



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)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30TH SEPTEMBER 2006

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This announcement, for which the directors of Chinasoft International Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Chinasoft International Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this 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

- Accomplished a gross profit, a net profit and net profit attributable to shareholders of approximately RMB107,588,000, RMB41,007,000 and RMB39,974,000 respectively (2005: RMB73,043,000, RMB30,897,000 and RMB28,718,000) for the nine months ended 30 September, 2006, representing an increase of approximately 47.3%, 32.7% and 39.2% respectively as compared to the corresponding period in 2005.
- Achieved a gross profit margin and a net profit margin of approximately 47.6% and 18.1% respectively (2005: approximately 28.7% and 12.1% respectively) for the nine months ended 30 September, 2006, representing an increase of approximately 18.9% and 6.0% respectively as compared to the corresponding period in 2005. The growth in the profit margin indicates the Group successfully transformed its business to a higher profit margin business (software development, IT outsourcing and BPO) from a lower profit margin business (hardware business).
- Achieved a turnover of approximately RMB226,241,000 (2005: RMB254,801,000) for the nine months ended 30 September, 2006, representing a decrease of approximately 11.2% as compared to the corresponding period in 2005, which was in line with the business transformation of the Group to focus on software development, IT outsourcing and BPO and reduce the portion of hardware business.
- Basic earnings per share and diluted earnings per share of the Company were approximately RMB5.38 cents (2005: RMB4.05 cents) and RMB3.96 cents (2005: RMB3.89 cents) respectively for the nine months ended 30 September, 2006.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September, 2006.

THIRD QUARTER RESULTS

The board of directors (“Board”) of Chinasoft International Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30th September, 2006 respectively, with corresponding figures as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	<i>Notes</i>	For the three months ended 30th September		For the nine months ended 30th September	
		2006 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Turnover	2	92,452	91,255	226,241	254,801
Cost of sales		(45,587)	(65,474)	(118,653)	(181,758)
Gross profit		46,865	25,781	107,588	73,043
Other operating income		836	185	4,802	440
Distribution costs		(5,957)	(6,891)	(17,773)	(17,838)
Administrative expenses		(21,383)	(5,207)	(44,417)	(21,522)
Amortisation of intangible assets		(1,018)	(637)	(2,871)	(1,911)
Profit from operations		19,343	13,231	47,329	32,212
Finance costs		(5)	(13)	(8)	(39)
Share of result of an associate		(84)	199	1,189	763
Profit before taxation		19,254	13,417	48,510	32,936
Taxation	3	(2,756)	(722)	(7,503)	(2,039)
Profit for the period		<u>16,498</u>	<u>12,695</u>	<u>41,007</u>	<u>30,897</u>
Attributable to:					
Equity holder of the parent		15,450	10,516	39,974	28,718
Minority interests		1,048	2,179	1,033	2,179
		<u>16,498</u>	<u>12,695</u>	<u>41,007</u>	<u>30,897</u>
Dividend	4	<u>2,106</u>	–	<u>20,965</u>	<u>7,394</u>
Earnings per share					
– Basic (cents)	5	<u>2.04</u>	<u>1.44</u>	<u>5.38</u>	<u>4.05</u>
– Diluted (cents)	5	<u>1.50</u>	<u>1.38</u>	<u>3.96</u>	<u>3.89</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to shareholders

