International to a professional IT integrated service supplier that can provide diversified services for different large-scale projects in various industries. It was the core supplier of segment markets, such as the government, telecommunication, banking and advanced technology, and was equipped with the capability to provide "end-to-end" service in the global market.

During the reporting period, the Group employed a total of 9,467 staff members through organic growth itself and mergers and acquisitions, representing an increase of 3,563 as compared to the corresponding period of last year, up 60% year on year. The number of IT outsourcing business personnel increased by 2,751, representing an increase of 77% as compared with the same period last year, while the solution business personnel increased by 761, representing an increase of 36% as compared with the same period last year.

During the reporting period, the Group has engaged consultancy companies to diagnose and reorganize our human resources management, and measures of which have been successfully implemented in the team in Beijing. While the Group was developing rapidly, we adopted various measures to enhance the level of knowledge management, submission management and human resources management to further refine our management and build a sound foundation for the strategic development in future, in order to ensure the predictability of the scope expansion and profitability of the Group in the future.

During the reporting period, the Group's corporate culture was raised to a strategic level that we expanded substantially into the building of our corporate culture. We firmly took "Creating, Sharing, Growing together" as our spiritual and cultural tie to maintain a win-win relation among us, shareholders, staff and the management, and to proactively interact with the external environment of the community, making it the spiritual motivation in corporate development.

Solutions for government and manufacturing entities

The Group's government and manufacture segment covers a customer base comprising mainly government departments and large state-owned enterprises with Chinese characteristics and clear vertical management need in various supervisory business domain.

During the reporting period, the government and manufacture business lines recorded a turnover of RMB171,397,000, representing an increase of 18% as compared to the same period of last year, of which revenue from development and services amounted to RMB134,058,000, representing an increase of 25% as compared to the same period of last year. The segment result amounted to RMB19,000,000, representing a significant increase of 763% as compared to the same period last year. The increase was mainly attributable to two factors, ie, from the external perspective, the unfavorable effects of the economic condition on the customers in the industry diminished gradually so that projects in the industry could be able to move on in usual manner; from the internal perspective, the Billable UR of the business team enhanced and the gross profit margin increased as compared with the same period last year.

During the reporting period, the Group continued to consolidate its strategic cooperation position in the tobacco industry, After comprehensively realizing the normal operation of carton–level tobacco track and trace system and purchase order information collecting system, it initiated a new round of deployment and implementation nationwide for projects such as industry investment management while at the same time furthered the localized operation and maintenance services of carton–level tobacco track and trace system at provincial level in order to enlarge the coverage of the operation and maintenance market at provincial level on top of the original foundation. A number of MES projects have been smoothly implemented and have passed expert review and inspection with a new round of construction work of MES and ERP system initiated meanwhile. In the business field of tobacco industry, the Group developed and implemented related system in some provinces in relation to rectification and regulation of discipline inspection and internal management, which has effectively replenished and perfected the Group's supervision on business lines in the tobacco industry.

During the reporting period, the Group made further business progress in respect of state auditing and financial monitoring, and expanded two province's market respectively in Central China and Southern China in respect of financial monitoring; With continuous winning of tenders for intranet audit system projects in a number of provinces, the Group consolidated further its market position in the field of audit informatization.

During the reporting period, the Group continued to further the business services for civil aviation domain in respect of e-Government, in which it comprehensively strengthened the security system construction in light of FSOP system construction, and gradually expanded and promoted the "safety management system" (SMS) in operation management systems of airlines, airports, air traffic control units and the like to establish a long-standing system for development of the industry. On the drug regulation front, the Group continued to expand 3511 Project by pivoting on administration approved projects to realize a two-way development horizontally and vertically. In addition, the Group has also won the tender for projects of the Central Discipline Inspection Commission and participated in Jinji project construction. In the domain of Agriculture, the Group continued to maintain the progress of infrastructure projects, and has signed projects under the "Combination of Three e-Communication Means" regarding agricultural information services, devoted itself to the construction work of promoting rural informatization.

The Group continued to extend the development in fields relating to people's livelihood such as environmental protection, meteorology, social insurance and press and publication by studying and inspiring and actively explore new businesses and new models, in order to provide customers with more feasible solutions, to initiate projects on the basis of business dissecting, and to deliver quality and efficient services.

Solutions for financial institutions

The business scope of the Group's financial and banking services covers financial payment, settlement, exchange domains and the development and application services of various kinds of card-based businesses and financial management. The Group had focused on providing industry solution and IT outsourcing services for customers from financial and banking institutions and Quasi-financial domains, including public transportation, ticketing classification, social security (card) and customers from civil aviation, over the years.

