中软国际

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8216)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2007

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

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This announcement, for which the directors of Chinasoft International Limited (the" Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *For identification purpose only*

HIGHLIGHTS

- Achieved a turnover of approximately RMB119,008,000 (2006: RMB63,068,000) for the three months ended 31 March, 2007, representing an increase of approximately 88.7% as compared to the corresponding period in 2006. The increase in turnover was attributable to a drastic increase in total solution of approximately RMB80,737,000 from last year approximately of RMB34,348,000, representing an increase of 135% and substantial increase in IT outsourcing of approximately RMB33,492,000 from last year of approximately RMB23,905,000, representing an increase of 40.1% and finally a increase in consulting and training of approximately RMB4,009,000 from last year of approximately RMB2,590,000, representing an increase of 54.8%.

- Accomplished a gross profit and a net profit of approximately RMB46,774,000 and RMB12,538,000 respectively (2006: RMB27,792,000 and RMB10,499,000) for the three months ended 31 March, 2007, representing an increase of approximately 68.3% and 19.4% respectively as compared to the corresponding period in 2006. To be consistent with prior year's basis, if we take out the impact of HKAS39 of having RMB2,116,000 redeemable convertible preferred shares dividend taken up as the finance costs in the unaudited income statement, the restated net profit should be approximately RMB14,654,000 (2006: RMB10,499,000), representing an increase of 39.6% rather than 19.4% just mentioned.

- The gross profit margin and the net profit margin of the Group for the three months ended 31 March, 2007 was approximately 39.3% and 10.5% (Year 2006: approximately 44.1% and 16.6%) representing a decrease of 4.8% and 6.1% respectively as compared to the corresponding period in 2006. The slight drop in the gross profit margin was related to having the hardware turnover of approximately RMB43,000,000 taken up in this quarter and the lower gross profit margin of these hardware of approximately 15% have slight drifted down the overall gross profit margin ratio. While the drop in the net profit margin was related to an increase in hardware turnover of approximately RMB33,000,000 compared to the corresponding period last year on one hand, and to a slight increase in the administrative expenses and increase in the amortization of development costs and technical knowhow and the absorption of the impact of HKAS39 of having RMB2,116,000 redeemable convertible preferred shares dividend taken up as the finance costs in the unaudited income statement. The increase of hardware turnover in the quarter is attributable to a large composite service project undertaken by the Group as the composite service provider entrusted by the client. This does not affect the development strategy of the Group to reposition to the business with higher gross margin (software development, IT outsourcing and BPO) since last year and the service income of the Group still maintained good growth momentum.

- Basic earnings per share and diluted earnings per share of the Company were approximately RMB0.016 (2006: RMB0.014) and RMB0.016 (2006: RMB0.013) respectively for the three months ended 31 March, 2007.

- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March, 2007.

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

FIRST QUARTER RESULTS

The board of Directors (the "Directors") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March, 2007, together with the comparative unaudited results of the Company for the corresponding period in 2006, as follows:

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		For the three months ended 31 March,	
		2007	2006
	Notes	***RMB'000***	*RMB'000*
Turnover	*2*	**119,008**	63,068
Cost of sales		**(72,234)**	(35,276)
Gross profit		**46,774**	27,792
Other operating income		**3,688**	1,478
Distribution costs		**(6,928)**	(4,392)
Administrative expenses		**(24,582)**	(11,810)
Amortisation of development costs & technical knowhow		**(2,983)**	(927)
Profit from operations		**15,969**	12,141
Finance costs		**–**	(1)
Redeemable convertible preferred shares dividend		**(2,116)**	–
Share of result of an associate		**928**	314
Profit before taxation		**14,781**	12,454
Taxation	*3*	**(2,243)**	(1,955)
Profit for the period		**12,538**	10,499
Attributable to:			
Equity holder of the parent		**11,971**	10,392
Minority interests		**567**	107
		12,538	10,499
Dividend	*5*	**–**	–
Earnings per share			
– basic	*4*	**0.016**	0.014
– diluted	*4*	**0.016**	0.013

