

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8216)



**CHINASOFT
INTERNATIONAL LTD.**

2007
Third Quarterly Report

CS&S
中軟國際

*for identification purpose only

HIGHLIGHTS

- Achieved a turnover of approximately RMB536,248,000 (2006: RMB226,241,000) for the nine months ended 30 September, 2007, representing an increase of approximately 137.0% as compared to the corresponding period in 2006. The increase in turnover was attributable to a drastic increase in total solution to approximately RMB365,109,000 from last year of approximately RMB120,736,000, representing an increase of 202.4% and a substantial increase in IT outsourcing to approximately RMB146,674,000 from last year of approximately RMB88,277,000, representing an increase of 66.2% and finally an increase in consulting and training to approximately RMB12,753,000 from last year of approximately RMB8,259,000, representing an increase of 54.4%.
- To be consistent with prior year's basis, if we take out the impact of HKAS39 of having RMB6,213,000 redeemable convertible preferred shares dividend taken up as the finance costs and RMB28,463,000 as the gain arising from change in fair value of redeemable convertible preferred shares in the unaudited income statement, the restated net profit should be approximately RMB60,794,000 (2006: RMB41,007,000), representing an increase of 48.3%. If we have taken into account of the redeemable convertible preferred shares, a gross profit and a net profit of approximately RMB184,931,000 and RMB83,044,000 have been accomplished respectively (2006: RMB107,588,000 and RMB41,007,000) for the nine months ended 30 September, 2007, representing an increase of approximately 71.9% and 102.5% respectively as compared to the corresponding period in 2006.
- The great fluctuation of having RMB28,463,000 gain arising from change in fair value of redeemable convertible preferred shares for the third quarter versus of having a severe loss of RMB18,111,000 in the interim result is due to the share price of 8216 closed at HK\$1.58 as at 30 September, 2007 versus HK\$1.94 as at 30 June 2007.

- Basic earnings per share and diluted earnings per share of the Company were approximately RMB9.90 cents (2006: RMB5.38 cents) and RMB8.56 cents (2006: RMB3.96 cents) respectively for the nine months ended 30 September, 2007.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September, 2007. No closure for the Register of Members of the Company.

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, 2007 respectively, with corresponding figures as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	Notes	For the three months ended 30th September		For the nine months ended 30th September	
		2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Turnover	2	209,484	92,452	536,248	226,241
Cost of sales		(140,586)	(45,587)	(351,317)	(118,653)
Gross profit		68,898	46,865	184,931	107,588
Other operating income		2,373	836	8,924	4,802
Gain arising from change in fair value of redeemable convertible preferred shares		46,574	–	28,463	–
Distribution costs		(9,248)	(5,957)	(24,223)	(17,773)
Administrative expenses		(32,852)	(21,383)	(92,392)	(44,417)
Amortisation of intangible assets		(2,980)	(1,018)	(8,946)	(2,871)
Profit from operations		72,765	19,343	96,757	47,329
Finance costs		–	(5)	–	(8)
Redeemable convertible preferred shares dividend		(1,958)	–	(6,213)	–
Share of result of associates		859	(84)	2,378	1,189
Profit before taxation		71,666	19,254	92,922	48,510
Taxation	3	(3,448)	(2,756)	(9,878)	(7,503)
Profit for the period		68,218	16,498	83,044	41,007
Attributable to:					
Equity holder of the parent		66,296	15,450	77,852	39,974
Minority interests		1,922	1,048	5,192	1,033
		68,218	16,498	83,044	41,007
Dividend	4	797	2,106	797	20,965
Earnings per share					
– Basic (cents)	5	8.18	2.04	9.90	5.38
– Diluted (cents)	5	7.17	1.50	8.56	3.96

