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中软国际

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 354)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

HIGHLIGHTS

	For the six months ended 30 June		Increase (Decrease)
	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>	
Income statement highlights			
Turnover	441,613	449,672	(1.79%)
EBITDA	27,341	65,583	(58.31%)
(Loss)/profit for the period	(30,461)	68,969	N/A
(Loss)/profit attributable to shareholders of the Company	(31,855)	63,430	N/A
(Loss)/earnings per share (cents)			
Basic	(3.16)	6.37	N/A
Diluted	0.01	2.94	(99.66%)
	(Unaudited)	(Audited)	
	30 June	31 December	
	2009	2008	
	<i>RMB'000</i>	<i>RMB'000</i>	Increase (Decrease)
Balance sheet highlights			
Total assets	1,428,009	1,405,047	1.63%
Total liabilities	(580,029)	(534,935)	8.43%
	847,980	870,112	(2.54%)

- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009.
- No closure for the Register of Members of the Company.

INTERIM RESULTS

The board of Directors (the “Board”) of Chinasoft International Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2009 with corresponding figures as follows:

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		For the six months ended 30 June	
		2009	2008
	<i>Notes</i>	RMB'000	RMB'000
Turnover	2	441,613	449,672
Cost of sales		(309,347)	(304,324)
Gross profit		132,266	145,348
Other income		7,020	5,214
Selling and distribution costs		(27,016)	(18,532)
Administrative expenses		(94,292)	(77,714)
Amortisation of intangible assets		(11,775)	(10,034)
Profit from operations		6,203	44,282
Finance costs		(1,681)	(536)
(Loss)/gain arising from changes in fair value of redeemable convertible preferred shares		(32,005)	27,762
Share of result of associates		1,114	2,698
(Loss)/profit before taxation		(26,369)	74,206
Taxation	3	(4,092)	(5,237)
(Loss)/profit for the period		<u>(30,461)</u>	<u>68,969</u>
Attributable to:			
Equity holders of the parent		(31,855)	63,430
Minority interests		1,394	5,539
		<u>(30,461)</u>	<u>68,969</u>
Dividend	4	–	4,514
(Loss)/earnings per share			
– Basic (cents)	5	(3.16)	6.37
– Diluted (cents)	5	0.01	2.94

CONSOLIDATED BALANCE SHEET

		(Unaudited) 30 June 2009 RMB'000	(Audited) 31 December 2008 RMB'000
Non-current assets			
Property, plant and equipment		85,144	79,038
Intangible assets		73,235	79,724
Goodwill	6	446,607	446,607
Interests in associates		15,583	14,469
Prepaid lease payments		951	1,034
Prepayment for acquisition of technical knowledge		2,318	2,318
Deferred tax assets		2,662	2,517
		<u>626,500</u>	<u>625,707</u>
Current assets			
Inventories		9,674	21,939
Trade and other receivables	7	480,797	397,420
Prepaid lease payments		166	166
Amounts due from customers for contract work		93,859	69,891
Amount due from related companies		–	2,490
Pledged deposits		21,129	21,630
Bank balances and cash		189,284	265,804
		<u>794,909</u>	<u>779,340</u>
Current liabilities			
Trade and other payables	8	261,972	282,122
Bills payable		4,077	13,163
Amounts due to customers for contract work		70,110	17,769
Amounts due to related companies		148	22
Dividend payable to shareholders		233	82
Taxation payable		1,186	6,705
Borrowings		71,448	70,555
Consideration payable on acquisition of additional interest in a subsidiary		–	8,447
		<u>409,174</u>	<u>398,865</u>
Net current assets		<u>385,735</u>	<u>380,475</u>
Total assets less current liabilities		<u>1,012,235</u>	<u>1,006,182</u>

		(Unaudited) 30 June 2009 <i>RMB'000</i>	(Audited) 31 December 2008 <i>RMB'000</i>
	<i>Notes</i>		
Non-current liabilities			
Deferred tax liabilities		8,371	8,371
Redeemable convertible preferred shares		<u>155,884</u>	<u>127,699</u>
		<u>164,255</u>	<u>136,070</u>
		<u>847,980</u>	<u>870,112</u>
Capital and reserves			
Share capital	9	52,271	52,178
Share premium		518,325	516,306
Reserves		<u>225,339</u>	<u>256,857</u>
Equity attributable to equity holders of the Company			
		<u>795,935</u>	825,341
Minority interests		<u>52,045</u>	<u>44,771</u>
Total equity			
		<u>847,980</u>	<u>870,112</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the parent company										
	Ordinary share capital	Ordinary share premium	Translation reserve	Share options reserve	General reserve fund	Statutory enterprise expansion fund	Statutory surplus reserve fund	Accu- mulated fund	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
At 1 January 2008	51,398	505,483	(1,224)	25,116	15,793	8,868	505	129,730	735,669	39,019	774,688
Exchange differences arising from translation of overseas operations	-	-	9,400	-	-	-	-	-	9,400	-	9,400
New issue of shares	397	11,881	-	-	-	-	-	-	12,278	-	12,278
New issue of shares upon exercise of share option	164	2,439	-	(531)	-	-	-	-	2,072	-	2,072
Recognition of equity-settled share based payments	-	-	-	4,514	-	-	-	-	4,514	-	4,514
Dividend paid for 2007	-	-	-	-	-	-	-	(4,514)	(4,514)	-	(4,514)
Net profit for the period	-	-	-	-	-	-	-	63,430	63,430	5,539	68,969
At 30 June 2008	<u>51,959</u>	<u>519,803</u>	<u>8,176</u>	<u>29,099</u>	<u>15,793</u>	<u>8,868</u>	<u>505</u>	<u>188,646</u>	<u>822,849</u>	<u>44,558</u>	<u>867,407</u>
At 1 January 2009	52,178	516,306	(1,338)	39,964	15,793	8,868	1,712	191,858	825,341	44,771	870,112
Exchange differences arising from translation of overseas operations	-	-	(87)	-	-	-	-	-	(87)	-	(87)
New issue of shares upon exercise of share option	93	2,019	-	(547)	-	-	-	-	1,565	-	1,565
Recognition of equity-settled share based payments	-	-	-	6,851	-	-	-	-	6,851	-	6,851
Dividend paid to minority interest	-	-	-	-	-	-	-	(5,880)	(5,880)	5,880	-
Net profit for the period	-	-	-	-	-	-	-	(31,855)	(31,855)	1,394	(30,461)
At 30 June 2009	<u>52,271</u>	<u>518,325</u>	<u>(1,425)</u>	<u>46,268</u>	<u>15,793</u>	<u>8,868</u>	<u>1,712</u>	<u>154,123</u>	<u>795,935</u>	<u>52,045</u>	<u>847,980</u>

