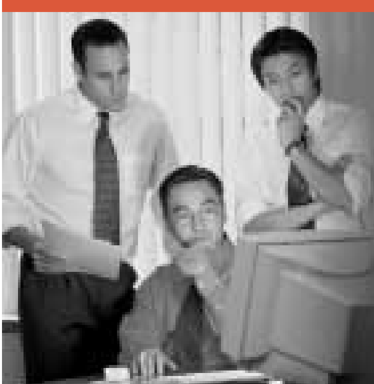
CHINASOFT INTERNATIONAL LIMITED

中 軟 國 際 有 限 公 司*

(Incorporated in the Cayman Islands with limited liability)



2006 First Quarterly Report

* for identification purpose only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this annual report.

This annual 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 annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Accomplished a gross profit and a net profit of approximately RMB27,792,000 and RMB10,499,000 respectively (2005: RMB21,697,000 and RMB8,045,000) for the three months ended 31 March, 2006, representing an increase of approximately 28.09% and 30.50% respectively as compared to the corresponding period in 2005.

- Achieved a gross profit margin and a net profit margin of approximately 44.1% and 16.6% respectively (2005: approximately 24.4% and 9.0% respectively) for the three months ended 31 March, 2006, representing an increase of approximately 19.7% and 7.6% respectively as compared to the corresponding period in 2005. The growth in the profit margin indicates the Group successfully transformed its business to a higher profit margin business (software development, IT outsourcing and BPO) from a lower profit margin business (hardware business).

- Achieved a turnover of approximately RMB63,068,000 (2005: RMB89,075,000) for the three months ended 31 March, 2006, representing a decrease of approximately 29.2% as compared to the corresponding period in 2005 which was in line with business transformation of the Group to focus on software development, IT outsourcing and BPO and reduce the portion of hardware business.

- Basic earnings per share and diluted earnings per share of the Company were approximately RMB0.014 (2005: RMB0.012) and RMB0.013 (2005: RMB0.011) respectively for the three months ended 31 March, 2006.

- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March, 2006.

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, 2006, together with the comparative unaudited results of the Company for the corresponding period in 2005, as follows:

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	For the three months ended 31 March, 2006 RMB'000	2005 RMB'000
Turnover	2	**63,068**	89,075
Cost of sales		**(35,276)**	(67,378)
Gross profit		**27,792**	21,697
Other operating income		**1,478**	–
Distribution costs		**(4,392)**	(3,332)
Administrative expenses		**(11,810)**	(9,365)
Amortisation of development costs & technical knowhow		**(927)**	(638)
Profit from operations		**12,141**	8,362
Finance costs		**(1)**	117
Share of result of an associate		**314**	365
Profit before taxation		**12,454**	8,844
Taxation	3	**(1,955)**	(799)
Profit for the period		**10,499**	8,045
Attributable to:			
Equity holder of the parent		**10,392**	8,045
Minority interests		**107**	–
		10,499	8,045
Dividend	5	**–**	–
Earnings per share			
– basic	4	**0.014**	0.012
– diluted	4	**0.013**	0.011

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the parent company														
	Ordinary share capital	Ordinary share premium	Issuable shares	Redeemable convertible preferred share capital	Preferred share premium	Translation reserve	Share options reserve	General reserve fund	Statutory Enterprise expansion fund	Statutory surplus reserve fund	Statutory public welfare fund	Accu-mulated profits	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1st January, 2005	36,968	85,185	-	-	-	90	3,492	1,250	589	-	-	71,932	199,506	-	199,506
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	8,045	8,045	-	8,045
At 31st March, 2005	36,968	85,185	-	-	-	90	3,492	1,250	589	-	-	79,977	207,551	-	207,551
At 1st January, 2006	38,816	120,672	24,420	-	-	(2,047)	7,098	1,573	728	63	32	103,648	295,003	14,032	309,035
Recognition of equity-settled share based payments	-	-	-	-	-	-	434	-	-	-	-	-	434	-	434
Issue of redeemable convertible preferred shares	-	-	-	10,114	151,710	-	-	-	-	-	-	-	161,824	-	161,824
Net profit for the period	-	-	-	-	-	-	-	-	-	-	-	10,392	10,392	107	10,499
At 31st March, 2006	38,816	120,672	24,420	10,114	151,710	(2,047)	7,532	1,573	728	63	32	114,040	467,653	14,139	481,792