During the reporting period, the financial and banking services business line recorded turnover of RMB178,244,000, representing an increase of 71% as compared to the same period of last year, of which revenue from development and services amounted to RMB123,783,000, representing a 43% increase as compared to the same period of last year. The segment result amounted to RMB9,896,000, representing a growth of 49% as compared with the same period last year.

During the reporting period, in the banking and financing segment, the number of new signed contracts for dealing business by process management and trade front-end accounted respectively for 15% of the total number of the Company, among them the e-note system maintained a top market share with the customers base expanded to 40 in number on top of that of 2009, which comprised domestic and foreign banks, financial institutions, large group financial companies; as the service s of credit card core (including VisionPlus) system and business management system grew with a year on year increase of more than two times, the Group has successfully signed and secured the technology service contract for credit card system of Agricultural Bank of China again, signifying that the credit card core system of autonomous property right has its applications extended to banks and financial companies for individual consumption; the Group has embarked on another financial domain other than banks——insurance companies by participating in construction for the core system of China Pacific Insurance Co., Ltd.

During the reporting period, for the public service segment, the “Expo Pass” mobile phone railroad transport application project implemented for Shanghai municipal government at the beginning of the year was all successfully launched, such that all Shanghai Metro stations can accept entry and exit fare checks by means of m-ticket; the Expo m-ticket implemented in coordination with the opening of 2010 Shanghai World Expo has been promoted and applied in respects of entering the Expo park, Metro and Expo dedicated bus lines. Besides, the number of newly signed contracts for Multi-pass system accounted for 17% of the total number of the Company, and the Group has signed and executed Multi-pass projects for Qingdao, Chongqing, Xuzhou and Taizhou, etc. as the number of Multi-pass customer increased to 30. Our; ticketing and payment increased by two times year on year; our citizen card business increased by 67% year on year, contracts for Guangdong Social Security Card and Yangzhou Citizen Card projects were secured; railway transport automatic fare selling and collection system has successfully entered the market of other provinces and cities for the first time, and, we have won the tender for AFC projects of Chongqing Metro Line 6.

IT Outsourcing Service

IT outsourcing service of the Group includes Hi-tech MNC IT outsourcing services and information processing and engineering design IT outsourcing services.

During the reporting period, the turnover amounted to RMB315,050,000, representing an increase of 74% as compared to the same period last year. The segment result amounted to RMB39,670,000, representing an increase of 80% as compared with the same period last year. The increase was mainly attributable to the expansion for businesses of outsourcing customers locally and overseas and the stable growth in the businesses of overseas customers. Meanwhile, the profitability of the business continued to be stable, which made it the major contributor to the Group’s turnover and profit from operation.

The Group’s Hi-tech MNC IT outsourcing services catered to customers from multinational and technological companies whose headquarters were in Europe and America. The major services provided by the Group to such customers were full range IT technical services. As one of the leading IT outsourcing services providers in China, besides “traditional” IT outsourcing services, the Group, leveraging on its leading position in China market, was able to assist overseas customers to have a quick understanding of China market and in identify new business opportunities. Meanwhile, the Group was able to, by virtue of its wide network of submission centers, capitalize on global resources and its leading proprietary technical strength to help customers cope with constantly and rapidly changing business challenges. During the reporting period, the outsourcing business of the telecommunication industry realized rapid development. Besides becoming one of the suppliers to a worldwide leading domestic telecommunication solution provider, the Group has initiated different in-depth cooperation in respect of development and testing for mobile application with a number of MNC customers.

During the reporting period, the Group was praised by the industry's analysts as "Model Enterprise for Innovating In Services" and "China Services Outsourcing Enterprises Top 10 Leading Enterprises", In 2010, the Group won again the honor of "World's Top 100 Global Outsourcing Service Provider " by the International Association of Outsourcing Professionals (IAOP). Thanks to our business deployment incorporating talent training, the Group possesses strong capacity for undertaking large-scale projects and extensive submission business, and we were able to keep innovating and exploring in the outsourcing services and has made some breakthrough.

During the reporting period, the Group has recently become one of the global offshore outsourcing centers for a world-class outsourcing customer, providing global outsourcing services for the customer, The Group has also awarded the honor of being the seventh Primer Vendor for Microsoft in the globe by Microsoft Corporate in the US and has been the only one software outsourcing enterprise in China to receive such honor so far. During the reporting period, the Group has made new breakthrough in the outsourcing segment of telecommunication, banking and SAP consulting with ten more powerful customers secured, which has provided more room for the Company's diversified and all-round development.