	Ordinary share capital RMB'000	Ordinary share premium RMB'000	Redeemable convertible		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	Statutory public welfare fund RMB'000	Accu- mulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
			Issuable shares RMB'000	preferred share capital RMB'000										
At 1 January, 2005	36,968	85,185	-	-	90	3,492	1,250	589	-	-	71,932	199,506	-	199,506
Profit for the year	-	-	-	-	-	-	-	-	-	-	18,202	18,202	-	18,202
New issue of shares	1,848	35,487	-	-	-	-	-	-	-	-	-	37,335	-	37,335
Shares issuable on acquisition of subsidiaries	-	-	24,420	-	-	-	-	-	-	-	-	24,420	-	24,420
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	10,692	10,692
Dividend for 2005 paid	-	-	-	-	-	-	-	-	-	-	(7,394)	(7,394)	-	(7,394)
At 30 September, 2005	<u>38,816</u>	<u>120,672</u>	<u>24,420</u>	<u>-</u>	<u>90</u>	<u>3,492</u>	<u>1,250</u>	<u>589</u>	<u>-</u>	<u>-</u>	<u>82,740</u>	<u>272,069</u>	<u>10,692</u>	<u>282,761</u>
At 1 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
Exchange adjustment	(1,099)	(3,415)	(235)	-	-	-	-	-	-	-	177	(4,572)	-	(4,572)
New issue of redeemable convertible preferred shares	-	-	-	10,017	150,251	-	-	-	-	-	-	160,268	-	160,268
New issue of ordinary shares	1,197	22,988	(24,185)	-	-	-	-	-	-	-	-	-	-	-
Expenses incurred in connection of issue of shares	-	-	-	-	(2,261)	-	-	-	-	-	-	(2,261)	-	(2,261)
Recognition of equity-settled share based payments	-	-	-	-	-	3,866	-	-	-	-	-	3,866	-	3,866
Acquisition of additional interest of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(13,487)	(13,487)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	2,332	2,332
Dividend for 2005 paid	-	-	-	-	-	-	-	-	-	-	(20,965)	(20,965)	-	(20,965)
Profit for the period	-	-	-	-	-	-	-	-	-	-	39,974	39,974	1,033	41,007
At 30 September, 2006	<u>38,914</u>	<u>140,245</u>	<u>-</u>	<u>10,017</u>	<u>147,990</u>	<u>(2,047)</u>	<u>10,964</u>	<u>1,573</u>	<u>728</u>	<u>63</u>	<u>122,834</u>	<u>471,313</u>	<u>3,910</u>	<u>475,223</u>

Notes:

1. BASIS OF PRESENTATION

The financial statements of the Group have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

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 the provision of solutions services and IT outsourcing services where turnover represents the value of work done during the year, including amounts yet to be invoiced.

	For the three months ended 30th September		For the nine months ended 30th September	
	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Solutions	46,266	67,450	120,736	203,595
IT outsourcing	41,261	14,640	88,277	37,103
IT consulting and training services	2,855	1,795	8,259	5,231
Standalone software product	2,070	7,370	8,969	8,872
	<u>92,452</u>	<u>91,255</u>	<u>226,241</u>	<u>254,801</u>

3. TAXATION

Pursuant to an approval document issued by the State Bureau of Beijing Haidian District dated 21 November, 2000, Beijing Chinasoft International Information Technology Limited (“Beijing Chinasoft”), a major operating subsidiary of the Group, had been designated as an advanced technology enterprise and is entitled to the three year’s exemption from income tax followed by three years of 50% tax reduction commencing from the first-profit-making year with effect from 2000.

Beijing Chinasoft is subject to the income tax computed at the rate of 7.5% for the three years ending 31st December, 2005 and at the rate of 15% on its taxable profit thereafter.

Pursuant to an approval document issued by the Guangzhou Science and Technology Bureau dated 31 March, 2004, Chinasoft International (Guangzhou) Information Technology Limited (“Chinasoft Guangzhou”), a subsidiary of the Group, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, pursuant to another approval document issued by the Guangzhou National Tax Bureau dated 2 June, 2004, Chinasoft Guangzhou was entitled to a 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 Beijing Science and Technology Commission dated 25 June, 2004, Chinasoft Resources Information Technology Services Limited (“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 three year’s exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2004.

Pursuant to an approval document issued by the State Bureau of Shenzhen Nanshan District dated 1 March, 2005, Shenzhen Chinasoft Resources Information Technology Services Limited (“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 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 arised in Hong Kong during the relevant period.