Notes:

1. BASIS OF PRESENTATION

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

2. TURNOVER

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

	For the three months ended 31 March,			
	2006		2005	
	RMB'000		*RMB'000*	
Solutions	**34,348**	**54.46%**	73,760	82.81%
IT outsourcing	**23,905**	**37.90%**	14,298	16.05%
IT consulting and training services	**2,590**	**4.11%**	521	0.58%
Standalone software product	**2,225**	**3.53%**	496	0.56%
	63,068	**100%**	89,075	100%

3. TAXATION

Pursuant to an approval document issued by the State Tax Bureau of Beijing Haidian District dated 21 November, 2000, Beijing Chinasoft International Information Technology Limited ("Beijing Chinasoft"), a wholly-owned operating subsidiary of the Group, has been designated as an advanced technology enterprise and is entitled to three years of 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, Beijing Chinasoft is subject to the income tax computed at the rate of 7.5% for the three years ending 31 December, 2005 and at the rate of 15% on its taxable profit thereafter.

Pursuant to an approval document issued by the Guangzhou Science and Technology Bureau dated 31 March, 2004, Chinasoft International (Guangzhou) Information Technology Limited ("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 two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2003.

Pursuant to an approval document issued by the Beijing Science and Technology Commission dated 25 June, 2004, Chinasoft Resources Information Technology Services Limited ("Chinasoft Resources Beijing"), a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Resources Beijing was entitled to three year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2004.

Pursuant to an approval document issued by the State Bureau of Shenzhen Nanshan District dated 1 March, 2005, Shenzhen Chinasoft Resources Information Technology Services Limited ("Chinasoft Resources Shenzhen"), a subsidiary of the Company, had been designated as a newly established software enterprise. As a result, Chinasoft Resources Shenzhen was entitled to two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2004.

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

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

4. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months ended 31 March, 2006 was based on the net profit attributable to shareholders of the Company (the "Shareholders") of approximately RMB10,392,000 during the three months ended 31 March, 2006 (2005: RMB8,045,000) divided by the weighted average number of ordinary shares then issued of 732,372,453 shares (2005: 697,500,000 shares) during the three months ended 31 March, 2006.

The calculation of diluted earnings per share for the three months ended 31 March, 2006 was based on the net profit of RMB10,392,000 for the three months ended 31 March, 2006 (2005: RMB8,045,000) divided by the weighted average number of shares used in calculation of diluted earnings per share for the three months ended 31 March, 2006 of 795,182,453 Shares (2005: 761,240,000 Shares).

5. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March, 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 31 March, 2006, the Company reported an unaudited turnover of approximately RMB63,068,000 (2005: RMB89,075,000), representing a decrease of approximately 29.2% as compared with the corresponding period last year. The decrease in turnover was attributable to the business transformation of the Group as to focus on software development, IT outsourcing and BPO and reduce the portion of hardware business.

For the three months ended 31 March, 2006, the Company recorded an unaudited net profit attributable to Shareholders of RMB10,392,000 (2005: RMB8,045,000), representing an increase of 29.17% as compared with the corresponding period last year. The gross profit margin was approximately 44.1% (2005: 24.4%). Basic earning per share was approximately RMB0.014 (2005: RMB0.012). Diluted earnings per share was approximately RMB0.013 (2005: RMB0.011).