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the parent company												
	Ordinary share capital	Ordinary share premium	Issuable shares	Translation reserve	Share options reserve	General reserve fund	Statutory Enterprise expansion fund	Statutory surplus reserve fund	Statutory public welfare fund	Accu-mulated profits	Total	Minority 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*	*RMB'000*
At 1st January, 2006	38,816	120,672	24,420	(2,047)	7,098	1,573	728	63	32	103,648	295,003	14,032	309,035
Recognition of equity-settled share based payments	–	–	–	–	434	–	–	–	–	–	434	–	434
Net profit for the period	–	–	–	–	–	–	–	–	–	10,392	10,392	107	10,499
At 31st March, 2006	38,816	120,672	24,420	(2,047)	7,532	1,573	728	63	32	114,040	305,829	14,139	319,968
At 1st January, 2007	40,184	128,899	–	(6,942)	11,243	9,714	8,868	341	–	20,528	212,835	20,820	233,655
Recognition of equity-settled share based payments	–	–	–	–	158	–	–	–	–	–	158	–	158
Exchange differences arising from translation of overseas operations and net gain recognised directly in equity	–	–	–	999	–	–	–	–	–	–	999	–	999
Net profit for the period	–	–	–	–	–	–	–	–	–	11,971	11,971	567	12,538
	40,184	128,899	–	(5,943)	11,401	9,714	8,868	341	–	32,499	225,963	21,387	247,350

Notes:

1. BASIS OF PRESENTATION

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

2. TURNOVER

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

	For the three months ended 31 March,			
	2007		2006	
	RMB'000		*RMB'000*	
Solutions	**80,737**	**67.84%**	34,348	54.46%
IT outsourcing	**33,492**	**28.14%**	23,905	37.90%
IT consulting and training services	**4,009**	**3.37%**	2,590	4.11%
Standalone software product	**770**	**0.65%**	2,225	3.53%
	119,008	**100%**	63,068	100%

3. TAXATION

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

Pursuant to an approval document issued by the State Tax Bureau of Beijing Haidian District dated 21 November, 2000, 北京中軟國際信息技術有限公司 ("Chinasoft Beijing"), a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Beijing was entitled to the three year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2000. As a result, Chinasoft Beijing is subject to the income tax computed at the rate of 7.5% for the three years ended 31 December, 2005 and at the rate of 15% on its taxable profit thereafter.

Pursuant to an approval document issued by the Guangzhou Science and Technology Bureau dated 31 March, 2004, 中軟國際(廣州)信息技術有限公司 ("Chinasoft Guangzhou"), a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, pursuant to another approval document issued by the Guangzhou Municipal Office of the State Administration of Taxation dated 2 June, 2004, Chinasoft Guangzhou was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2003.

Pursuant to an approval document issued by the Hunan Science and Technology Bureau dated 13 June 2006, 中軟國際（湖南）信息技術有限公司 ("Chinasoft Hunan"), a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Hunan was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year.

Pursuant to an approval document issued by the State Bureau of Tianjing Economic and Technology Development Zone dated 20 February, 2003, 中軟賽博資源軟件技術（天津）有限公司 ("Cyber Resources"), a subsidiary of the Company, was established before the end of the year 1995 and was approved as an production enterprise and its income tax rate was reduced from 33% to 15%.

Pursuant to an approval document issued by the Beijing Science and Technology Commission dated 25 June, 2004, 北京中軟資源信息科技服務有限公司 ("Chinasoft Resources Beijing"), a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Resources Beijing was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2004.

Pursuant to an approval document issued by the State Bureau of Shenzhen Nanshan District dated 1 March, 2005, 深圳市中軟資源技術服務有限公司 ("Chinasoft Resources Shenzhen"), a subsidiary of the Company, had been designated as a newly established software enterprise. As a result, Chinasoft Resources Shenzhen was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2004.