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders												
	Ordinary share capital	Ordinary share premium	Issuable shares	Translation reserve	Share options reserve	General reserve fund	Statutory enterprise 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 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 ordinary shares	1,197	22,988	(24,185)	-	-	-	-	-	-	-	-	-	-
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	38,914	140,245	-	(2,047)	10,964	1,573	728	63	32	122,834	313,306	3,910	317,216
At 1st January, 2007	40,184	128,899	-	(6,942)	11,243	9,714	8,868	341	-	20,528	212,835	20,820	233,655
Exchange differences arising from translation of overseas operations and net gain recognised directly in equity	(2,243)	(7,723)	-	8,736	(400)	-	-	-	-	-	(1,630)	-	(1,630)
New issue of shares	11,155	304,481	-	-	(2,645)	-	-	-	-	-	312,991	-	312,991
Expenses incurred in connection to new issue of share	-	(114)	-	-	-	-	-	-	-	-	(114)	-	(114)
Recognition of equity-settled share based payments	-	-	-	-	3,564	-	-	-	-	-	3,564	-	3,564
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	3,042	3,042
Dividend paid for 2006	-	-	-	-	-	-	-	-	-	(797)	(797)	-	(797)
Net profit for the period	-	-	-	-	-	-	-	-	-	77,852	77,852	5,192	83,044
At 30 September, 2007	49,096	425,543	-	1,794	11,762	9,714	8,868	341	-	97,583	604,701	29,054	633,755

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 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	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Solutions	135,334	46,266	365,109	120,736
IT outsourcing	63,402	41,261	146,674	88,277
IT consulting and training services	4,849	2,855	12,753	8,259
Standalone software product	5,899	2,070	11,712	8,969
	<u>209,484</u>	<u>92,452</u>	<u>536,248</u>	<u>226,241</u>

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 profitmaking 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. DIVIDEND

On 30 March 2007, the Company declared final dividend amounting to HK\$797,267 for the year ended 31 December, 2006 to its shareholders. The amount was paid to its shareholders on 8 June 2007.

5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and the nine months ended 30 September, 2007 was based on the net profit attributable to equity holder of approximately RMB66,296,000 and approximately RMB77,852,000 respectively (three months and nine months ended 30 September, 2006: net profit attributable to equity holder of approximately RMB15,450,000 and RMB39,974,000 respectively) divided by the weighted average number of shares issued during the three months ended 30 September, 2007 of 810,823,802 shares (2006: 755,620,755 shares) and the nine months ended 30 September, 2007 of 786,476,580 shares (2006: 743,272,756 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, 2007 was based on the net profit attributable to equity holder of RMB66,296,000 for the three months ended 30 September, 2007 and RMB77,852,000 for the nine months ended 30 September, 2007, 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, 2007 of 924,487,911 shares (2006: 1,028,330,755 shares) and 909,844,582 shares (2006: 1,009,382,756 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, 2007 (2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the nine months ended 30 September 2007, the Company reported an unaudited turnover of approximately RMB536,248,000 (2006: RMB226,241,000), representing an increase of approximately 137.0% as compared with the corresponding period last year. The increase in turnover was attributable to a drastic increase in total solution to approximately RMB365,109,000 from last year of approximately RMB120,736,000, representing an increase of 202.4% and substantial increase in IT outsourcing to approximately RMB146,674,000 from last year of approximately RMB88,277,000, representing an increase of 66.2% and finally an increase in consulting and training to approximately RMB12,753,000 from last year of approximately RMB8,259,000, representing an increase of 54.4%.

For the nine months ended 30 September 2007, the Company recorded an unaudited net profit attributable to Shareholders of RMB77,852,000 (2006: RMB39,974,000), representing an increase of 94.8% as compared with the corresponding period last year. The above unaudited net profit attributable to Shareholders of RMB77,852,000 have been taken into consideration of expensing the redeemable convertible preferred shares dividend of RMB6,213,000 as a finance cost and absorbing the gain arising from change in fair value of redeemable convertible preferred shares of RMB28,463,000 in the unaudited income statement which is affecting the earnings per share. The above accounting treatment is in line with the auditor's 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 RMB6,213,000 and subtracting the gain arising from change in fair value of redeemable convertible preferred shares of RMB28,463,000 due to the accounting treatment of HKAS39 to the unaudited net profit attributable to Shareholders of RMB77,852,000. Then the adjusted unaudited net profit attributable to Shareholder should be RMB55,602,000 under the same basis with last year (2006: RMB39,974,000), representing an increase of 39.1%.