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended	
	30 June	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash used in operating activities	(48,945)	(96,549)
Net cash used in investing activities	(16,546)	(25,704)
Net cash used in/generated from financial activities	(10,012)	6,882
Net decrease in cash and cash equivalents	(75,503)	(115,371)
Effect of foreign exchange rate changes	(1,017)	(559)
Cash and cash equivalents at the beginning of the period	265,804	230,435
Cash and cash equivalents at the end of the period	189,284	114,505

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

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

2. 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 six months ended 30 June			
	2009		2008	
	<i>RMB'000</i>		<i>RMB'000</i>	
Solutions	243,198	55.08%	264,664	58.86%
IT outsourcing	178,998	40.53%	160,850	35.77%
IT consulting and training services	10,487	2.37%	11,884	2.64%
Standalone software product	8,930	2.02%	12,274	2.73%
	441,613	100%	449,672	100%

3. TAXATION

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/2009. Hong Kong Profit tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2007: 33%) unless subject to tax exemption set out below. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the “New Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the statutory tax rate of the PRC entities to 25% from 1 January 2008.

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

Pursuant to the resolution of National Development and Reform Commission, dated 31 December 2008, Chinasoft Beijing had been designated as a supported software enterprise and its income tax rate was reduced from 25% to 10% (2007: 10%).

Pursuant to certificate issued by Yunnan Provincial Science and Technology Department dated 15 December 2008, Chinasoft Kunming had been designated as a High and New Technology Enterprise and its income tax rate was reduced from 25% to 15% (2007: nil).

Pursuant to an approval document issued by the State Bureau of Tianjin Economic and Technology Development Zone dated 20 February 2003, Cyber Resources was established before the end of the year 1995 and was approved as a production enterprise and its income tax rate was reduced from 33% to 15%. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulations of the New Law. Cyber Resources is subject to the income tax computed at the rate of 18% for the year ended 31 December 2008 (2007: 15%).

Pursuant to certificate issued by Beijing Municipal Science and Technology Commission dated 24 December 2008, Chinasoft Resources Beijing had been designated as a High and New Technology Enterprise and its income tax rate was reduced from 25% to 15%. Moreover, Chinasoft Resources 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 2004. As a result, Chinasoft Resources Beijing is subject to the income tax at the rate of 7.5% for the year ended 31 December 2008 (2007: 7.5%).

In addition, Chinasoft Shenzhen is located in the Special Economic Zone and the applicable tax rate was 15% before the effective date of the New Law. With effect from 1 January 2008, the tax rate will increase progressively to 25%. The applicable tax rate of the Special Economic Zone is 18% in 2008. Pursuant to an approval document issued by the State Bureau of Shenzhen Nanshan District dated 1 March 2005, Chinasoft Resources Shenzhen 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. As a result, Chinasoft Resources Shenzhen is subject to the income tax at the rate of 9% for the year ended 31 December 2008 (2007: 7.5%).

4. DIVIDEND

The Company did not declare final dividend for the year ended 31 December 2008 to its shareholders.

5. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	For the six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
(Loss)/earnings for the purposes of calculating basic earnings per share	<u>(31,855)</u>	<u>63,430</u>
Effect of dilutive potential ordinary shares:		
(Loss)/gain arising from changes in fair value of redeemable convertible preferred shares	<u>(32,005)</u>	<u>27,762</u>
Earnings for the purposes of calculating diluted earnings per share	<u>150</u>	<u>35,668</u>
	Number of shares	
	2009	2008
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>1,007,549,765</u>	<u>995,476,938</u>
Effect of dilutive potential ordinary shares:		
Issuable under the Company's share option scheme	2,212,484	24,122,765
Conversion of the redeemable convertible preferred shares	<u>194,500,000</u>	<u>194,500,000</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,204,262,249</u>	<u>1,214,099,703</u>

6. GOODWILL

Goodwill arose mainly from the acquisition of the remaining 49% interest of a subsidiary, Chinasoft Resources Information Technology Services Limited, the additional 50% interest in a subsidiary, CS&S Cyber Resources Software Technology (Tianjin) Co. Ltd., 97.35% interest of Hinge Global Inc. and its subsidiaries, 100% interest in Sino Sunnyever Automation and Information Co. Ltd in the previous years.

7. TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June 2009 <i>RMB'000</i>	(Audited) 31 December 2008 <i>RMB'000</i>
Trade receivables	383,739	363,713
Less: Allowance for doubtful debts	(48,225)	(34,783)
	<u>335,514</u>	<u>328,930</u>
Trade receivable from an associate	491	–
Trade receivables from related companies	12,643	3,363
	<u>348,648</u>	<u>332,293</u>
Advances to suppliers	59,925	9,888
Deposits, prepayments and other receivables	72,224	55,239
	<u>480,797</u>	<u>397,420</u>

The average credit terms of the Group range from 30 to 90 days. An aged analysis of trade receivables (net of allowance for doubtful debts) is as follows:

	(Unaudited) 30 June 2009 <i>RMB'000</i>	(Audited) 31 December 2008 <i>RMB'000</i>
Within 90 days	184,944	175,561
Between 91-180 days	35,964	26,288
Between 181-365 days	80,810	29,045
Between 1-2 years	22,074	89,530
Over 2 years	24,856	11,869
	<u>348,648</u>	<u>332,293</u>

The fair value of the Group's trade and other receivables at 30 June 2009 was approximately equal to the corresponding carrying amount.

8. TRADE AND OTHER PAYABLES

	(Unaudited) 30 June 2009 <i>RMB'000</i>	(Audited) 31 December 2008 <i>RMB'000</i>
Trade payables	120,367	149,145
Trade payable to an associate	1,349	2,114
Trade payable to a related company	613	354
	<hr/>	<hr/>
	122,329	151,613
Deposits received from customers	5,482	6,033
Other payables and accrued charges	134,161	124,476
	<hr/>	<hr/>
	261,972	282,122
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An aged analysis of trade payables is as follows:

	(Unaudited) 30 June 2009 <i>RMB'000</i>	(Audited) 31 December 2008 <i>RMB'000</i>
Within 90 days	54,516	88,543
Between 91-180 days	15,138	14,480
Between 181-365 days	20,681	13,493
Between 1-2 years	18,819	22,178
Over 2 years	13,175	12,919
	<hr/>	<hr/>
	122,329	151,613
	<hr/> <hr/>	<hr/> <hr/>

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

The fair value of the Group's trade and other payables at 30 June 2009 was approximately equal to the corresponding carrying amount.

9. SHARE CAPITAL

	Ordinary shares		
	Number of shares	Nominal value per share <i>HK\$</i>	Ordinary shares capital <i>HK\$</i>
Authorised shares capital			
At 1 January 2008, 30 June 2008, 1 January 2009 and 30 June 2009	1,500,000,000	0.05	75,000,000
Issued shares capital			
At 1 January 2008	989,838,375	0.05	49,491,919
Issue of ordinary shares	8,790,313	0.05	439,516
Exercise of share option	8,650,000	0.05	432,500
At 31 December 2008 and 1 January 2009	1,007,278,688	0.05	50,363,935
Exercise of share option	2,107,500	0.05	105,375
At 30 June 2009	1,009,386,188	0.05	50,469,310

10. CAPITAL COMMITMENTS

The Group had no capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for in the financial statements.

11. RELATED PARTY TRANSACTIONS

- (i) During the relevant periods in 2008 and 2009, the Group had the following transactions with the following related parties:

	<i>Notes</i>	For the six month ended 30 June	
		2009	2008
		RMB'000	RMB'000
Provision of IT outsourcing services			
– Viador Inc.	(a)	976	2,853
– 日本國株式會社 CDI	(b)	6,814	–
– 大連中軟軟件有限公司	(c)	115	–
Rental expenses			
– Chinasoft National Software and Service Company Limited	(d), (e)	1,660	2,514
– 上海和勤軟件技術有限公司	(f)	–	290

Notes:

- (a) Mr. Xi Wang, a common director of HGR and Viador Inc.
- (b) 日本國株式會社 CDI is a shareholder of Tokyo Xinhua, a subsidiary of the Group.
- (c) 大連中軟軟件有限公司 is a subsidiary of CNSS.
- (d) Chinasoft National Software and Service Company Limited is a holding company of a shareholder of the Company.
- (e) Mr. Cui Hui, director of the Company, is also director of CNSS.
- (f) 上海和勤軟件技術有限公司 is a holding company of Scube Systems Limited, a shareholder of the Company.
- (ii) Pursuant to a trademark license agreement (“Trademark Licence Agreement”) entered into between CNSS and the Company on 20 December 2003, CNSS granted to the Company an exclusive right to use a trademark of 中軟總公司計算機培訓中心 as defined on the Trademark Licence Agreement for a period of 25 years for a consideration of RMB2,000,000. During the year ended 31 December 2006, CNSS obtained the trademark registration certificate from the Trademark Bureau of the PRC and the Company recognised the amount as prepaid lease payments in the consolidated balance sheet. The effective period of the registration is from 21 March 2006 to 20 March 2016. At 30 June 2009, the prepaid lease payments were analysed for reporting purposes as a non-current asset of RMB951,000 and current asset of RMB166,000 in the consolidated balance sheet.

