



2008
First Quarterly Report

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8216)

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

HIGHLIGHTS**First Quarter Results for 2008**

	For the three months ended 31 March		
	2008	2007	changes
	RMB'000	RMB'000	
Total revenue	232,703	119,008	+96%
EBITDA	28,802	19,157	+50%
EBITA	26,296	18,952	+39%
Profit for the period	27,804	12,538	+122%
Profit attributable to shareholders	24,325	11,971	+103%
Earnings per share	0.025	0.016	+56%

- Accomplished a net profit of approximately RMB27,804,000 for the year 2008 (2007: approximately RMB12,538,000)
- Achieved a turnover of approximately RMB232,703,000 for the year 2008 (2007: approximately RMB119,008,000)
- EBITDA of approximately RMB28,802,000 (2007: RMB19,157,000)
- Basic earnings per share of the Company was approximately RMB0.025 for the year 2008 (2007: RMB0.016)
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2008
- No closure for the Register of Members of the Company

FIRST QUARTER RESULTS

The board of Directors (the “Directors”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2008, together with the comparative unaudited results of the Company for the corresponding period in 2007, as follows:

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		For the three months ended 31 March	
	Notes	2008 RMB'000	2007 RMB'000
Turnover	2	232,703	119,008
Cost of sales		(160,311)	(72,234)
Gross profit		72,392	46,774
Other income		2,933	3,688
Selling and distribution costs		(9,383)	(6,928)
Administrative expenses		(39,646)	(24,582)
Amortisation of intangible assets		(5,135)	(2,983)
Profit from operations		21,161	15,969
Finance costs		(4)	–
Redeemable convertible preferred shares dividend		–	(2,116)
Share of results of associates		1,637	928
Gain arising from changes in fair value of redeemable convertible preferred shares		7,443	–
Profit before taxation		30,237	14,781
Taxation	3	(2,433)	(2,243)
Profit for the period		27,804	12,538
Attributable to:			
Equity holders of the Company		24,325	11,971
Minority interests		3,479	567
		27,804	12,538
Dividend	5	–	–
Earnings per share			
Basic	4	RMB0.025	RMB0.016
Diluted	4	RMB0.014	RMB0.012

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the parent company										
	Ordinary share capital RMB'000	Ordinary share premium RMB'000	Translation reserve RMB'000	Share options reserve RMB'000	General reserve fund RMB'000	Statutory enterprise expansion fund RMB'000	Statutory surplus reserve fund RMB'000	Accu- mulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2007	40,184	128,899	(6,942)	11,243	9,714	8,868	341	20,528	212,835	20,820	233,655
Recognition of equity-settled share based payments	-	-	-	158	-	-	-	-	158	-	158
Exchange differences arising from translation of overseas operations	-	-	999	-	-	-	-	-	999	-	999
Net profit for the period	-	-	-	-	-	-	-	11,971	11,971	567	12,538
At 31 March 2007	40,184	128,899	(5,943)	11,401	9,714	8,868	341	32,499	225,963	21,387	247,350
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
Recognition of equity-settled share based payments	-	-	-	1,631	-	-	-	-	1,631	-	1,631
Exchange differences arising from translation of overseas operations	-	-	4,831	-	-	-	-	-	4,831	-	4,831
Net profit for the period	-	-	-	-	-	-	-	24,325	24,325	3,479	27,804
At 31 March 2008	51,398	505,483	3,607	26,747	15,793	8,868	505	154,055	766,456	42,498	808,954

Notes:

1. BASIS OF PRESENTATION

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

2. TURNOVER

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

	For the three months ended 31 March			
	2008 RMB'000		2007 RMB'000	
Solutions	147,052	63.19%	80,737	67.84%
IT outsourcing	78,381	33.68%	33,492	28.14%
IT consulting and training services	6,818	2.93%	4,009	3.37%
Standalone software products	452	0.20%	770	0.65%
	232,703	100%	119,008	100%

3. TAXATION

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

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 will change the tax rate from 33% to 25% from 1 January 2008.

Pursuant to an approval document issued by the State Bureau of Beijing Haidian District dated 21 November 2000, 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 up to year 2007. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulation of the New Law.