For the nine months ended 30 September 2007, the Company accomplished a gross profit and a net profit of approximately RMB184,931,000 and RMB83,044,000 respectively (2006: RMB107,588,000 and RMB41,007,000) for the nine months ended 30 September 2007, representing an increase of approximately 71.9% and 102.5% 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 RMB6,213,000 redeemable convertible preferred shares dividend taken up as a finance cost and RMB28,463,000 of the gain arising from change in fair value of redeemable convertible preferred shares in the unaudited income statement, the restated net profit should be approximately RMB60,794,000 (2006: RMB41,007,000), representing an increase of 48.3% instead of an increase of 102.5% just mentioned.

Due to the higher selling expenses of software development and high gross profit margin, the ratio of distribution costs to turnover was 4.5% (2006: approximately 7.6%) representing a decrease of 3.1% as compared to the corresponding period in 2006. The ratio of administrative expenses to turnover was 17.2% (2006: approximately 19.6%) representing a decrease of 2.4% as compared to the corresponding period last year. With an expansion of the size and scale of the Group's operations into new strategic vertical industries and new strategic clients, the increase in administrative expenses due to the increase in technical support staff division, number of employees, new offices and increase in amortization and depreciation are reasonable.

BUSINESS REVIEW

During the reporting period, the Group obtained satisfactory performance in various principal businesses. The overall business revenue reached RMB209 million, of which the revenue of services business was RMB142 million, representing an increase of 127% and 85.3% respectively as compared to the corresponding period of 2006. The overall net profits of the Group amounted to RMB68.22 million, representing an increase of 313% as compared to the corresponding period of 2006.

For the cumulative results of the first three quarters, the Group's overall revenue was RMB536 million, of which the revenue of services business was RMB376 million, representing an increase of 137% and 106% respectively as compared to the corresponding period of 2006; the net profit was RMB83.04 million, representing an increase of 103% as compared to the corresponding period of 2006.

In order to meet the rapid growth of the business, the Group accelerated its pace of training and professional personnel recruitment, as of 30 September 2007, the total number of employees of the Group reached 4,382, representing a net growth of 2,060 as compared to the beginning of the year, the net growth rate was 89%; of which the number of technical staff was 3,610, representing a percentage share of 82.4%.

Consulting and solution business

During the three quarters of 2007, the revenue of services business of the Group's consulting and solution business reached RMB68.83 million, the business structure by sector is as follows:

Sector	Q3		Q1-Q3	
	Revenue RMB'000	%	Revenue RMB'000	%
Banking and financial services sector	13,940	20.3%	13,940	8.9%
Government and public services sector	21,751	31.6%	50,481	32.5%
Fast moving consumer goods sector	33,143	48.1%	91,132	58.6%
Total	68,834	100.0%	155,553	100.0%

1. Banking and financial services sector

In the banking and financial services sector, the clientele that the Group serves includes China UnionPay, various headquarters of joint stock commercial banks, commercial banks at city level, postal banks and foreign financial institutions in the Mainland etc, the business scope includes the payment domain, exchange domain and the development and application of various card-based businesses. Among them, the Group has core competitive advantage in the bank card business and peripheral applications, internet payment, risk control and inter-bank linkage. For instance, "China UnionPay Information Treatment Centre Exchange System" developed and completed by the Group with a major goal of "uniform exchange, centralized settlement" to set up a uniform platform for inter-bank, inter-region, cross border consumption by bank cards, cash withdrawal and settlement. In-depth development has been made on the basis of this project, the sharing of an intranet of over 100 banks (including some foreign banks), financial institutions and their subsidiaries with UnionPay has been achieved, the information exchange of inter-bank bank card transactions has been completed. The Group is the only integrated system service provider approved by the State General Post Office, which is capable of setting up provincial processing centre for Postal Savings Bank and setting up provincial exchange centre for project tender. The projects subcontracted include Nationwide Postal Remittance Settlement Macro Centralized System (全国邮政汇兑结算大集中系统) and the Internet System for Postal e-payment (邮政电子支付网系统).

During the reporting period, the Group was successfully awarded the tenders of Pudong Development Bank credit card debt collection reminder system, anti-money laundering and reporting system of a certain foreign bank and several fund management companies, as well as projects such as the development of an integrated postal services platform for Liaoning and Shanxi etc.

2. *Government and public services sector*

During the reporting period, the government agencies, supervisory bodies and services projects that the Group has signed up services contract are as follows:

Audit department and e-Audit project:

During the reporting period, the Group continued to promote the application of the two systems of phase 1 of the e-Audit project in local and city levels across China as well as its implementation and deployment work. The advanced technology, stability, functionality and scalability of that system as well as our Group's good services were highly recognized by audit system clients.