The Directors are of the opinion that the above transactions were conducted under normal commercial terms in the usual course of business of the Company.

12. SEGMENT INFORMATION

(A) Business segments

For management purposes, the Group is currently organised into four operating divisions – solutions, IT outsourcing, IT consulting and training services and sale of standalone software product. These divisions are the basis on which the Group reports its primary segment information.

- (i) Segment information about these businesses for the six months ended 30 June 2009 is presented below:

Income statement

	Solutions <i>RMB'000</i>	IT outsourcing <i>RMB'000</i>	IT consulting and training services <i>RMB'000</i>	Standalone software product <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Turnover	243,198	178,998	10,487	8,930	441,613
Segment result	63,021	56,629	6,262	6,354	132,266
Unallocated corporate revenue					7,020
Unallocated corporate expenses					(165,088)
Finance costs					(1,681)
Share of result of an associate					1,114
Loss before taxation					(26,369)
Taxation					(4,092)
Net loss before minority interests					(30,461)

- (ii) Segment information about these businesses for the six months ended 30 June 2008 is presented below:

Income statement

	Solutions	IT outsourcing	IT consulting and training services	Standalone software product	Consolidated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	264,664	160,850	11,884	12,274	449,672
Segment result	77,151	57,270	4,936	5,991	145,348
Unallocated corporate revenue					32,976
Unallocated corporate expenses					(106,280)
Finance costs					(536)
Share of result of an associate					2,698
Profit before taxation					74,206
Taxation					(5,237)
Net profit before minority interests					68,969

No business segment information for the assets, liabilities, capital contributions, depreciation and other non-cash expenses of the Group is shown as all the assets and liabilities are shared by the business segments and cannot be separately allocated.

(B) Geographical segments

No geographical segments information of the Group is shown as the operating business of the Group is solely carried out in the PRC and the Group's assets are substantially located in the PRC.

13. EMPLOYEE AND OTHER INFORMATION

The remuneration for the employees of the Group amounted to approximately RMB207,838,000, including the directors' emoluments of approximately RMB1,047,000 during the six months ended 30 June 2009 (2008: approximately RMB160,725,000, including the directors' emoluments of approximately RMB1,103,000). The increase in employee remuneration resulted from the increase in the number of employees from 4,697 to 5,904 and the increase in bonus to individual staff during the relevant period.

The amortisation charge of intangible assets and depreciation during the six months ended 30 June 2009 of the Group amounted to approximately RMB11,775,000 (2008: RMB10,034,000) and approximately RMB9,363,000 (2008: RMB11,267,000), respectively.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009 (2008: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results

For the six months ended 30 June 2009, the Group's unaudited revenue of services business amounted to RMB387,431,000 (2008: RMB337,430,000), representing an increase of 15% as compared with the corresponding period of last year, whereas the unaudited turnover for the six months ended 30 June 2009 was RMB441,613,000 (2008: RMB449,672,000), representing a decrease of 2% as compared with the corresponding period of last year, which is attributable to the decreased sales of third party software and hardware products.

Regarding the business itself, turnover from the Group's two main businesses, namely solutions business and IT outsourcing, accounted for 55% and 41% of the Group's overall unaudited turnover respectively (2008: 59% and 36% respectively).

For the six months ended 30 June 2009, the Company realized an unaudited gross profit of RMB132,266,000 (2008: RMB145,348,000), representing a decrease of 9% as compared with last year. Its gross profit margin was 30.0% (2008: 32.3%), representing a decrease of 2.3% as compared with last year. The drop in gross profit margin was mainly attributable to the followings: (i) lowered gross profit margin of certain items as affected by the external environment in economic crisis; (ii) the Group recognized the preliminary investments and expenses of some major projects as costs for the corresponding period for its strict management against technologies under development.

For the six months ended 30 June 2009, the Company's unaudited EBITDA amounted to RMB27,341,000 (2008: RMB65,583,000), representing a drop of 58% as compared with last year. The EBITDA margin was 6.2% (2008: 14.6%), representing a decrease of 8.4% as compared with last year. The unmatched movements of EBITDA margin (a 8.4% decrease as compared with the same period of last year) and gross profit margin (a 2.3% decrease as compared with the same period of last year) were mainly attributable to: (i) a substantial increase in provisions for bad debts and depreciations on inventories for the interim period of the year 2009 as compared with the same period of 2008, in accordance with the Group's tightened standards on determining the provisions for bad debts and depreciations on inventories stipulated at the end of 2008; (ii) an increase in the expenses on staff training as the Group continued expending its investments to Excellence Training Centers (ETC) to enhance its talent team.

The ratio of selling and distribution cost to turnover was 6.1%, representing an increase of 2.0% from 4.1% of last year. The increase of 46% in selling and distribution cost as compared with the same period of last year was mainly attributable to the Group's enhanced sales team which led to an increase in its costs on marketing and product promotions. In addition, sales and marketing expenses for its 6 ETC were also increased.