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

4. DIVIDEND

On 30 March, 2006, the Company declared final dividends amounting to HK\$18,309,311 (equivalent to RMB18,858,590) for the year ended 31 December, 2005 to its shareholders. The dividends were distributed to the Company’s shareholders on 25 May, 2006. A preference shares dividends of USD262,192 (equivalent to RMB2,106,449) were payable for the period ended 30 September, 2006.

5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and the nine months ended 30 September, 2006 was based on the net profit attributable to equity holder of approximately RMB15,450,000 and approximately RMB39,974,000 respectively (three months and nine months ended 30 September, 2005: net profit attributable to equity holder of approximately RMB10,516,000 and RMB28,718,000 respectively) divided by the weighted average number of shares issued during the three months ended 30 September, 2006 of 755,620,755 shares (2005: 732,372,453 shares) and the nine months ended 30 September, 2006 of 743,272,756 shares (2005: 709,124,151 shares) as if the sub-division of the Company’s shares as described in Appendix VI of the prospectus of the Company dated 10 June, 2003 (“Prospectus”) had taken place at the beginning of the relevant periods.

The calculation of diluted earnings per share for the three months and the nine months ended 30 September, 2006 was based on the net profit attributable to equity holder of RMB15,450,000 for the three months ended 30 September, 2006 and RMB39,974,000 for the nine months ended 30 September, 2006, respectively divided by the weighted average number of shares used in calculation of the diluted earnings per share for the three months and the nine months ended 30 September, 2006 of 1,028,330,755 shares (2005: 764,242,453 shares) and 1,009,382,756 shares (2005: 739,154,151 shares) respectively.

INTERIM DIVIDEND

The directors of the Company (“Directors”) do not recommend the payment of an interim dividend for the nine months ended 30th September, 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results

For the nine months ended 30 September, 2006, the Company reported an unaudited turnover of approximately RMB226,241,000 (2005: RMB254,801,000), representing a decrease of approximately 11.2% as compared with the corresponding period last year. The decrease in turnover was attributable to the business transformation of the Group as to focus on software development, IT outsourcing and BPO and reduce the portion of hardware business.

For the nine months ended 30 September, 2006, the Company recorded an unaudited gross profit, net profit and net profit attributable to shareholders of RMB107,588,000, RMB41,007,000 and RMB39,974,000 respectively (2005: RMB73,043,000, RMB30,897,000 and RMB28,718,000), representing an increase of 47.3%, 32.7% and 39.2% as compared with the corresponding period last year. Basic earning per share was approximately RMB0.0538 (2005: RMB0.0405). Diluted earnings per share was approximately RMB0.0396 (2005: RMB0.0389).

The gross profit margin and the net profit margin of the Group for the nine months ended 30 September, 2006 was approximately 47.6% and 18.1% respectively (2005: approximately 28.7% and 12.1% respectively) representing an increase of approximately 18.9% and 6.0% respectively as compared to the corresponding period in 2005. The remarkable increase in both gross profit margin and net profit margin of the Group was attributable to the business transformation of the Group as to focus on software development and whole-range IT services provider.

In respect of professional talent, the Group employs a total of 1,952 staff, representing a significant addition of 276 staff compared to 1,676 staff in the previous quarter. The increase in headcount was mainly due to the rising number of staff in outsourcing. The Group currently has 1,353 staff being engaged in outsourcing business.

For the three months ended 30 September, in respect of the business itself, solutions and IT outsourcing business, two of the Group's main businesses, accounted for 50.0% and 44.6% of the turnover respectively, a drop of 23.9% and an increase of 28.6% respectively compared to 73.9% and 16.0% of the same period last year. This indicates that outsourcing business has increasingly become one of the Group's key sources of profit.