No provision for Hong Kong profits tax has been made for the relevant periods as the Group did not have any assessable profit arising in Hong Kong during the relevant periods.

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

4. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months ended 31 March, 2007 was based on the net profit attributable to shareholders of the Company (the "Shareholders") of approximately RMB11,971,000 during the three months ended 31 March, 2007 (2006: RMB10,392,000) divided by the weighted average number of ordinary shares then issued of 758,817,476 shares (2006: 732,372,453 shares) during the three months ended 31 March, 2007.

The calculation of diluted earnings per share for the three months ended 31 March, 2007 was based on the net profit of RMB11,971,000 for the three months ended 31 March, 2007 (2006: RMB10,392,000) divided by the weighted average number of shares used in calculation of diluted earnings per share for the three months ended 31 March, 2007 of 769,328,946 shares (2006: 795,182,453 shares).

5. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March, 2007 (2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 31 March, 2007, the Company reported an unaudited turnover of approximately RMB119,008,000 (2006: RMB63,068,000), representing an increase of approximately 88.7% as compared with the corresponding period last year. The increase in turnover was attributable to a drastic increase in total solution of approximately RMB80,737,000 from last year of approximately RMB34,348,000, representing an increase of 135% and substantial increase in IT outsourcing of approximately RMB33,492,000 from last year approximately RMB23,905,000, representing an increase of 40.1% and finally an increase in consulting and training of approximately RMB4,009,000 from last year of approximately RMB2,590,000, representing an increase of 54.8%.

For the three months ended 31 March, 2007, the Company recorded an unaudited net profit attributable to Shareholders of RMB11,971,000 (2006:RMB10,392,000), representing an increase of 15.2% as compared with the corresponding period last year. The above unaudited net profit attributable to Shareholders of RMB11,971,000 have been taken into consideration of expensing the redeemable convertible preferred shares dividend of RMB2,116,000 as a finance cost in the unaudited income statement which is affecting the earnings per share. The above accounting treatment is in line with the auditor treatment of the preference share issued to IFC and Microsoft as a derivative and liability under the Hong Kong Accounting Standard 39. Therefore, the management is in the view that if adding back the redeemable convertible preferred shares dividend of RMB2,116,000 as a finance cost due to the effect of HKAS39 the treatment to the unaudited net profit attributable to Shareholders of RMB11,971,000, then the adjusted unaudited net profit attributable to Shareholder should be RMB14,087,000 using the basis with last year (2006:RMB10,392,000), representing an increase of 35.6%.

For the three months ended 31 March, 2007, the Company accomplished a gross profit and a net profit of approximately RMB46,774,000 and RMB12,538,000 respectively (2006: RMB27,792,000 and RMB10,499,000) for the three months ended 31 March, 2007, representing an increase of approximately

68.3% and 19.4% respectively as compared to the corresponding period in 2006. To be consistent with prior year's basis, if we take out the impact of HKAS39 of having RMB2,116,000 redeemable convertible preferred shares dividend taken up as the finance costs in the unaudited income statement, the restated net profit should be approximately RMB14,654,000 (2006: RMB10,499,000), representing an increase of 39.6% rather than 19.4% just mentioned.

The gross profit margin and the net profit margin of the Group for the three months ended 31 March, 2007 was approximately 39.3% and 10.5% (Year 2006: approximately 44.1% and 16.6%) representing a decrease of 4.8% and 6.1% respectively as compared to the corresponding period in 2006. The slight drop in the gross profit margin was related to having the hardware turnover of approximately RMB43,000,000 taken up in this quarter and the lower gross profit margin of these hardware of approximately 15% have slight drifted down the overall gross profit margin ratio. While the drop in the net profit margin was related to an increase in hardware turnover of approximately RMB33,000,000 compared to the corresponding period last year on one hand, and to a slight increase in the administrative expenses and increase in the amortization of development costs and technical knowhow and the absorption of the impact of HKAS39 of having RMB2,116,000 redeemable convertible preferred shares dividend taken up as the finance costs in the unaudited income statement. The increase of hardware turnover in the quarter is attributable to a large composite service project undertaken by the Group as the composite service provider entrusted by the client. This does not affect the development strategy of the Group to reposition to the business with higher gross margin (software development, IT outsourcing and BPO)since last year and the service income of the Group still maintained good growth momentum.