The ratio of administrative expenses (excluding depreciation and amortization) to turnover was 19.2%, representing an increase of 4.4% as compared with 14.8% for the same period of last year. The increase of 28% as compared with the same period of last year was mainly attributable to the effects on provisions for bad debts and depreciations on inventories.

Basic loss per share for the six months ended 30 June 2009 was RMB3.16 cents (2008: Basic earnings per share was RMB6.37 cents).

BUSINESS REVIEW

Objectives

The overall objectives of Chinasoft International Limited (hereinafter referred to as "Chinasoft International" or the "Group") are to spend three to five years to turn the new Chinasoft International that we jointly belong to and making best efforts into a China-based Chinese software service enterprise which serves the globe and of the greatest power, attraction and investment value, and to create an international brand of "Intelli-ed in China" together with local and overseas business partners through the market and human resources in the Greater China Region as the competitive advantages.

Business Mode

We start with industry integration. Leveraging on the Group's competitive position in the industry, we push ahead industry integration, establish industry standard, integrate industry resources, design and create a unified platform for system information application and integration for clients by way of mergers and acquisitions, cooperation, joint venture as well as alliance. In so doing, we can enhance the re-usage of all information systems, reduce the information system development, deployment, operation as well as maintenance costs and achieve the objectives of reducing the overall informatization cost and management difficulties for clients. Over the past five years, Chinasoft International has implemented more than ten merger and acquisition projects and established good cooperative relationships with internationally-renowned enterprises while maintaining a good cooperative relationship with the government and the industry associations. As such, it has realized a balanced business mix with a considerable scale, establish a "Human Resources Supply Chain" through staff training, and enable the solution business and outsourcing business to complement each other.

In addition, the interaction between domestic and overseas personnel is one of the strategic development directions of Chinasoft International over the years. The Group will combine the management experience gained in similar industries abroad, integrate the relevant consulting services and professional project management instruments, and proactively transfer the international advanced experience to our country. In addition, we will actively promote the domestic successful experience to the international market through the Group's overseas members as channels. Leveraging on its leading position in China market, the Group is also able to assist overseas clients to promptly understand the PRC market and identify new business opportunities.

The last point is the development of the Human Resources Supply Chain. While offering a talent base for the Group's rapid development, the Excellence Training Centers (ETC) of Chinasoft International also nurtures and brings fresh blood to the community and the software industry. ETC has entered into cooperation agreements with over 200 universities and tertiary institutions for internships, so that students who are about to graduate can have opportunities of training and intern work. This not only guarantees the talent supply for the Group, but also serves the whole industry, and forms a human resources supply chain based on mutual contribution and revolving development.

Strategic Planning

In face of the current economic situation, Chinasoft has set a number of main objectives to capture probable opportunities for this year. First of all, we will consolidate our customer base and current position, and keep on strengthening our business model, corporate culture and management information system. Besides, by enhancing our technological, managerial, linguistic and communication ability, we expect to nurture a team capable of both business management and service development. Secondly, the Group will improve the management efficiency and profitability for its overall business operation by safeguarding its position in the industries in which it serves, "paying intensive and meticulous attention to business details", and "refining its internal management". Lastly, the Group will "accurately design" its capital operation to increase efficiency in terms of capital operation. It is also required to make good cost control and proactively seize opportunities. In addition, we will endeavour to find new customers, expand market share and enhance the Company's comprehensive competitive strength by leveraging on the technical advantages rapidly formed through mergers and acquisitions.

Technological Innovation

ResourceOne, the platform product of our proprietary research and development, has been chosen for various “e-” projects of the State; TopLink/TSA+ series products had also been applied for several times in the construction of “cross-bank and cross-area online bank cards businesses in general China Unipay center and national and provincial bank card switching centers” project. During the reporting period, Chinasoft became a core member in “SOA Standard Task Force of National Information Standard Committee (國家信標委SOA標準工作組)” and ResourceOne product was accepted to be included in the 2009 supply list of agreement on government centralized purchase of information products for central government departments. During the reporting period, the Group set up the Automatic Fare Collection System (AFC) R&D Testing Centers (自動售檢票系統(AFC)研發測試中心) in Shanghai and Chongqing respectively, which further enhanced its capability of research and development as well as overall testing level in respect of AFC. In addition, the Group’s “Railroad transport ‘One ticket all transit’ funds classification and settlement application software” was granted “2009 State Gold Card Project Outstanding Results Golden Ant Award – Proprietary Innovation Award (2009年度國家金卡工程優秀成果金螞蟻獎—自主創新獎)”. The “Small and Medium Enterprise Credit Loan Management System V 1.0” software developed by the Group on its own, successfully passed the IBM SOA certification test and was included in IBM website.

Manpower

During the reporting period, the consolidation of existing condition was the core human resource work of the Group. We rejuvenated the Company and brought out the creativity of the staff by providing more option award, strengthening the development of talent echelon, paying attention to the organization and the allocation and synergy of posts, and strengthening staff training. In addition, the employment of professional managers contributed much to the enhancement of the overall management standard of Chinasoft International.

As at June 2009, we employed a total of 5,904 staff, representing an increase of 1,207 compared to the same period last year. 83% of the growth in headcount was due to the increase in IT sourcing business, 7% was due to the increase in industry solution. The growth in headcount was fully in line with the balanced development of our different business lines.