As of 30 September 2007, over 70,000 packages of phase 1 of the e-Audit project On-site audit implementation system (AO) were issued to all audit departments in China. Based on the fact that there are altogether 80,000 audit personnel in the audit authorities in China (this includes administrative backup staff), the On-site Audit Implementation System (AO) has basically reached a situation where all audit personnel has one system, and this has become a necessary tool for audit personnel in China.

During the reporting period, the Group continued to promote the Audit Management System (OA) deployment on a nationwide scale, and reached OA deployment agreements with audit authorities in 9 provinces or cities such as Qing Hai, Nan Ning of Guangxi, Cheng De of Hebei, of which Hong Kou District OA and Qing Dao OA systems were the second year services contracts already. At the same time, the Group further developed and successfully signed up deployment agreements covering the whole province with the two Audit Departments of Henan and Yunan. As such, the OA deployment of the Group basically achieved an intensive coverage on a nationwide scale, of which 33 out of the total 37 provinces in China, with a coverage rate of 89.2%, 202 out of 316 cities, with a coverage rate of 63.9%, 1415 out of 2757 counties, with a coverage rate of 51.3%.

State Administration of Foreign Exchange and e-Macro Project

The e-Macro Project is one of the key focus of e-Government of China. As an integrated large scale e-Government application system, the e-Macro Project involves several macroeconomic management agencies under the State Council, including National Development and Reform Commission, Ministry of Finance, People's Bank of China, State-owned Assets Supervision and Administration Commission and State Administration of Foreign Exchange etc.

State Administration of Foreign Exchange e-Macro Project mainly contains the following:

- 1) Data consolidation and exchange system.
- 2) Internet filing system for International Balance of Payment.
- 3) Statistical analysis system.
- 4) Decision making support system.
- 5) Application support platform.
- 6) Standardized codification system.
- 7) Functional improvement and enhancement of International Balance of Payment statistics and monitoring system.

With the development and implementation of this project, given the existing operational system of the State Administration of Foreign Exchange, following the uniform standard and standardization, we can set up the International Balance of Payment database and International Balance of Payment common database for sharing, consolidate the information resources of the State Administration of Foreign Exchange, provide information sharing in the International Balance of Payment domain catered for macroeconomic management information system, and form an internal integrated non-on-site supervisory system for the State Administration of Foreign Exchange, to raise the usage level and management standard of foreign exchange management information. At the same time, we can set up the International Balance of Payment management information system, carry out analysis of the International Balance of Payment statistics, make forecast and advanced warning, provide decision making supporting information for the austerity departments, so as to enhance the austerity measures for the economy, manipulate market changes, respond to unexpected economic incidents, increase the capability to control the overall economy, consequently, the implementation of this project has significant impacts.

State China Banking Regulatory Commission on-site inspection software development

Given its successful experience and wealth of technology in the supervisory field, the Group successfully obtained the tender of the on-site inspection system development project of China Banking Regulatory Commission. The project can help to achieve comprehensive supervision and inspection of financial institutions, bring about another breakthrough after state audit, supervision of state-owned assets, corporate internal audit, and lay a solid basis for the idea of large scale supervision among sectors in the country.

Intranet audit of social security fund by the Ministry of Labour and Social Security

Given the technological resources advantages of the Group in the audit field, during the reporting period, we successfully explored the intranet audit project for social security fund. With the implementation of the project, the promotion of social security fund intranet audit at the local level will be accelerated, this has significant impacts on ensuring the safety and integrity of the social security fund, enhancing the setting up and improvement of the modernized social security system in China, optimizing the economic and social benefits of the social security fund applications.

Public utility sector and “Communication Card”

With regard to public utility services sector, the Group provides several practical applications for the card issuance and information exchange systems for the smart card system-“Communications Card” (一卡通) in urban transport, railroad transport automatic ticket sales and inspection system, “Social Security Fund Card”, as well as for the setting up of the “Fu Fei Tong” (FFT) system. The implementation of those systems have significant impacts by raising the degree of social informationization in the cities.