Due to the higher selling expenses of software development and high gross profit margin, the ratio of distribution costs to turnover was 5.82% (Year 2006: approximately 6.96%) representing a decrease of 1.14% as compared to the corresponding period in 2006. The ratio of administrative expenses to turnover was 20.66% (Year 2006: approximately 18.73%) representing an increase of 1.93% as compared to the corresponding period last year. With an expansion of the size of the Group's operations, the increase in administrative expenses due to the increase in technical support staff division and increase in amortization and depreciation are reasonable.

BUSINESS REVIEW

In the first quarter of 2007, the Group obtained satisfactory results in each of the principal businesses:

Consulting and Solution Business

In the first quarter of 2007, the revenue of the Group's services business amounted to RMB39,520,000, representing an increase of 49.2% over the corresponding period of 2006.

Industries with Leading Position

1. *Tobacco Industry*

During the reporting period, on top of fully advancing the implementation and deployment work of the "State Tobacco Monopoly Administration Bar-coding Cigarettes by Carton and Order Collection System" project in 16 provinces, the Group further enhanced the project's promotion work in other provinces throughout the nation. Leveraging on the thorough development of strategic partnership between the Group and the State Tobacco Monopoly Administration, and the effective utilization of resources and in-depth exploitation of the Group's technical expertise, the Group continued to seek cooperation with various tobacco industrial groups and provincial tobacco companies in order to consolidate its leading position in the industry.

(1) Development and implementation of a transportation system based on whole pallet tobacco barcode scanning in order to establish a modernized logistic system in the tobacco industry

In combination with the tobacco production and operation decision system of the tobacco industry developed by the Group for the State Tobacco Monopoly Administration, this project adopted the advanced RFID technology to code and store barcode information of a mound of tobacco, enabling the tobacco factories to perform warehouse exit scanning and the commercial enterprises to perform warehouse entry scanning in whole pallet. With the support of a portable barcode scanner, the scanned barcode data were managed in an integrated manner, by which duplicate barcode scanning and data entry could be effectively avoided. The efficiency and accuracy of the production and operation decision system and the industrial and commercial logistic system were enhanced significantly.

During the reporting period, the Group successfully entered into contracts with the tobacco companies of Liaoning Province and Anhui Province. Through the implementation of this project, the warehouse entry pallet barcode scanning system for commercial enterprises and warehouse exit pallet barcode scanning system for factories were established in 13 city level companies of Liaoning Tobacco and 6 tobacco factories and logistic centers in Anhui Province. The advanced, efficient, sophisticated, flexible, open, integrated and safe logistic management platform established for the tobacco industry in the two provinces provided a good foundation for the development of informationization. The development and implementation of a transportation system based on whole pallet barcode scanning were of great significance for the establishment of a modernized logistic system in both Liaoning Province and Anhui Province.

(2) Entry into contract with China Tobacco Chuanyu Industrial Corporation in respect of the development and implementation of an information resources management system that established standardized specifications for the IT operation in the enterprise

The development and implementation of this project will set up enterprise informationization management specifications and establish informationization files for China Tobacco Chuanyu Industrial Corporation and an information system will be employed to manage the files of the said standardized specifications, so that the aim of providing information resource services to various applications of the enterprise can be fulfilled and the enterprise can achieve application integration and data integration ultimately.