Business

During the reporting period, the Group continued to reinforce the competitive positions of all its businesses in the existing industries and also attached great importance to expanding into new industries and markets.

Under the influence of macro-economic situations internally and some incidents happened domestically, the Group's results for the reporting period showed slower growth trend despite all its businesses attained steady development. During the reporting period, the Group was awarded "2008 National Top-tier Domestic Software Enterprise". At the same time, Chinasoft International was successfully designated by the International Association of Outsourcing Professionals (IAOP) as one of the "World's Top 100 Outsourcing Professionals in 2009" and was included in the "Leaders category". Besides, two members of the Group were assigned an enterprise credit rating of AAA and AA by China Software Industry Association.

Government and Manufacturing Industry

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

The Group had for a number of times undertaken e-Government resolutions for Ministry of Agriculture, Ministry of Human Resources and Social Security, State Auditing Administration, State General Administration of Quality Supervision, Inspection and Quarantine, State Food and Drug Administration and the like in respect of food and drug regulation and state-owned enterprise regulation. Meanwhile, the Group was able to provide comprehensive services from management consultancy, business consultation, software development, project implementation to day-to-day system operation maintenance for large and medium sized manufacturers, our business scope covers ERP, MES, industrial and commercial logistics, industrial and commercial marketing, commercial network set up, data center, office automation, enterprise application integration etc. The Group had successfully provided high-quality services to various industries, including the tobacco, high technology, consumer goods, and food industries.

During the reporting period, with the “e-” projects of national informatization and business and technical competitive advantage accumulated over the years in various supervisory business domains, the Group continued to promote country-wide application and implementation in those industries where it has competitive advantages traditionally. During the reporting period, the Group built on its business experience accumulated over the years to provide more in-depth and customized services to clients in industries where it has competitive advantages, while actively exploring new industries and new service areas: the Group was elected by the Ministry of Finance as the supplier of accounting information quality examination software, signed the contract for “e-Audit Project (Phase 2) Intranet Audit System Building Project” with an audit bureau in a coastal city in Shandong, was successfully awarded the tender for the project on cigarette production and operation decision making and management system and the macro adjustment information support system for the cigarette industry, and signed the research and development and implementation agreement for MES (Manufacturing Execution System) and ERP project with numerous companies in the manufacturing industry.

Financial and Banking Services Industry

The business scope of the Group’s financial and banking services centres around the two core technologies in payment and settlement, and the exchange of news. The Group has world class technology and accumulated experience in the industry areas of banking finance, card-based business, e-commerce, “multi-pass” urban public transportation system, automatic fare collection system and “One ticket all transit” funds classification and settlement system for railroad transport, stadium ticketing system, social security card and certificates, integrate its industry knowledge, application development, system integration, operation management, project implementation and value-added services, and provides industry solutions and system integration services to hundreds of domestic and overseas clients in the industry areas of e-finance, social informatization and e-commerce.

During the reporting period, each project of the Group’s financial and banking service business progressed steadily, of which the important projects regarding the sub-ticketing system for individual tickets and the logistics sub-system of the ticketing information system of Shanghai World Expo were launched and commenced operation simultaneously. In the note industry, the Group was awarded tenders from or has signed contracts with six clients such as CITIC Bank and Shanghai Pudong Development Bank. In the multi-pass domain, the Group was awarded tenders for projects on the establishment of the multi-pass system for numerous cities in Western and Southern China. In addition, the Group signed contracts on classification projects and classification maintenance with numerous provincial capital cities. Moreover, the Group has tapped into the new business area of mobile payment by participating in the formulation of standards and securing relevant development contracts, and the Group’s SaaS business has also made new progress.

Hi-tech MNC IT Services

The Group's Hi-tech MNC IT services catered to clients from multinational and technological companies whose headquarters were in Europe and America. The major services provided by the Group to such customers were full range IT technical services, including: corporate customized application development, corporate application integration, business intelligence and data exploration, implementation and deployment of corporate IT systems, independent testing services, software localization and globalization, software product engineering, technical support and maintenance, in-bedded software development.

As one of the leading IT outsourcing service providers in China, the Group's IT outsourcing services business had expanded into various domains such as transportation, financial, consumer packaged goods, telecommunication, life and pharmaceutical and high technology industries, and interacted well with domestic solution business. Besides "traditional" IT outsourcing services, the Group, leveraging on its leading position in China market, was able to assist overseas clients to have a quick understanding of China market and identify new business opportunities. Meanwhile, the Group was able to, by virtue of its wide network of submission centers, capitalize on global resources and its leading proprietary technical strength to help clients coping with constantly and rapidly changing business challenges.

The Group had been issued ISO 9000, ISO 27001 and CMMI 3 certifications. During the reporting period, the Group had over 900 engineers providing outsourcing services for Microsoft and due to its outstanding performance, the Group becomes the first Microsoft Premier Vendor in China. In addition, the Group becomes an important cooperative partner of a world class domestic communication equipment supplier and the size of the team serving the supplier is similar to that of Microsoft team.

Information Processing and Engineering Design IT Services

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

The Group had over ten years' experience in data processing and engineering design domains, providing IT services to more than 100 global companies. At present, we have almost a thousand staff members providing multilingual IT services in a wide range of industries, both domestically and internationally, such as information technology, manufacturing industry, financial services, education, health care institutions, transportation and government agencies.