Pursuant to an approval document issued by the Guangzhou Science and Technology Bureau dated 31 March 2004, 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 National Tax Bureau dated 2 June 2004, Chinasoft Guangzhou was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2003. The tax rate with effect from 2008, is 25% under the New Law.

Pursuant to an approval document issued by the State Bureau of Kunming City, Yunnan Province dated 15 June 2007, Chinasoft Kunming, a subsidiary of the Company, had been designated as a technology development enterprise. As a result, Chinasoft Kunming 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 2006. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulation of the New Law.

Pursuant to an approval document issued by the Hunan Science and Technology Bureau dated 13 June 2006, 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 with effect from 2006. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulation of the New Law.

Pursuant to an approval document issued by the State Bureau of Tianjin Economic and Technology Development Zone dated 20 February 2003, Cyber Resources, a subsidiary of the Company, 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 Regulation of the New Law.

Pursuant to an approval document issued by the Beijing Science and Technology Commission dated 25 June 2004, 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 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. 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.

Pursuant to an approval document issued by the State Bureau of Shenzhen Nanshan District dated 1 March 2005, 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. 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.

Pursuant to an approval document issued by the Shanghai City District Bureau dated 27 February 2007, Chinasoft Resources Shanghai, a subsidiary of the Company, was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction with effect from 2006. 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.

4. 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:

	2008 RMB'000	2007 RMB'000
Earnings for the purposes of calculating basic earnings per share	<u>24,325</u>	<u>11,971</u>
Effect of dilutive potential ordinary shares: Gain arising from changes in fair value of redeemable convertible preferred shares	<u>7,443</u>	—
Earnings for the purposes of calculating diluted earnings per share	<u>16,882</u>	<u>11,971</u>
	Number of shares	
	2008	2007
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>989,838,375</u>	<u>758,817,476</u>
Effect of dilutive potential ordinary shares: Issuable under the Company's share option scheme	<u>22,982,507</u>	10,511,470
Conversion of the redeemable convertible preferred shares	<u>194,500,000</u>	194,500,000
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,207,320,882</u>	<u>963,828,946</u>

5. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2008 (2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 31 March 2008, the Company reported an unaudited turnover of approximately RMB232,703,000 (2007: RMB119,008,000), representing an increase of approximately 96% as compared with the corresponding period last year. The increase in turnover was attributable to a drastic increase in total solution of approximately RMB147,052,000 from last corresponding period of approximately RMB80,737,000, representing an increase of 82% and substantial increase in IT outsourcing of approximately RMB78,381,000 from last corresponding period of approximately RMB33,492,000, representing an increase of 134% and substantial increase in IT consulting and training of approximately RMB6,818,000 from last corresponding period of approximately RMB4,009,000, representing an increase of 70% and finally a drop in the sales of standalone software products of approximately RMB452,000 from last year of approximately RMB770,000, representing a decrease of 41%.

For the three months ended 31 March 2008, the Company recorded an unaudited net profit for the period of RMB27,804,000 (2007: RMB12,538,000), representing an increase of 122% as compared with the corresponding period last year. The above unaudited net profit for the period of RMB27,804,000 have been taken into consideration of the gain arising from changes in fair value of redeemable convertible preferred share of RMB7,443,000 as income. 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 ("HKAS39"). Therefore, the management is in the view that if deducting the gain arising from changes in fair value of redeemable convertible preferred share of RMB7,443,000 as income due to the effect of HKAS39, the adjusted unaudited net profit for the period should be RMB20,361,000 (2007: RMB14,654,000 which is unaudited net profit of RMB12,538,000 adding back expense of redeemable convertible preferred share dividend of RMB2,116,000), representing an increase of 39%.