The outstanding achievement of the Group was primarily attributable to the ability of the Group to maintain good cooperative relationships with customers and continually increase its share from customers. Tobacco and audit industries both generate long-term and stable businesses for the Group. Moreover, the continual increase in profits also showed that the strategy of transforming from pure software business of the Group to include outsourcing was proved to be a wise move. Meanwhile, the participation in outsourcing business has greatly increased the Group's revenue. The two acquired outsourcing companies, CS&S Cyber Resources Software Technology (Tianjin) Co. Ltd. and Chinasoft Resources Beijing, currently subsidiaries of the Group, have started to contribute to the Group's profits.

The ratio of distribution costs to turnover was 7.9%, representing an increase of 0.9% as compared to 7.0% of the corresponding period last year since the ratio of selling expenses of software development is comparatively higher but with a higher gross profit margin. The percentage of administrative expenses to turnover was 19.6% representing an increase of 11.2% as compared to 8.4% of the corresponding period last year. With the increasing expansion in outsourcing business from average head count of 520 staff in financial year 2005 to average head count of 1,353 staff in nine months ended 30th September 2006 and an expansion of the size of the Group's operations, the increase in administrative expenses due to the increase in IT outsourcing head count and technical support staff and increase in amortisation and depreciation are reasonable. The increase is also partly attributed to the legal and consultancy fees related to acquisitions.

BUSINESS REVIEW

Started to promote Phase 3 of the “cigarette production and operation decision making system of the tobacco industry”

Undertook to develop the “tobacco business management and information system” for Tibet Autonomous Region Tobacco Monopoly Administration (Company)

Undertook to develop the “tobacco sales management system of the decision-making management system” for tobacco production and operation of 紅塔集團 (Pagoda Group)

Won the Tender of Yunnan Province Tobacco Monopoly Administration (Company) Data Centre System

Won the Tender of Liaoning Province Tobacco Industry Applications Integrated Service Project

Continued to promote Phase 1 of “e-Audit” project” (金審工程) across the country

Entrusted to develop Version AO2007

Incorporated “中軟海晟公司” in Fujian Province

Champion Industry:

1. Tobacco Industry:

- (1) Started to promote Phase 3 of the “cigarette production and operation decision system of the tobacco industry”*

Subsequent to the designation of the Group to develop Phase 3 of the “cigarette production and operation decision-making system of the tobacco industry” (i.e. “bar-coding cigarettes by carton”) during the previous reporting period, the Group has started to promote the system across the country

during this reporting period. Currently, testing centres have been set up in six provinces and cities and full-scale successive work will be rolled out within the year. The project comprises:

- Tracking the logistics of finished cigarettes by cartons
- Call centre system

Currently, the “cigarette production and operation decision-making system of the tobacco industry” developed by the Group digitally traces the logistics of finished cigarettes and passes through the management cycle of boxes of cigarettes (one box = 10,000 cigarettes) that comprises the processes of industrial manufacturing, industrial inventory, industrial ex-warehouse, commercial warehousing, etc. The State Tobacco Monopoly Bureau requires that the commercial selling process can further trace cigarettes by carton (one carton = 200 cigarettes) to make the logistic sales and inventory data more complete and accordingly realize the tracking management of the entire process of the logistics of finished cigarettes. Once completed, the volume of data that can be captured will increase by 50 times of the volume of Phase 2.

The call centre system is already widely used in the tobacco industry. However, it is necessary to unify the business rules and technical standards and rules of call centres, enhance the application levels of call centres and capture the demand and order information of retail end-users’ accurately and completely.

Phase 3 of the system will realize the following functions after its promotion across the country:

- a) Complete the tracking of logistic information of finished cigarettes in the decision-making system

Through the tracking of the logistics of every carton of cigarettes, the cartons of cigarettes will be affixed with identification codes. As such, the sales of tobacco throughout the country can be reflected more accurately. The system then provides effective measures for controlling the internal management of the industry and strengthening the management of monopoly.

- b) Establish the rules and technical standards for call centres of enterprises in the industry

Formulate standard conventions for call centre systems, which include business flows and function standards, basic data dictionary, business benchmark system, data exchange standards, technical environment standards, etc. Through the effective implementation of the standard conventions for call centres, it can be ensured that the call centre business models of the business enterprises throughout the country can be unified and the actual market demand and operation information can be obtained.