During the reporting period, the Group successfully obtained the tenders of Pudong Airport general public user self-help service integrated development system project, Shandong city “Communications Card” (一卡通) system development project, Shanghai Metro public transport transit concessionary fee system project etc. At the same, Beijing urban transport “Communications Card” settlement centre system and Harbin urban public transport IC card system that the Group had set up were successfully inspected and approved.

3. *Fast moving consumer goods sector*

During the reporting period, the Group further fueled the promotion and implementation of the “State Tobacco Monopoly Administration Bar-coding and Order Collection System” project on a nationwide scale. 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 projects with various large tobacco industrial groups and tobacco companies at provincial level in order to secure its leading position in this field.

- (1) Signing of bar code implementation services contracts with seven provinces or cities such as Hunan and Qing Hai etc.

“National agency decision making bar-coding and order collection project” refers to the method of collecting commercial enterprise sales and inventory data via bar code on packaged cigarettes so that the logistics tracking of decision making system can be more complete. In this way, the purchase, sales and inventory data of commercial enterprises can be collected in a comprehensive, timely and accurate manner, providing more accurate, timely and effective data support for the austerity measures by the state agencies, paving way to arrange procurement according to orders and arrange production according to orders, and providing means for more effective informationization to the monopoly management.

According to the agreement entered into with State Tobacco Monopoly Administration, the Group will provide implementation and deployment services for 375 tobacco companies including 33 tobacco companies at provincial level. As of the end of this report, contracts were signed with 260 tobacco companies (including 26 tobacco companies at provincial level) and implementation was started on site, of which 100 implementation points entered into the trial run stage.

- (2) Contract signing with Chang Sha Tobacco Monopoly Administration regarding RFID pallet combined transport project

Coupled with the tobacco production and operation decision making system, 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 making system and the industrial and commercial logistics system were significantly enhanced.

By applying RFID technology in modern supply chain and logistics management, we help the users to build up an advanced, efficient, sophisticated, flexible, open, integrated and safe logistics management platform in order to satisfy their “uniform management of ongoing business needs”, in this way the quality of logistics services and logistics efficiency is raised, the logistics costs are reduced, the control over the market is enhanced, sustainable and steady growth is achieved.

- (3) Contract signing with Hunan China Tobacco Industry Corporation regarding administrative work coordination and gateway integration services project (辦公協同與門戶集成服務項目)

The contents of this project include the administrative work coordination and gateway integration of Hunan China Tobacco Industry Corporation as well production and sales coordination platform:

- a) To set up an user identity certification centre, to set up internal information gateway for the group, to fully make use of the information resources of the company by data mining, to maximize information sharing;
 - b) To set up internal administrative work, email, information sharing, document flow, knowledge management of the group, to achieve office automation, management via network, to raise the degree of work efficiency and resources sharing;
 - c) To integrate the operational data of some production systems, provide effective support for group management, with the setting up and implementation of this project, this helps Hunan China Tobacco Corporation to build up a forward looking, advanced, scalable administration and gateway system for large group company which is in line with its strategic goals and IT overall plan.
- (4) Initial testing of Yunan tobacco data centre was approved

That project is oriented towards the commercial domain of Yunan tobacco, it consolidates the information system data of monopoly management, sales management, management of tobacco leaves, financial management etc of the whole Yunan province. It sets up a data centre for the sector, forms information channel, business channel, management channel and services channel for the accessible by the sector. At present, the project has entered into the trial run stage.

Software services outsourcing business

During the reporting period, the Group further promoted the strategy of services transformation, by combining organic growth and expansion via merger and acquisition, the software services outsourcing business achieved rapid development. During the reporting period, the revenue of outsourcing business reached RMB62.87 million, representing a revenue increase of 81% as compared to the corresponding period. The revenue of the third quarter of 2007 by origin is as follows:

	Q3		Q1-Q3	
	Revenue		Revenue	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Revenue from Japan business	23,771	37.8%	31,333	21.4%
Revenue from Europe and America business	20,921	33.3%	63,261	43.1%
Revenue from China business	18,180	28.9%	52,080	35.5%
Total	62,872	100.0%	146,674	100.0%

The size of the outsourcing staff also experienced rapid growth. As of 30 September 2007, the number of outsourcing staff reached 2,405, representing a 135% increase as compared to the corresponding period.