For the three months ended 31 March 2008, the Company accomplished an unaudited gross profit of approximately RMB72,392,000 (2007: RMB46,774,000), representing an increase of approximately 55% as compared with last year. The gross profit margin for the three months was 31.1% (2007: 39.3%). The decrease of 8.2% in the gross profit margin was related to having the hardware turnover of approximately RMB73,629,000 taken up in this quarter and the lower gross profit margin of these hardware of less than 10% have slightly drifted down the overall gross profit margin ratio. Moreover, the implementation of the new labour law has increased the labour costs of the Group, which resulted in lower earnings and gross profit margin. In addition, the business

model and business gross profit structure of HGR were different from the original business of the Group and subject to further improvement and enhancement. Compared with the corresponding period last year, the consolidation of HGR's profit or loss has resulted in a lower overall gross profit margin of the Group during the reporting period.

The net profit margin for the three months ended 31 March 2008 was 11.9% (2007: 10.5%), representing an increase of 1.4%.

The selling and distribution cost was approximately RMB9,383,000 (2007: RMB6,928,000), representing an increase of 35% as compared with last year which outperform in line with an increase of 96% in turnover. The ratio of selling and distribution cost to turnover was 4.0% (2007: 5.8%) representing a decrease of 1.8%.

The administrative expenses (excluding depreciation of approximately RMB2,506,000) for the three months ended 31 March 2008 was approximately RMB37,140,000 (2007: RMB24,377,000), representing an increase of approximately 52%. The ratio of administrative expenses (excluding depreciation) to turnover is 16% (2007: approximately 20.5%) representing an decrease of 4.5%.

The EBITDA for the three months ended 31 March 2008 was approximately RMB28,802,000 (2007: RMB19,157,000) representing an increase of approximately 50% and the EBITA for the three months was approximately RMB26,296,000 (2007: RMB18,952,000) representing an increase of 39%.

Basic EPS was RMB0.025 (2007: RMB0.016) representing an increase of 56%.

BUSINESS REVIEW

During the reporting period, the Group's overall business revenue amounted to RMB233,000,000, of which revenue of services business amounted to RMB160,000,000, representing an increase of 96% and 105% compared to the same period last year. The Group's overall net profits (EBITDA) amounted to RMB28,800,000, representing an increase of 50% compared to the same period last year.

INDUSTRY SOLUTION BUSINESS

During the reporting period, the Group's industry solution business followed the development ideas of vertical penetration and expansion with competitive advantage, implemented the strategy of industry integration in full force and furthered our efforts to become an influential service provider of industry solutions. The Group was awarded "IBM Top Industry Solution Provider 2007" by IBM during the reporting period.

The Group's industry solution business covers banking and financial services industry, government and public utilities industry and consumer packaged goods industry. During the reporting period, revenue from the solution business amounted to RMB81,940,000, representing an increase of 106% compared to the same period last year, of which revenue from the banking and financial services industry amounted to RMB31,700,000; revenue from the government and public utilities industry amounted to RMB17,510,000; and revenue from the consumer packaged goods industry amounted to RMB32,730,000.

FINANCIAL AND BANKING SERVICES INDUSTRY

During the reporting period, the Group successfully passed the trial run of National Post Remittance Macro Centralized System (abbreviated as "Remittance Macro Centralized System"). The system is the first authentic national macro centralized system of the Postal and Savings Bank. The set up of the system followed the trend of changing from distributed system to centralized system development and transformed the post remittance system from the original 31-province centralized model into a business logic and data nationally-centralized model, which realized technological optimization and workflow optimization and provided convenient and speedy services to clients. The system was designed with processing capability of 1,400 tranches/second and connected with 50,000 outlets of the Postal and Savings Bank. It was a software development and integration project with biggest milestone meaning in the financial informationization process of the Postal and Savings Bank.

GOVERNMENT AND PUBLIC UTILITIES INDUSTRY

During the reporting period, with the “e-” projects of national informationization and business and technical competitive advantage accumulated over the years in various supervisory domains, the Group’s government and public utilities sectors will work hard to find out business needs in these newly explored sectors, refine business delivery management to cater for the whole supply chain of the sectors and develop these into new strategic industry.

During the reporting period, the main government informationization projects that we signed contracts for and started services included:

E-Audit Project:

During the reporting period, the Group continued to promote the application, implementation and deployment of the two systems of e-Audit project Phase 1 at the city and district levels. The advanced technology, stability, functions and scale of this system as well as our good services were highly recognized by audit system clients.