- c) Collect the business data of call centre orders of business enterprises in the industry

Provide the functions of data collection and exchange by utilizing the industry basic information platform. Through the increase of data collection indicators, it is expected to collect the integrated data of relevant information in respect to customer demand and orders, as well as information related to inventory of physical cigarettes and cigarette sales. Such information will be transmitted via the existing communication channels up to the State Tobacco Monopoly Bureau.

- d) Data presentation and analysis at state bureau

At the state data centre, the data indicators collected by this project will be processed and integrated with the existing data held by the state data centre. This enables data presentations and applications such as integrated analysis, comparison analysis, priority analysis, coverage analysis, share analysis, segment versus trend analysis, as well as tracking analysis of complete logistic information and the presentation and application of such information.

As actual demand is concerned, the Group will divide the system design into four levels:

- business level
- platform level
- decision-making and management level
- presentation level

- (2) *Undertook to develop the “tobacco business management and information system” for Tibet Autonomous Region Tobacco Monopoly Administration (Company)*

A complete sales network management system will be established for the tobacco companies in Tibet Autonomous Region, which include the following modules:

- monopoly management provincial bureau version
- monopoly management city bureau version
- sales and marketing management system provincial company version
- sales and marketing management system branch company version
- call centre management system
- customer relationship management system

After the development of the system is completed, the Group will carry out the deployment of the system in the whole Autonomous Region.

(3) *Undertook to develop the “tobacco sales management system of the decision-making management system” for tobacco production and operation of 紅塔集團 (Pagoda Group)*

Since the Group already collected comprehensive data for production and sales of the tobacco industry when it developed the “tobacco sales management system of the decision-making management system” for the tobacco industry, tobacco groups have enjoyed various benefits from which and the demand for the Group’s data analysis in support of production and operation decision-making is ever increasing.

The Group will help 紅塔集團 (Pagoda Group) to develop a system for data analysis on purchase, sale and inventory information, which will be incorporated into various business branches of the Pagoda Group across the country, so as to meet the demand for decision-making in sales management. Such system will comprise the following modules:

- planning and objective sub-system
- selling and demand sub-system
- demand forecast sub-system
- contract approval and control sub-system
- contract execution and control sub-system
- enquiry and statement centre
- chart analysis centre
- industry and commerce interactive sub-system

(4) *Won the Tender of Yunnan Province Tobacco Monopoly Administration (Company) Data Centre System*

During the reporting period, the Group won the tender of Yunnan Province Tobacco Monopoly Administration (Company) Data Centre System.

The data centre for the tobacco industry comprises three levels, which are the state bureau, provincial bureau and industrial companies and basic-level industrial and commercial enterprises, and eventually converges on the top. Under the unified administration of the data centres of the state bureau and the headquarters, the data will be integrated so that the industry information can flow upwards and downwards. Subject to certain rules and authorizations, the information can be accessed within the industry whenever needed through the control of authorization. Industry information can therefore be exchanged horizontally and vertically.

All provincial bureaus and industrial companies begin with the integration of data by combining the source units in accordance with the requirements for merging and integration. Pursuant to the relevant technical standards formulated by the state bureau, the data centre of the source unit will be constructed and optimized, which means the needs of the source unit as well as that of the industry data centre of the state bureau will be met.

(5) *Won the Tender of Liaoning Province Tobacco Industry Applications Integrated Service Project*

This project will construct and structure Liaoning Tobacco Applications Integrated System Platform and establish the rules and standards for applications integration. Under a unified system structure, the application systems of the province and city levels will be integrated in terms of interface, data and business and ultimately realize the organic integration and standards unification of the Liaoning Tobacco Application System.