During the reporting period, in order to increase the integrated services capability of the outsourcing business, the Group intensified the hiring of professional personnel and staff internal training. The Group set up a series of measures to increase employees' sense of belonging towards the Company, those measures led to a relatively low level of staff turnover of the Company when compared with its counterparts.

Training business

In order to meet the demands of the market and group development strategies, Chinasoft International Training Centre continued to maintain the strategy of developing professional training transformation while securing the growth of traditional training business at the same time, and it gradually expanded the scale of Chinasoft Practice and Training Site. As of 30 September 2007, 68 universities already built up cooperation relationship with Chinasoft Practice and Training Site. In the third quarter of 2007, thousand of students participated the training courses of the Site. At the same time, the Training Centre designed more specific courses and made more specific plans according to the Company's existing business structure, with the development of software outsourcing business in particular. This safeguarded the "practise what you have learnt, use it immediately after you have learnt" mentality of students joining the training, and was welcomed by participating students. Not only these measures made Chinasoft International Training Centre become the human resources database within the Group, they also produced massive personnel of high caliber for the society and software industry. Now, "Chinasoft International Training Centre" already built up a good brand image among universities and educational training institutions.

During the third quarter of 2007, the Training Centre offered 48 training classes for the traditional IT business, and accomplished the training of 1,400 students.

Capital operation

The Group has succeeded to complete the Merger & Acquisition of the shares in Hinge Global Resource Inc. ("HGR") during the reporting period. Following the completion of the acquisition, the Group holds 7,524,154 shares of HGR, representing 97.35% of the total issued shares of HGR. HGR became the subsidiary of the Group officially.

The Company entered into a purchase and sale agreement with Sino Speed International Limited to acquire all the issued shares held by it in Japan Powerise Co., Ltd. during the reporting period, following the completion of the acquisition, Japan Powerise Co., Ltd. will become the wholly-owned subsidiary of the Group.

Awards

During the reporting period, the Group was awarded the following prize and honour:

- Chinasoft International Information Technology Co Ltd, a subsidiary of the Group which possessed Level 1 qualification of system integration, further improved the software development and management standard, and successfully passed CMMI Level 3 evaluation.
- Passed ISO27001 certification. ISO27001 certification was successfully obtained, this symbolized the fact that the Group reached a new phase in the areas of information security management system set up and running of the overall system at corporate level.

DIRECTORS' INTERESTS IN SHARES

As at 30 September, 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	27,617,472	2.81%
CUI Hui	20,000,000	2.04%
WANG Hui	9,517,838	0.97%
TANG Zhenming	11,747,765	1.20%

Options to subscribe for Shares

Name of the Director	Exercise Price (HK\$)	Number of share options outstanding as at 30 September 2007	Approximate percentage of the total number of the Ordinary Share in issue	Number of underlying Ordinary Share interest in	Note
CHEN Yuhong (Note 1)	0.58	300,000	0.04%	6,550,000	(4)
	0.65	1,250,000	0.15%		(5)
	0.97	1,200,000	0.15%		(6)
	1.78	3,800,000	0.47%		(7)
CUI Hui	0.65	500,000	0.06%	500,000	(4)
Duncan CHIU	0.65	1,000,000	0.12%	1,000,000	(4)
TANG Zhenming (Note 2)	0.58	80,000	0.01%	4,180,000	(4)
	0.65	1,300,000	0.16%		(5)
	0.97	800,000	0.10%		(6)
	1.78	2,000,000	0.25%		(7)
WANG Hui (Note 3)	0.58	250,000	0.03%	5,000,000	(4)
	0.65	1,750,000	0.22%		(5)
	0.97	1,000,000	0.12%		(6)
	1.78	2,000,000	0.25%		(7)
CHEN Yung Cheng Timothy	1.78	1,000,000	0.12%	1,000,000	(7)
ZENG Zhijie	1.78	750,000	0.09%	750,000	(7)

Notes:

- (1) An aggregate of 900,000 shares options were exercised by Dr. CHEN Yuhong at the exercise price of HK\$0.58 each and an aggregate of 3,750,000 share options were exercised by Dr. CHEN Yuhong at the exercise price of HK\$0.65 each. Hence, following the exercise of these share options and the grant of new share options the number of share options outstanding reduced to 6,550,000 as at 30 September 2007.