As of the end of the reporting period, the On-site Audit Implementation System (AO) of e-Audit project Phase 1 issued over 70,000 packages to audit authorities in China. Based on the fact that there are 80,000 audit personnel in the audit authorities in China, a situation where each audit personnel has one On-site Audit Implementation System (AO) is nearly reached, and the On-site Audit Implementation System (AO) has become a necessary tool for all audit personnel in China.

During the reporting period, the Group continued to carry out nationwide deployment of Audit Management System (OA), signed contracts with clients such as the Audit Bureau of Xinzhou and the Audit Bureau of Baise etc., and realized intensive coverage of OA deployment on a nationwide scale, of which 35 out of the total 37 provincial audit authorities, with a coverage of 94.6%, 224 out of 329 audit authorities at the district and city level, with a coverage of 68%, and 1,554 out of 2,862 counties, with a coverage rate of 54%.

FORMALLY SIGNED THE CONTRACT OF “E-AGRICULTURE” PHASE 1 GENERAL INTEGRATION AND DEVELOPMENT OF RELATED SYSTEMS PROJECT FROM MINISTRY OF AGRICULTURE

During the reporting period, the Group formally signed contract with Ministry of Agriculture and started “e-Agriculture” Phase 1 general integration project. The purpose of “e-Agriculture” Phase 1 project is to create a uniform agriculture e-Government support environment, standardize software connection standard and increase substantially the degree of re-usability of the agriculture business system and the inter-linkage, inter-connection and mutual operation among systems. Through the set up of the project, it will effectively create a “agriculture e-Government support platform” suitable for agriculture sector application and development characteristics and achieve information exchange and business synergy between the state and local level vertically, and with bodies involved in agriculture horizontally.

Complete development of the “System for management of information system for punishment and prevention of corruption” from State Owned Assets Supervision and Administration

The “System for management of information system for punishment and prevention of corruption” is oriented towards the State Owned Assets Supervision and Administration and various central enterprises under its supervision, it provides the setting up of preventive system informationization platform, creation of political party atmosphere and anti-corruption propaganda educational platform, information collection for the setting up of preventive system, statistic platform and analysis and alert of anti-corruption work and informationized tools for performance appraisal and evaluation, creation of an information database for ethical enterprise leaders. This system is based on ResourceOne, the matured integration platform of the e-Government application system from the Group, designed and developed by a structural method and set up a three-tier application among State Owned Assets Supervision and Administration, first class central enterprises and central member enterprises supported by data transmission channels among them to cater for the needs from works of the Discipline Commission of State Owned Assets Supervision and Administration and all levels of discipline inspection institutions for central enterprises.

CONSUMER PACKAGED GOODS INDUSTRY

For the consumer packaged goods industry, the Group's direction of strategies is positioned at the consumer goods logistics domain, especially in the tobacco industry, we provides full services from management consultancy, business consultation, software development, project implementation to day-to-day system operation maintenance for the tobacco industry in China, our business scope covers ERP, MES, industrial and commercial logistics, industrial and commercial marketing, commercial network set up, data centre, office automation, enterprise application integration etc; given our thorough understanding of the tobacco industry, we participate in the formulation of standard system for the tobacco industry data centre and overall planning of the e-Government of this industry, provide total solutions for e-commerce system, e-Government system and management decision systems for the informationization of tobacco information.

During the reporting period, the Group further fueled the promotion and implementation of the "State Tobacco Monopoly Administration carton-level tobacco track and trace system and purchase order information collecting system" project on a nationwide scale. 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 reporting period, contracts were signed with 345 tobacco companies and implementation was started on site, the percentage share was 92%.