During the reporting period, the Group gradually strengthened its cooperation with clients in those industries, and each of the Group's business segments developed steadily.

Excellence Training Centers (ETC)

During the reporting period, the Group's Excellence Training Centers supported the construction of the "IT Industry Human Resources Supply Chain" of the Group with comprehensive training for IT talents. Meanwhile, Excellence Training Centers realized an interactive and sizable mutual development with the Group's industry solution business and IT services business.

During the reporting period, the Group increased its investment in the construction of practical training centers, and gradually upgraded its ETC practical training centers in Beijing, Wuxi, Chongqing, Changsha, Xiamen, Dalian, Tianjin and Nanjing and forming sizable IT vocational education system. Currently, ETC of Chinasoft International had established cooperation with over 200 higher education institutes on solid practical training for talents and had functioned as the talent bank of the Group, training and providing high caliber software talents to various business departments. The corporate objectives of Chinasoft International integrated the prospect of China and the motive power of the development of investment and economy, in order to make contribution to the long-term goal of implementing a knowledge-based economy of "manufacturing by intelligence" from "only manufacturing" in China.

During the reporting period, the Group fulfilled its social responsibilities by making donations for education initiatives. It sponsored students from The Hong Kong Polytechnic University to join the information technology summer camp organized by ETC of Chinasoft International in Xiamen. During the reporting period, Chinasoft International set up a "practical training center for university students specializing in software engineering" with the Office of National Pilot Software Engineering Schools upon the approval of the Department of Higher Education of the Ministry of Education. Moreover, the Group received the "2009 Award for Promoting Employment of University Students in China's Software Industry".

During the reporting period, traditional IT training business in the training centers developed well. ETC of Chinasoft International had further intensive cooperation with a number of multinationals and developed various brand new talent training projects: the Sharepoint talent training project was jointly developed with Microsoft, the SOA practical training center was jointly established with IBM, the Java advanced technology practical training center was jointly constructed with Sun, and maintained good cooperation with multinational companies such as Microsoft, IBM and Sun, a total of 110 classes were offered, with 1,910 students completed such training.

Awards Received

During the reporting period, the Group had the following rewards and recognitions:

- designated by the International Association of Outsourcing Professionals (IAOP) as one of the “World’s Top 100 Outsourcing Professionals in 2009” and was included in the “Leaders category”
- listed in “2008 China Services Outsourcing Enterprises Top 10 Best Practice Ranking”
- awarded “2008 National Top-tier Domestic Software Enterprise”
- given approval by the Department of Higher Education to set up a practical training center with the Office of National Pilot Software Engineering Schools
- two members of the Group were assigned an enterprise credit rating of AAA and AA respectively by China Software Industry Association.
- elected as “2009 China’s Top 10 Services Outsourcing Leading Enterprises”
- received the Award for Promoting Employment of University Students in Software Industry
- Become the first Microsoft Premier Vendor in China

Capital Operation

Acquisition of 深圳市金華業軟件系統有限公司

The Group intends to expand its information technology business and in particular its information technology outsourcing services by implementing its business strategies and by way of acquisition. The Directors believe that its acquisition represented an excellent investment opportunity in view of the large-scale operation and satisfactory economic returns of the target company. The target company maintains a leading position in the domestic industry and has established a huge client base. One of its major clients is a software company operating business in 27 other countries.

Through the acquisition, the Group will expand its client base and the size of its outsourcing business significantly. The major clients of the target company will then become the strategic clients of the Group. In this way, the Group can grow its business around the world and establish its reputation overseas.

DIRECTORS' INTERESTS IN SHARES

As 30 June 2009, the following Directors had interests in the shares and underlying shares of the Company and shares in an associated corporation (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”)) of the Company as set out below and recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of listed issuers.

Long positions in issued ordinary shares of HK\$0.05 each in the capital of the Company (“Shares”)

Name of Director	Total No. of Shares	Approximate percentage of total issued ordinary share capital as at 30 June 2009
CHEN Yuhong	67,387,608	6.68%
CUI Hui	20,000,000	1.98%
WANG Hui	8,387,838	0.83%
TANG Zhenming	11,747,765	1.16%

Options to subscribe for Shares

Name of the Director	Exercise Price (HK\$)	Number of share options outstanding as at 30 June 2009	Approximate percentage of the total number of the Shares in issue as at 30 June 2009	Number of underlying Shares interested in	Notes
CHEN Yuhong	1.78	3,800,000	0.38%	8,800,000	(5)
	1.37	5,000,000	0.50%		(6)
CUI Hui	0.65	500,000	0.05%	500,000	(2)
Duncan CHIU	0.65	1,000,000	0.10%	11,000,000	(2)
	1.37	10,000,000	1.00%		(6)
TANG Zhenming	0.58	80,000	0.01%	6,180,000	(2)
	0.65	1,300,000	0.13%		(3)
	0.97	800,000	0.08%		(4)
	1.78	2,000,000	0.20%		(5)
	1.37	2,000,000	0.20%		(6)
WANG Hui	0.58	250,000	0.02%	7,600,000	(2)
	0.65	1,750,000	0.17%		(3)
	0.97	1,000,000	0.10%		(4)
	1.78	2,000,000	0.20%		(5)
	1.37	2,600,000	0.26%		(6)
ZENG Zhijie	1.78	750,000	0.07%	750,000	(5)