- (2) An aggregate of 240,000 shares options were exercised by Dr. TANG Zhenming at the exercise price of HK\$0.58 each and an aggregate of 1,300,000 share options were exercised by Dr. TANG Zhenming at the exercise price of HK\$0.65 each. Hence, following the exercise of these share options and the grant of new share options the number of share options outstanding reduced to 4,180,000 as at 30 September 2007.
- (3) An aggregate of 750,000 shares options were exercised by Mr. WANG Hui at the exercise price of HK\$0.58 each and an aggregate of 1,750,000 share options were exercised by Mr. WANG Hui at the exercise price of HK\$0.65 each. Hence, following the exercise of these share options and the grant of new share options the number of share options outstanding reduced to 5,000,000 as at 30 September 2007.
- (4) These share options were offered on 13 August 2003 under the share option scheme of the Company adopted on 2 June 2003 (the "Share Option Scheme") and accepted on 27 August 2003. The share options are exercisable for a period of ten years from the date of offer subject to the following conditions:

Exercisable Period

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

- (5) These share options were offered on 13 May 2004 under the Share Option Scheme and accepted on 10 June 2004. These share options are exercisable for a period of 10 years from the date offer, subject to the following conditions:-

Exercisable Period

Commencing	Ending	Number of share options exercisable
13/05/2004	12/05/2014	25% of the total number of share options granted
13/05/2005	12/05/2014	25% of the total number of share options granted
13/05/2006	12/05/2014	25% of the total number of share options granted
13/05/2007	12/05/2014	25% of the total number of share options granted

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

Exercisable Period

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

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

Exercisable Period

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

SHARE OPTION SCHEME

As at 30 September 2007, share options to subscribe for an aggregate of 111,376,500 Ordinary Shares were granted to certain Directors and employees of the Group pursuant to the Share Option Scheme. The terms on the exercise of the share options granted to the Directors are set out in notes (4), (5), (6) and (7) under “Directors’ Interests in Shares”.

Save as disclosed above and that there was an aggregate of 19,933,500 share options exercised by various employees of the Group during the period between 4 May 2007 and 14 August 2007, no option has been granted, exercised and lapsed pursuant to the Share Option Scheme for the nine months ended 30 September 2007.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the nine months ended 30 September, 2007 none of the Directors was granted options to subscribe for shares of the Company and as at 30 September, 2007 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, 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 nine months ended 30 September, 2007.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 30 September, 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 <i>(million)</i>	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	20.27%
Chinasoft National Software and Service Company Limited ("CNSS") (Note 1)	Interest of controlled corporation	199.01	20.27%
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)") (Note 2)	Interest of persons acting in concert	199.01	20.27%
Far East Holdings International Limited ("Far East Holdings") (Note 3)	Beneficial interest	130.32	13.27%
Greater Pacific Capital Partners, LP ("GPC") (Note 4)	Beneficial interest	99.27	10.11%
International Finance Corporation ("IFC") (Note 5)	Beneficial interest	97.25	9.90%
Microsoft Corporation ("Microsoft") (Note 5)	Beneficial interest	97.25	9.90%
ABN AMRO Holding N.V. (Note 6)	Beneficial interest	59.26	6.04%

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 Holdings. Mr. Duncan Chiu is a director of Far East Holdings.
4. Greater Pacific Capital Partners, LP was interested in 99,268,639 shares.
5. IFC and Microsoft were each interested in 97,250,000 Shares which could be issued to each of them upon the conversion of the 97,250,000 series A preferred shares of HK\$0.05 each in the capital of the Company ("Series A Preferred Shares") allotted and issued to each of them on 6 January 2006. Each of IFC and Microsoft holds 50% of the total 194,500,000 Series A Preferred Shares in issue.
6. ABN AMRO Holding N.V. was interested in 59,260,000 shares.

Save as disclosed above, as at 30 September, 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 30 September, 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, Mr. Su Zhenming (a non-executive Director) had been appointed as directors of CNSS since September 2006. Although the Directors are of the view that the principal activities of CNSS do not directly compete with those of the Group currently, the Group and CNSS however are both engaged in the provision of information technology outsourcing.

Save as disclosed above, as at 30 September, 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 Interim results of the Group for the nine months ended 30 September, 2007.

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, 2007.

On behalf of the Board
Dr. Chen Yuhong
Managing Director

14 November, 2007, Beijing