During the reporting period, those other tobacco informationization projects of which the Group won the tender and started services included:

SHANXI KUNMING CIGARETTES CO., LTD. DIGITALIZED INVENTORY AND WHOLE PALLET WAREHOUSE ENTRY AND EXIT SYSTEM DEVELOPMENT PROJECT

The purpose of setting up this project is to adopt the advanced RFID technology to code and store barcode information of a mound of tobacco by realizing the digitalized inventory and whole pallet warehouse entry and exit system development project from Shanxi Kunming Cigarettes Co., Ltd and to make use of the read-and-writable function of RFID to enable the tobacco factories to perform warehouse exit scanning in pallet units. The efficiency and accuracy of the decision making system and the RFID industrial and commercial tobacco logistics system were significantly enhanced. Through double scanning on one bar code, the decision making system and bar code system will penetrate into different sectors of industrial enterprises such as production, inventory, logistics and etc and closely link with the enterprises' own management systems. To realize the integration of the decision making system and enterprise inventory management system and achieve inter-linkage and inter-connection of information, the industrial enterprises can base on their own management needs and realize the workflow integration of combined transportation of industrial and commercial pallets and enterprise inventory management system and integration of data.

This system comprises of whole pallet tobacco warehouse entry and exit functions and bulk handling as well as whole pallet direct warehouse exit function. Through inventory management software and hardware, whole pallet warehouse entry and exit management software and hardware, warehouse entry and exit guiding screen, etc, functions such as rapid warehouse entry and exit, stock taking, speedy enquiry, first-in-first-out, statement and statistics printing of tobacco were realized.

This system adopted pallet coding tobacco related information method and implemented pallet mound related works in the industrial finishing session to allow simple and rapid information collection by the tobacco barcode information collection system. Through the implementation of the industry decision making system, the decision making system penetrated into different sectors of industrial enterprises such as inventory, logistics and etc and closely link with the enterprises' own management systems, which can realize the integration of the decision making system and enterprise management system and achieve inter-linkage and inter-connection of information.

SOFTWARE SERVICES OUTSOURCING BUSINESS

The Group's IT outsourcing (ITO and BPO) service businesses cover a full range of low end to high end technical services such as BPO (including Call Center, Data-entry and CAD), Testing, Localization & Globalization, Products engineering, Application Development and Packaged Software Services. The Group's revenue of IT outsourcing services during the reporting period arrived at RMB78,380,000, representing an increase of approximately 130% compared to the same period last year.

During the reporting period, the percentage share of onsite and offshore outsourcing business revenues were 44% and 56% respectively. Our outsourcing business classified by clients indicated that the main source was from multinational clients, and when classified according to the place of head office, they were mainly in the two main regions of Europe and America and Japan, with a percentage share of 72% and 28% of the outsourcing business revenue respectively.

Training business

During the reporting period, the Group's training business team fully realized an interactive and sizable mutual development target with the industry solution business team and IT software outsourcing services business team. The training business continued to expand the scale of the practical training base and strengthen the training of staff's technical ability, created a development platform of Chinasoft International "IT industry human resources supply chain". The "human resources supply chain" is our strategic basic resources and a core competitiveness for our rapid development.

During the reporting period, Chinasoft International's Changsha Software Industry Base was established. Changsha Software Industry Base is Chinasoft International's first regional software industry base project since the establishment of Beijing Changping Software Industry Base. As an important establishment for the idea of creating a "human resources supply chain" platform for the Group, the establishment of Changsha Software Industry Base will maintain the human resources supply chain for our fast expanding business.

As at the end of the reporting period, 93 universities already built up cooperation relationship with Chinasoft Practical Training Campus, with approximately a total of 6,700 students participated in the training courses of the Campus. 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. "Chinasoft International Training Centre" already built up a good brand image among universities and educational training institutions. During the reporting period, the traditional IT training of the Training Centre obtained rapid development results, it offered a total of 61 training classes, and accomplished the training of 2,281 students during the reporting period. As the training base of the Group, the Centre not only provides a large number of back up personnel for the Group internally, but also improves the existing staff's technical and project management ability through sustainable internal training such that they grow up rapidly to become business key personnel meeting work requirements. During the reporting period, a total of 114 internal staff of the Group participated the internal training from the Training Centre.

During the reporting period, Chinasoft International Training Centre signed a cooperative agreement on "establishing training system for international software outsourcing management personnel" with ILOM (International Institute for Outsource Management). Through the cooperation with international renowned outsourcing research institute, the Group introduced advanced international software outsourcing management experiences from Europe and the United States to China, opened systematic courses oriented towards software outsourcing management in Europe and the United States and filled the gap for software outsourcing management personnel training in China.