2. *Audit Industry:*

(1) *Continued to promote Phase 1 of “e-Audit” project” (金審工程) across the country*

During the reporting period, the Group entered into promotion agreements with a total of nine audit bureaus which are from Henan Province, Hainan Province, Shanghai City, Chongqin City, Shenyang City of Liaoning Province, Kaifang City of Henan Province, Shaoxing City of Zhejiang Province, Huzhou City of Zhejiang Province and Nanchang City of Jiangxi Province.

At the same time, the Group has entered into a provincial promotion agreement with the Audit Bureau of Anhui Province. Phase 1 of the establishment involves the provincial government and eight cities, while the forthcoming two phases will cover additional nine cities. The project is expected to complete within one and a half years.

(2) *Entrusted to develop Version AO2007*

The Group has been entrusted by the State Audit Bureau to upgrade the software originally developed by the Group. The details of such upgrade include:

- Upgrade of the database
- Encryption of information transmission
- Upgrade from single PC version to network version
- Addition of more than 30 audit functions

3. *Newly established Branch Company:*

(1) *Incorporation of “中軟海晟” in Fujian Province*

The Group jointly established a joint venture named “福建中軟海晟信息技術有限公司(“中軟海晟”) with 福建海晟集團有限公司(“中軟海晟”). 中軟海晟 is owned as to 51% by the Group and the remaining 49% by 福建海晟.

福建海晟 is a subsidiary of Fujian Tobacco Company, which is a well-known enterprise committing to provide services to the tobacco, information technology and property industries and is relatively strong in technology and resources. Its wholly subsidiary, 廈門海晟信息技術有限公司 (“海晟信息”) is principally engaged in the information building of the tobacco industry and equipped with a comprehensive technology development and service system. It has solely developed the industry-wide tobacco basic management software, which is widely used in certain provinces and cities of the country. Since then the Group has possessed complete supply chain solutions including agriculture (tobacco), industrial production and commercial sales.

The joint venture will be mainly responsible for the research and sale of the core products that are related to the tobacco business system e-commerce overall solutions.

The two parties to the investment complement each other with their own advantages through 中軟海晟 and continuously increase their market share in the market of tobacco industry business system.

This is another close cooperation with the tobacco industry following the Group’s investment in the equity of Beijing China Tobacco Information Technology Company Limited (北京中煙信息技術有限公司) and the establishment of Wuhan Chinasoft International Information Technology Company Limited (武漢中軟國際信息技術有限公司) with Hubei Tobacco Company (湖北省煙草公司) in 2005. The relationship between the Group and its customers has successfully developed from single direction solution sales and interactive project planning in the past to “strong-plus-strong” joint forces of today. In the future, the Group will actively strengthen its leading position in the information technology solutions market of the champion tobacco industry by focusing on in-depth market penetration.

PROSPECTS

In champion industry:

1. *In Tobacco Industry:*

- (1) Continue to promote Phase 3 of the “cigarette production and operation decision making system of the tobacco industry”

Phase 3 of the “cigarette production and operation decision making system of the tobacco industry” (i.e. the project of bar-coding cigarettes by carton) is a project in equivalent size of those of Phase 1 and 2. It is expected to roll out eventually in a model identical to the promotion of Phase 1 and 2. The project involves 350 commercial companies, 318 warehouses, the commercial companies from 27 provinces. The Group plans to complete all promotion work by the end of the forthcoming year. By then, the project will generate considerable profits for the Group.

- (2) Participate in the tender of Hunan Data Centre Project. Following the formulation of the data centre model, the Group have developed new solution for the tobacco industry and started to promote it throughout the country.
- (3) There is growing demand for sales network management system in the tobacco industry. As the industry has increasingly employed information technology in sales management. As such, the Group has yet another chance to tailor-make new systems for the industry. The Group has planned to participate in the tenders of “Anhui Tobacco Telephone Booking Management Information System” and “Liaoning Province Tobacco Industry Data Centre”.