The said information resource management system comprises the following business modules:

i. sub-system of management of coding standards

ii. sub-system of management of staff's authority limits

iii. sub-system of management of information system technologies

iv. sub-system of management of application system design standards

v. sub-system of management of date sharing standards

vi. sub-system of management of network specification standards

2. *Audit Industry*

During the reporting period, the Group continued to promote phase 1 of the e-Audit project throughout the nation and carried out the implementation and deployment work of the audit application system at city level. In the first quarter of 2007, the Group completed the implementation and deployment work of OA in the provincial audit bureaus of 4 provinces including Zhejiang and the audit bureaus of 15 cities. The projects signed all employed the on-site audit implementation system and on-site audit management system developed by the Group.

During the reporting period, the Group signed contract in relation to the Nanjing land tax intranet audit project, which as the project for the study of audit data planning in the land tax intranet of audit bureaus, was the only experimental project of audit data planning for land tax intranet in the nation. Intranet audit, as the main task of phase 2 of the e-Audit project, enables the auditors to perform audit work off-site replying on the computer network and has the characteristics of highly efficient and facilitating audit work across geographical regions and on a real time basis. In addition, the special edition of the intranet audit system developed for Hongkou District in Shanghai has commenced operation. By using the special edition of the district and county intranet audit product developed by the Group, the level of audit informationization in Hongkou District has been enhanced significantly. The change from the traditional "examination and checking" model to the "tracking and monitoring" model sets a typical example and target customers for the promotion of district and county level intranet audit nationwide. Success in signing contract for and in the development and implementation of the intranet audit project indicate the Group, through in-depth exploration and sustained innovation, is able to achieve further growth in the industry in which it has leading position.

During the reporting period, the Group completed the development of the AO2008 on-site audit implementation system. AO2008 retains the off-line operation mode of AO2005 while a new on-line operation mode is added. As a standardized software product, customized AO2008 may be developed according to the differences in the business operation of different industries and developed into special editions for the financial, land tax, foreign investment and monetary sectors. Developed by the Group for the foreign investment audit centre of the audit bureaus, the special edition software for foreign investment audit, i.e. the World Bank loan edition of the foreign investment audit software is highly-regarded by the expert leaders.

Newly Developed Industries

During the reporting period, the Group continued to implement the strategy of introducing matured solutions for the industries in which it had leading position to new industries. In addition to realizing duplicate use of technologies and reduction of total development costs, the Group also expanded into new industries and enlarged its market share.

(1) Entry into contract with Xinjiang production and construction corps in respect of the development and implementation of the core application system of first phase of the e-Insurance project

As e-Insurance's first project in China to develop an information application system for the integration of province-wide labour and social security by way of massive centralization, this project of development and implementation of the core application system of first phase of the e-Insurance project for Xinjiang production and construction corps will have an overall design and localization features based on the relevant data and technological standards of the e-Insurance project for the Ministry of Labour and Social Security with reference to the actual situation of Xinjiang production and construction corps. The core application system will be designed according to the overall objectives and design concepts of the third edition core platform of the Ministry of Labour and Social Security and following the relevant technological standards and operational specifications.

This project is the first experimental project of the third edition core platform in China and its development is of significant importance to the e-Insurance project of the Ministry of Labour and Social Security, which renders this project highly worth being promoted and copied by similar projects in Xinjiang and other provinces and cities in the whole nation.

(2) Winning the tender for the e-Macro development project of the State Administration for Industry and Commerce

The e-Macro project (i.e. macroeconomic information management system) is one of the 12 main business systems among the key projects of phase 1 of e-Government in China. It is led by the National Development and Reform Commission and jointly undertaken by the Ministry of Finance, Ministry of Commerce, People's Bank of China, State-owned Assets Supervision and Administration Commission, General Administration of Customs, National Bureau of Statistics and the State Administration of Foreign Exchange. Construction of the e-Macro project facilitates the share of information resources among the macroeconomic administration bodies, and may raise their work efficiency and quality and promote coordination between management and decision-making. It also facilitates the acquisition of timely, accurate and comprehensive macroeconomic information by the Party Central Committee and the State Council. It also helps enhance public services and increase the transparency of the government.