Awards

- Chinasoft International was awarded "IBM Top Industry Solution Provider 2007" by IBM
- Chinasoft International ranked fifth on Outsourcing China's "China Services Outsourcing Enterprises Top 50 Best Practice Ranking"
- Chinasoft International was awarded "2007 National Top-tier Domestic Software Enterprise"

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2008, 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	64,637,608	6.53%
Cui Hui	20,500,000	2.07%
Wang Hui	9,517,838	0.96%
Tang Zhenming	11,747,765	1.19%

Options to subscribe for Shares

Name of Director	Exercise Price (HK\$)	No. of share options outstanding as at 31 March 2008	Percentage of total issued share capital of the Company	No. of underlying Shares interested in	Note
Chen Yuhong (Note1)	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	(5)
Duncan Chiu	0.65	1,000,000	0.12%	1,000,000	(5)
Tang Zhenming (Note2)	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)
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 31 March 2008.
- (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 31 March 2008.
- (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 31 March 2008.
- (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 10 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 of offer, subject to the following conditions:-

Exercisable Period

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

- (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

Save as disclosed above and so far as was known to the Directors, as at 31 March 2008 none of the Directors or chief executive of the Company had any interests or short positions in the shares, debentures or underlying shares of the Company or its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

As at 31 March 2008, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2007 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by, or leased to the Company or any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at 31 March 2008, none of the Directors were materially interested in any subsisting contract or arrangement which was significant in relation to the business of the Group.

SHARE OPTION SCHEME

As at 31 March 2008, share options to subscribe for an aggregate of 88,926,500 Shares granted to certain directors and employees of the Group pursuant to the Share Option Scheme with terms on the exercise of the share options granted as set out in Notes (4), (5) and (6) and (7) in the section headed "Directors' Interests in Shares" above were outstanding.

Save as disclosed above, no option had been granted, exercised and lapsed pursuant to such Share Option Scheme for the three months ended 31 March 2008.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the three months ended 31 March 2008 none of the Directors was granted options to subscribe for shares of the Company and as at 31 March 2008 none of the Directors had any rights to acquire shares in the Company.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the three months ended 31 March 2008, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the Directors, the Directors had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the three months ended 31 March 2008.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2008, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in Shares

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of total issued 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	20.11%
Chinasoft National Software and Service Company Limited ("CNSS") (Note 1)	Interest of controlled corporation	199.01	20.11%
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)") (Note 2)	Interest of persons acting in concert	199.01	20.11%
Far East Holdings International Limited ("Far East Holdings") (Note 3)	Beneficial interest	130.42	13.18%
Greater Pacific Capital Partners, LP ("GPC") (Note 4)	Beneficial interest	99.27	10.03%
International Finance Corporation ("IFC") (Note 5)	Beneficial interest	97.25	9.82%
Microsoft Corporation ("Microsoft") (Note 5)	Beneficial interest	97.25	9.82%
Dr. Chen Yuhong (Note 6)	Beneficial interest	64.64	6.53%
ABN AMRO Holding N.V. (Note 7)	Beneficial interest	59.26	5.99%

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 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. Dr. Chen Yuhong, an executive Director, was interested in 64,637,608 Shares.
7. ABN AMRO Holding N.V. was interested in 59,260,000 Shares.

Save as disclosed above, as at 31 March 2008, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

COMPETING INTERESTS

As at 31 March 2008, Dr. Cui Hui, an non-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 (an non-executive Director) and Dr. Chen Yuhong (an executive Director) had been appointed as directors of CNSS since September 2006 and April 2004 respectively. Although the Directors are of the view that the principal activities of CNSS do not directly compete with those of the Group currently, the Group and CNSS however are both engaged in the provision of information technology outsourcing.

Save as disclosed above, as at 31 March 2008, 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. Xu Zeshan and Mr. Zeng Zhijie and Dr. Leung Wing Yin Patrick.

The audit committee of the Company has reviewed the first quarterly results of the Group for the three months ended 31 March 2008.

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

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any listed securities of the Company during the three months ended 31 March 2008.

On behalf of the Board
Dr. Chen Yuhong
Managing Director

15 May 2008, Beijing, PRC