The Group's IT services business in the domains of information processing and engineering design was targeted at customers in Japanese market. The major services provided by the Group to these customers were: data processing, front-page processing of publications, call center (non-voice), and CAD services for construction and manufacturing domains.

The Group has provided quality services to a number of industries such as construction, communication, medicine, machinery, shipping and bridge building, logistics, and printing in Japan over the years. During the reporting period, the Group continued to enrich service scope and enlarge customer base with its experience of more than ten years in data processing and engineering outsourcing.

During the reporting period, the Group saw the number of major customers significantly increased and the inherent customer business grew steadily. The Group collaborated with Japan's largest recruitment advertisement distribution company to, conduct the business of recruitment data analysis, opening up a new business area in respect of personnel; and cooperated with Japan's famous construction material companies to create a new service catalogue for back-office BPO business, in which the customer is expected to be one of the Company's high value major customer. In the insurance domain, the Group cooperated with Japan to successfully realize the model for joint development of business with local companies. The Group cooperated with Japan's renowned publishing and printing companies to achieve further progress in the publishing and printing industry in future. It sought cooperation with large-scale investment corporations to discuss financing and M&A matters, and with the help which to unfold globalization cooperation from BPO to KPO, paving way for business transformation.

Excellence Training Centers (ETC)

During the reporting period, turnover amounted to RMB21,848,000, representing an increase of 108% as compared with same period last year. The segment result amounted to RMB449,000, representing a profit from loss as compared with the same period last year. During the reporting period, ETC coordinated well with all business lines. It provides group training for students in advance to fulfill customers' demand for talent through the practical training cooperation between ETC and tertiary institutions, which has also accelerated the integration of students into the community to obtain employment after graduation. Moreover, the students will obtain recognition from clients and tertiary institutions while gaining support from the government and relevant divisions. Hence, there will be an increase in the business volume and the cost will be appropriately controlled, in order to achieve a profit from loss.

CS&S Computer Tech. Training Centre (中軟總公司計算機培訓中心), a member of the Group, has up to now trained over 500,000 IT professionals of various specialties. It is the first training institute that passed ISO9001 certification in China as well as a famous brand of "medium-high end IT technology training" in the industry. It also functions as Authorized Microsoft Certified Partner for Learning Solutions (CPLS), Authorized Sun Education Center (ASEC) for Java, Authorized Training Center for IBM Software Department and Authorized Prometric International Certification and Examination Center. Moreover, it also provides internal training for stall of Chinasoft International.

Along with the rapid development of Chinasoft International's certain major businesses, especially the software outsourcing business, the Group established Chinasoft International software talent training base (talent training base) and Chinasoft International Excellence Training Centers in 2005, and devised "five real (5R)" practical training curriculum for staff-to-be university students, namely, real corporate environment, real project manager, real project cases, real work pressure, real job opportunities. The Group combines Chinasoft International's project experience and the management advantage to build a practical training mode that takes real projects as the teaching basis and resembles entirely the environment of a multinational software enterprise.

During the reporting period, the Group's Excellence Training Centers ("ETC") adopted a development strategy closely related to COE to deliver services for its businesses. Subsequent to establishing successively practical training centers in Beijing, Changsha, Dalian, Wuxi, Chongqing, Xiamen, Tianjin, Nanjing, etc. At present, the Group cooperates with more than 200 tertiary institutions.

The Group's ETC continued perfecting its business quality. During the reporting period, Chinasoft International was rated by the Department of Higher Education of the Ministry of Education as "the practical training center for university students specializing in software engineering", under which the learning hours completed by students during their participation in ETC practical trainings can be counted as credits, in such way can the Group promote a deeper cooperation with educational institutes. In addition, ETC received the National Teaching Achievement First Prize, which keeps abreast with the three National Scientific and Technological Achievement prizes.