By winning the tender for the e-Macro development project of the State Administration for Industry and Commerce, the Group has successfully expanded into another new business domain and a good foundation is laid for launching other e-Macro project items.

(3) The e-Government Xinhua News Agency office informationization system (phase 3), i.e. the project of development of application system integration and information release sub-system, has passed the project examination. After nearly 2 years' operation, users of the system comprise various departments, divisions and domestic and overseas branches of Xinhua News Agency. The system integrates the organization and personnel system, asset management system and library management/digital library system, and accomplishes application integration, data/resources integration and user/operation integration. The system is highly appraised by various departments and divisions of Xinhua News Agency.

Software Service Outsourcing Business

During the reporting period, the Group further pursued the business transformation strategy. Through a combination of organic growth and mergers and acquisitions, the software service outsourcing business grew rapidly with revenue from the outsourcing business amounting to RMB33,492,000, representing an increase of 40% over the corresponding period of last year.

Amongst the revenue in the first quarter of 2007:

RMB28,995,425 was revenue derived from European and American customers;

RMB3,826,090 was revenue derived from Japanese customers; and

RMB670,485 was revenue derived from China and other regions.

During the reporting period, the Group further strengthened its interactive partnership with strategic clients. With the provision of outsourcing services as basis, the Group commenced various types of cooperation with the strategic clients to expand into new business domains such as the establishment of a test center for mobile communication equipment and in cooperation with a multinational communications enterprise, establishing a high standard 3G shielding laboratory for professional development and test of 3G technologies. In the meantime, for the purpose of further enhancing its integrated service capability in the outsourcing service business, the Group placed greater emphasis on introducing overseas talents and internal training. The Group drew up a series of measures to increase the employees' sense of belongings to the company. Due to such measures, the employee turnover rate of the company was relatively low compared with members of the same industry.

One of the important development strategies of the Group is to expand into overseas markets. The IDC statistics indicated that in 2006, the Group ranked 5th amongst the outsourcing service enterprises in China in terms of total income from outsourcing service business, and in terms of total income from the European and American markets, the Group ranked 1st amongst the outsourcing service enterprises in China. During the reporting period, the Group further fostered business expansion in the European and American markets. For example, at the Gartner summit conference of outsourcing service business held at Texas Dallas, the U.S. in March 2007, the Group fully demonstrated its integrated service capability and set a good enterprise image before over a hundred influential IT outsourcing services purchasers from all over the world, competitors from India and over 30 similar enterprise from China.

Following more thorough implementation of its business transformation strategy, the Group will be able to expand and grow further on top of its existing scale. In particular, after completion of the acquisition of HGR, the Group will leap to become the leading enterprise in the software outsourcing service market in China.

Training Business

During the reporting period, the Group's strategic transformation in the training business won initial success:

In order to adapt to the development strategies of the market and the Group, Chinasoft International training centre, while securing steady growth in the traditional training business, attempted to transform into career training and the Chinasoft International practical training base was established. As at 31 March, 2007, the Chinasoft International practical training base formed cooperation with 48 universities. During the reporting period, there were a total of 560 students attended the training courses conducted at the base. Chinasoft Training gained brand reputation amongst universities and education and training institutes.

The training centre's traditional IT training business also had 150 new students during the reporting period.

Acquisitions and Mergers

During the reporting period, in order to adapt to the rapid development of the software outsourcing market and in response to the rapid expansion of competitors, the Group acquired Hinge Global Resource, a company selected after thorough consideration, at a consideration of not exceeding US$55 million.

(Please see the announcement of the Group made on 8 January, 2007 for details of the acquisition.)

The acquisition of HGR represents one of the important milestones of the Group's development. After completion of the acquisition, the Group will have more than 3,500 professional employees and it will become one of the most influential software service enterprises in China no matter in terms of employee size or operating income.