2. *In Audit Industry:*

The audit industry is one of the Group’s champion industries. After the successful promotion of Phase 1 of “e-Audit” project”, the Group has successfully developed inter-region and inter-county model of on-site audit implementation system, which will contribute to continual profit for the Group in the future. Meanwhile, the Group is actively researching, developing and optimizing interconnected audit solutions and its related products, so as to prepare for the promotion of Phase 2 of “e-Audit project”.

In Newly-developed Industry:

1. *Tender for Phase 1 of Jin Zhi (金質) Project*

During the reporting period, the Group tendered for the work of Phase 1 of Jin Zhi Project, which was an electronic monitoring system for the product quality of domestic manufacturing enterprises. The system is an integrated information system comprised of business application, information management, data collection and analysis. Specifically, it included data centre construction, interface construction, data collection and conversion, construction of business application system and construction of ancillary business system/module. Application system business covers all business requirements of quality monitoring. The Group is confident in winning the bid.

In Outsourcing:

The Group will continue the maintenance and development of its strategy. The Group plans to expand its cooperation with Microsoft. Subject to the approval at the Special General Meeting, the Group will enter into a global service master contract with Microsoft for a tenor of five years. The Group also plans to bid for Microsoft’s new project(s).

In Merger and Acquisition:

As the Group has completed a series of small to medium sized acquisitions, it is now seeking to acquire software service and outsourcing enterprises in medium to large size. Acquisition will aim at new industries that the Group plans to develop and also target to support the Group’s strategic customers.

DIRECTORS' INTERESTS IN SHARES

As at 30 September, 2006, 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	3.04%
Cui Hui	20,000,000	2.65%
Wang Hui	7,017,838	0.93%
Tang Zhen Ming	10,207,765	1.35%

Options to subscribe for Shares

Name of Director	Exercise Price (HK\$)	No. of share options outstanding as at 30 September 2006	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	0.48%		(2)
	0.97	1,000,000	0.13%		(3)
Tang Zhen Ming	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 13th August 2003 under the share option scheme of the Company adopted on 2nd June 2003 (the “Share Option Scheme”) and were accepted on 27th 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 30 September, 2006 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 30 September, 2006, 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 nine months ended 30 September, 2006.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the nine months ended 30 September, 2006 none of the Directors was granted options to subscribe for shares of the Company and as at 30 September, 2006 none of the Directors had any rights to acquire shares in the Company.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the nine months ended 30 September, 2006, 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 nine months ended 30 September, 2006.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 30 September, 2006, 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	26.34%
Chinasoft National Software and Service Company Limited (“CNSS”) (Note 1)	Interest of controlled corporation	199.01	26.34%
Chinasoft International (Hong Kong) Limited (“Chinasoft (HK)”) (Note 2)	Interest of persons acting in concert	199.01	26.34%
Far East Technology International Limited (“Far East Technology”) (Note 3)	Beneficial interest	170.13	22.51%
International Finance Corporation (“IFC”) (Note 4)	Beneficial interest	97.25	12.87%
Microsoft Corporation (“Microsoft”) (Note 4)	Beneficial interest	97.25	12.87%

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).
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.

Save as disclosed above, as at 30 September, 2006, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

COMPETING INTERESTS

As at 30 September, 2006, 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) had been appointed as directors of CNSS since August 2000. 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 September, 2006, 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 Interim results of the Group for the nine months ended 30 September, 2006.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the nine months ended 30 September, 2006.

On behalf of the Board

Dr. Chen Yuhong

Managing Director

3rd November, 2006, Beijing

Executive Directors:

Dr. Chen Yuhong (*Managing Director*)

Dr. Tang Zhenming

Mr. Wang Hui

Non-executive Directors:

Madam Tang Min (*Chairman*)

Dr. Cui Hui

Mr. Chen Yung Cheng Timothy

Mr. Duncan Chiu

Mr. Liu Zheng

Independent Non-executive Directors:

Mr. He Ning

Mr. Zeng Zhijie

Dr. Leung Wing Yin Patrick

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