DIRECTORS' INTERESTS IN SHARES

As 30 June, 2010, 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 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, 2010
CHEN Yuhong	67,387,608	6.34%
CUI Hui	20,000,000	1.88%
TANG Zhenming	11,747,765	1.11%
WANG Hui	8,767,838	0.83%

Options to subscribe for Shares

Name of the Director	Exercise Price (HK$)	Number of share options outstanding as at 30 June, 2010	Approximate percentage of the total number of the Shares in issue as at 30 June, 2010	Number of underlying Shares interested in	*Notes*
CHEN Yuhong	1.78	3,800,000	0.36%	8,800,000	*(5)*
	1.37	5,000,000	0.47%		*(6)*
CUI Hui	0.65	500,000	0.05%	500,000	*(3)*
Duncan CHIU	0.65	1,000,000	0.09%	11,000,000	*(3)*
	1.37	10,000,000	0.94%		*(6)*
TANG Zhenming	0.58	80,000	0.01%	6,180,000	*(2)*
	0.65	1,300,000	0.12%		*(3)*
	0.97	800,000	0.08%		*(4)*
	1.78	2,000,000	0.19%		*(5)*
	1.37	2,000,000	0.19%		*(6)*
WANG Hui	0.65	250,000	0.02%	5,850,000	*(3)*
	0.97	1,000,000	0.09%		*(4)*
	1.78	2,000,000	0.19%		*(5)*
	1.37	2,600,000	0.24%		*(6)*
ZENG Zhijie	1.78	750,000	0.07%	750,000	*(5)*

Notes:

(1) An aggregate of 250,000 and 1,500,000 share options were exercised by Mr. Wang Hui at the exercise price of HK$0.58 and HK$0.65 each respectively. Hence, following the execise of those share options, the number of share options outstanding reduced to 5,850,000 as at 30 June, 2010.

(2) 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

(3) 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

(4) 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

(5) 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

(6) 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, 2010, 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, 2010, an aggregate of 11,910,500 share options were exercised and an aggregate of 81,787,868 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, 2010 none of the Directors was granted options to subscribe for shares of the Company and as at 30 June, 2010 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, 2010, 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, 2010.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June, 2010, the Company had fully complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 30 June, 2010, 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	245.32	23.09%
Chinasoft National Software and Service Company Limited ("CNSS") *(Note 1)*	Interest of controlled corporation	245.32	23.09%
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)") *(Note 2)*	Interest of persons acting in concert	245.32	23.09%
Far East Holdings International Limited ("Far East Holdings") *(Note 3)*	Beneficial interest	138.99	13.08%
Greater Pacific Capital Partners, LP ("GPC") *(Note 4)*	Beneficial interest	119.27	11.23%
Microsoft Corporation ("Microsoft") *(Note 5)*	Beneficial interest	97.25	9.15%
International Finance Corporation ("IFC") *(Note 6)*	Beneficial interest	93.88	8.84%

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 119,268,639 Shares.

5. A total of 194,500,000 Series A Preferred Shares of HK$0.05 each in the capital of the Company ("Series A Preferred Shares") were issued, of which 97,250,000 Series A Preferred Shares were issued to Microsoft on 6 January 2006. Microsoft was interested in 97,250,000 Shares which shall be issued to it upon the full conversion of the Series A Preferred Shares held by it.

6. A total of 194,500,000 Series A Preferred Shares were issued, of which 97,250,000 Series A Preferred Shares were issued to IFC on 6 January 2006. IFC has converted 30,000,000 Series A Preferred Shares into Shares and disposed of 3,370,000 Shares as of 30 June 2010 on the basis of settlement date. IFC was interested in 67,250,000 Series A Preferred Shares (which are convertible into 67,250,000 Shares) and 26,630,000 Shares as of 30 June 2010.

7. The total number of issued ordinary share capital above excludes the 164,500,000 Shares which might be issued upon full conversion of the series A Preferred Shares in issue.

Save as disclosed above, as at 30 June, 2010, 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.

As a piece of potentially price sensitive information, IFC has disposed of a total of 14,450,000 Shares up to the close of business on 5 August 2010 (on the basis of settlement date) out of the 30,000,000 Shares which it held after converting part of the Series A Preferred Shares it held. As of 5 August 2010, IFC owned 67,250,000 Series A Preferred Shares in addition to the balance of 15,550,000 Shares it held. To the best knowledge of the Directors, IFC is considering and is in the process of negotiations for the disposal of all of its shareholdings in the Company.

COMPETING INTERESTS

As at 30 June, 2010, Dr. Cui Hui, an executive Director, was interested in approximately 1.15% of the issued share capital of CNSS. Dr. Cui Hui also served as a director of CNSS. 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, 2010, 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, 2010.

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, 2010.

On behalf of the Board
Dr. Chen Yuhong
Managing Director

6 August, 2010, Hong Kong