Through the acquisition of HGR, the Group's core competitiveness may be further strengthened and:

√ the Group's scope of business may cover more industries such as banking and financial service industry, pharmaceutical and health care industry etc.;

√ the Group's technological service capability may be more fully developed and its capability in the business of process outsourcing (BPO) may be enhanced to a greater extent and may provide its clients with comprehensive IT outsourcing services at different levels;

√ the subsidiaries of HGR in China, the U.S. and Japan with good business operations may effectively supplement the establishment of a business platform of the Group delivering global services.

Awards Received

(1) In the China IT Users' 2007 Excellent Enterprise and Product Promotion programme, the Group was awarded a total of 9 prizes including people prize, enterprise prize, product prize and solution prize. Dr Chen Yuhong, Managing Director of Chinasoft, was awarded the "2006 China Information Industry Outstanding Leader" prize.

(2) Beijing Chinasoft International Information Technology Limited was recognized as a key software enterprise within the planning and layout of the State and became one of the 31 Beijing enterprises so recognized in 2006. According to the policy of the State Council, such enterprises may be granted a series of financial and tax preferential treatments by the government.

Prospects

The overall market capacity of the outsourcing industry in China is increasing but competition in the industry is becoming more intense. The Group will continue to pursue the business transformation strategy, enhance service quality and integrated service capability, and form interactive strategic partnership with clients to maintain long-term cooperation and achieve mutual expansion.

For these purposes, the Group will consolidate its existing status in the industries in which it has leading position while further improve its industry solutions, and make innovations to lead the technological development in the industries and maintain a steady growth. For expansion into new industries, the Group will take vigorous actions to expand into the industries promptly and try to establish a dominant position in the industries. With regard to the outsourcing service business, emphasis will be placed on enhancing service quality and capability, attracting top talents and improving the plan to retain and train talents in order to enlarge the business rapidly.

Moreover, in order to secure the outcome of the acquisition of HGR, the Group will draw up well-conceived integration plans to integrate HGR in all respects including corporate culture, business operation, financial affairs, personnel affairs, clients and work process, and ensure HGR's transition to a subsidiary of the Group will be smooth.

DIRECTORS' INTERESTS IN SHARES

As at 31 March, 2007, the following Directors had interests in the underlying shares of the Company set out below as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in rule 5.46 of the GEM Listing Rules:

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

Name of Director	No. of Shares	Approximate percentage of total issued ordinary share capital of the Company
Chen Yuhong	22,967,472	3.02%
Cui Hui	20,000,000	2.64%
Wang Hui	7,017,838	0.92%
Tang Zhenming	10,207,765	1.35%

Options to subscribe for Shares

Name of Director	Exercise Price *(HK$)*	No. of share options outstanding as at 31 March, 2007	Percentage of total issued ordinary share capital of the Company	No. of underlying Shares interested in	Note
Chen Yuhong	0.58	1,200,000	0.16%	7,400,000	(1)
	0.65	5,000,000	0.66%		(2)
	0.97	1,200,000	0.16%		(3)
Cui Hui	0.65	500,000	0.07%	500,000	(2)
Duncan Chiu	0.65	1,000,000	0.13%	1,000,000	(2)
Wang Hui	0.58	1,000,000	0.13%	5,500,000	(1)
	0.65	3,500,000	0.46%		(2)
	0.97	1,000,000	0.13%		(3)
Tang Zhenming	0.58	320,000	0.04%	3,720,000	(1)
	0.65	2,600,000	0.34%		(2)
	0.97	800,000	0.11%		(3)

Notes:

(1) The above 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 were accepted on 27 August, 2003. The share options are exercisable for a period of ten years from the date of offer, subject to the following conditions:

Exercisable Period		
Commencing	**Ending**	**Number of share options exercisable**
13/08/2004	12/08/2013	25% of the total number of share options granted
13/08/2005	12/08/2013	25% of the total number of share options granted
13/08/2006	12/08/2013	25% of the total number of share options granted
13/08/2007	12/08/2013	25% of the total number of share options granted