Notes:

- (1) An aggregate of 1,200,000 share options were exercised by Dr. Chen Yuhong at the exercise price of HK\$0.97 each. Hence, following the exercise of those share options, the number of share options outstanding reduced to 8,800,000 as at 30 June 2009.
- (2) These share options were offered on 13 August 2003 under the share option scheme of the Company adopted on 2 June 2003 (the "Share Option Scheme") and accepted on 27 August 2003. The share options are exercisable for a period of ten years from the date of offer subject to the following conditions:

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

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

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

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

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

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

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

- (6) These share options were offered on 14 April 2008 under the Share Option Scheme and accepted on 12 May 2008. These share options are exercisable for a period of 3 years from the date of offer, subject to the following conditions:

Exercisable Period		Number of share options exercisable
Commencing	Ending	
14/04/2008	13/04/2011	50% of the total number of share options granted
14/04/2009	13/04/2011	50% of the total number of share options granted

SHARE OPTION SCHEME

As at 30 June 2009, there were share options to subscribe for an aggregate of 208,096,868 Shares granted to certain Directors and employees of the Group pursuant to the Share Option Scheme outstanding.

During the six months ended 30 June 2009, an aggregate of 2,107,500 share options were exercised and an aggregate of 81,787,868 share options were granted under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the six months ended 30 June 2009 none of the Directors was granted options to subscribe for shares of the Company and as at 30 June 2009 none of the Directors had any rights to acquire shares in the Company.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the six months ended 30 June 2009, the Company had adopted The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules relating to dealings in securities. Having made specific enquiry with all the Directors, the Directors had complied with the Model Code regarding securities transactions during the six months ended 30 June 2009.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2009, the Company had fully complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 30 June 2009, the interest of the persons (not being a Director or chief executive of the Company) in the shares of the Company which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in Shares

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of total issued ordinary share capital of the Company
China National Computer Software & Information Technology Service Corporation (Hong Kong) Limited (“CS&S (HK)”) (Note 1)	Beneficial interest	245.32	24.30%
Chinasoft National Software and Service Company Limited (“CNSS”) (Note 1)	Interest of controlled corporation	245.32	24.30%
Chinasoft International (Hong Kong) Limited (“Chinasoft (HK)”) (Note 2)	Interest of persons acting in concert	245.32	24.30%
Far East Holdings International Limited (“Far East Holdings”) (Note 3)	Beneficial interest	138.99	13.77%
Greater Pacific Capital Partners, LP (“GPC”) (Note 4)	Beneficial interest	119.27	11.82%
International Finance Corporation (“IFC”) (Note 5)	Beneficial interest	97.25	9.63%
Microsoft Corporation (“Microsoft”) (Note 5)	Beneficial interest	97.25	9.63%

Notes:

1. CNSS was taken to be interested in the Shares in which CS&S (HK) is interested. CNSS holds approximately 99.3% of the total voting rights of CS&S (HK). The number of Shares in which CS&S (HK) is interested includes 23,248,302 Shares which may be issued by the Company to CS&S (HK) pursuant to an acquisition agreement between Chinasoft (HK) and CS&S (HK) dated 28 April 2005 subject to fulfillment of a condition and the exercise of a cash option.
2. Chinasoft (HK) and CS&S (HK) are parties to agreements to acquire interests in the Company which include provisions imposing restrictions with respect to the disposal of interests acquired, and Chinasoft (HK) is taken to be interested in the Shares in which CS&S (HK) is interested pursuant to section 318 of the SFO.
3. Mr. Duncan Chiu, a non-executive Director, is nominated by Far East Holdings. Mr. Duncan Chiu is a director of Far East Holdings.
4. GPC was interested in 119,268,639 Shares.
5. 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 June 2009, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

COMPETING INTERESTS

As at 30 June 2009, Dr. Cui Hui, an executive Director, was interested in approximately 1.15% of the issued share capital of CNSS. Dr. Cui Hui also served as a director of CNSS. Although the Directors are of the view that the principal activities of CNSS do not directly compete with those of the Group currently, the Group and CNSS however are both engaged in the provision of information technology outsourcing.

Save as disclosed above, as at 30 June 2009, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

AUDIT COMMITTEE

The Company established an audit committee on 2 June 2003 and amended its written terms of reference in compliance with the requirements as set out in the Code on Corporate Governance Practices of the Listing Rules. The primary duties of the audit committee are to review and to supervise the financial reporting process and internal control system of the Group. The audit committee comprises of three independent non-executive directors, namely Mr. Xu Zeshan and Mr. Zeng Zhijie and Dr. Leung Wing Yin Patrick.

The audit committee of the Company has reviewed the Interim results of the Group for the six months ended 30 June 2009.

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

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2009.

On behalf of the Board
Dr. Chen Yuhong
Managing Director

7 August 2009, Hong Kong

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

Executive Directors:

Dr. Chen Yuhong (*Managing Director*)
Mr. Wang Hui
Dr. Tang Zhenming

Non-executive Directors:

Dr. Cui Hui (*Chairman*)
Mr. Duncan Chiu
Mr. Fang Jun
Mr. Liu Zheng
Dr. Zhang Yaqin

Independent Non-executive Directors:

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

* *For identification purpose only*