(2) The above share options were offered on 13 May, 2004 under the Share Option Scheme and were accepted on 10 June, 2004. 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**
13/05/2004	12/05/2014	25% of the total number of share options granted
13/05/2005	12/05/2014	25% of the total number of share options granted
13/05/2006	12/05/2014	25% of the total number of share options granted
13/05/2007	12/05/2014	25% of the total number of share options granted

(3) The above share options were offered on 30 March, 2006 under the Share Option Scheme and were accepted on 27 April, 2006. 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**
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

Save as disclosed above and so far as was known to the Directors, as at 31 March, 2007 none of the Directors or chief executive of the Company had any interests or short positions in the shares, debentures or underlying shares of the Company or its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

As at 31 March, 2007, share options to subscribe for an aggregate of 78,210,000 Shares granted to certain directors and employees of the Group pursuant to the Share Option Scheme with terms on the exercise of the share options granted as set out in Notes (1), (2) and (3) in the section headed "Directors' Interests in Shares" above were outstanding.

Save as disclosed above, no option had been granted, exercised and lapsed pursuant to such Share Option Scheme for the three months ended 31 March, 2007.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the three months ended 31 March, 2007 none of the Directors was granted options to subscribe for shares of the Company and as at 31 March, 2007 none of the Directors had any rights to acquire shares in the Company.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the three months ended 31 March, 2007, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the Directors, the Directors had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the three months ended 31 March, 2007.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 31 March, 2007, the interest of the persons (not being a Director or chief executive of the Company) in the shares of the Company which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in Shares

Name	**Nature of interest**	**Approximate number of Shares** *(million)*	**Approximate percentage of total issued ordinary share capital of the Company**
China National Computer Software & Information Technology Service Corporation (Hong Kong) Limited ("CS&S (HK)") *(Note 1)*	Beneficial interest	199.01	26.23%
Chinasoft National Software and Service Company Limited ("CNSS") *(Note 1)*	Interest of controlled corporation	199.01	26.23%
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)") *(Note 2)*	Interest of persons acting in concert	199.01	26.23%
Far East Technology International Limited ("Far East Technology") *(Note 3)*	Beneficial interest	130.13	17.15%
International Finance Corporation ("IFC") *(Note 4)*	Beneficial interest	97.25	12.82%

Name	Nature of interest	Approximate number of Shares *(million)*	Approximate percentage of total issued ordinary share capital of the Company
Microsoft Corporation ("Microsoft") *(Note 4)*	Beneficial interest	97.25	12.82%
ABN AMRO Holding N.V. *(Note 5)*	Beneficial interest	45.54	6%

Notes:

1 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). 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 Technology. Mr. Duncan Chiu is a director of Far East Technology.

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

5. ABN AMRO Holding N.V. was interested in 45,540,000 shares.

Save as disclosed above, as at 31 March, 2007, 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 31 March, 2007, Dr. Cui Hui, an executive Director, was interested in approximately 1.34% of the issued share capital of CNSS. Dr. Cui Hui also served as a director of CNSS. In addition, Madam Tang Min (a non-executive Director) and Dr. Chen Yuhong (an executive Director) had been appointed as directors of CNSS since August 2000 and April 2004 respectively. 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 31 March, 2007, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

AUDIT COMMITTEE

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

The audit committee of the Company has reviewed the first quarterly results of the Group for the three months ended 31 March, 2007.

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 three months ended 31 March, 2007.

On behalf of the Board
Dr. Chen Yuhong
Managing Director

15 May, 2007, Beijing, PRC

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

Executive Directors:
Dr. CHEN Yuhong *(Managing Director)*
Dr. TANG Zhenming
Mr. WANG Hui

Non-executive Directors:
Madam Tang Min *(Chairman)*
Dr. CUI Hui
Mr. Timothy CHEN Yung Cheng
Mr. Duncan CHIU
Mr. LIU Zheng

Independent Non-executive Directors:
Mr. HE Ning
Mr. ZENG Zhijie
Dr. LEUNG Wing Yin

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