The gross profit margin and the net profit margin of the Group for the three months ended 31 March, 2006 was approximately 44.1% and 16.6% respectively (Year 2005: approximately 24.4% and 9% respectively) representing an increase of approximately 19.7% and 7.6% respectively as compared to the corresponding period in 2005. The remarkable increase in both gross profit margin and net profit margin of the Group was attributable to the business transformation of the Group as to focus on software development and whole-range IT services provider.

The ratio of distribution costs to turnover was 6.96%, representing an increase of 3.22% as compared to 3.74% of the corresponding period last year since the ratio of selling expenses of software development is comparatively higher but with a higher gross profit margin. The percentage of administrative expenses to turnover was 18.73% representing an increase of 8.22% as compared to 10.51% of the corresponding period last year. With an expansion of the size of the Group's operations, the increase in administrative expenses due to the increase in technical support staff and increase in amortisation and depreciation are reasonable.

BUSINESS REVIEW

- Gross profit and net profit recorded by the Company increased substantially as compared with the same period last year

- In industries with market dominance

  1. As to the tobacco industry:

     1) undertook the first phase of the tobacco industry market monitoring system project;

     2) undertook the development project of application software for the re-engineering process of tobacco production and operation decision system of the tobacco industry by Guangdong Zhongyan Industrial Company.

  2. As to the audit industry:

     1) the first phase of "e-Audit" project expanded into Sanya of Hainan, Shenzhen of Guangdong, Anyang of Henan and Dalin of Liaoning.

- In industries under development

  1. Entered into contract in respect of the feasibility study report on the phase 1 of the "e-Farming" project so as to expand in the software market for "e-Farming".

- Rapid growth in IT outsourcing.

1. Gross profit and net profit recorded by the Company increased substantially as compared with the same period last year

During the reporting period, the gross profit of the Group increased by 28.09% as compared with the same period last year, whilst gross profit margin increased by 19.7 percentage points. Net profit increased by 30.5% as compared with the same period last year, whilst net profit margin increased by 7.6 percentage points. Such outstanding results were mainly attributable to the transformation of business model by the Group during the year. The Group ceased to engage in the distribution of hardware and efforts were placed entirely on IT services and outsourcing in which the Group has the most expertise. The Group became solely engaged in the software and service business. Although the Group's turnover fell slightly, profit margin for IT services and outsourcing were higher. During the reporting period, IT outsourcing accounted for 37.9% of the turnover, representing an increase of 21.4 percentage points as compared with the same period last year. Therefore during the reporting period, gross profit margin and net profit margin rose substantially. In the meantime, growth in the Group's gross profit and net profit remained rapid. The Group believes that upon the growth of its own businesses and through mergers and acquisitions, growth in turnover will remain rapid in the future for the Company. In addition, this transformation will bring better return on investment for investors.

2. In industries with market dominance

1) As to the tobacco industry:

(1) Undertook the first phase of the tobacco industry market monitoring system project

As the Group successfully developed "the tobacco production and operation decision system of the tobacco industry" for the tobacco industry, the State Tobacco Control Bureau continued to explore the potentials of the system. During the reporting period, the State Tobacco Control Bureau engaged the Group to develop the first phase of the tobacco industry market monitoring system project, so as to expand and perfect the functions of "the tobacco production and operation decision system of the tobacco industry". The project for tobacco industry market monitoring system will establish a system for the collection and analysis of production costs and expenses figures related to the pricing of tobacco leaves. Such system will then be used as a basis for the development of a tobacco leaves pricing decision model and establish a scientific evaluation system on the tobacco leaves pricing policy. A pricing administration system for the subject tobacco and obsolescing tobacco will be established on the basis of the tobacco production and operation decision system of the tobacco industry, which will include data collection, integrated queries and statistical analysis. As such the integration of the existing tobacco pricing information administration system and the tobacco production and operation decision system of the tobacco industry will be achieved.

(2) Undertook the development project of application software for the re-engineering process of the tobacco production and operation decision system of the tobacco industry by Guangdong Zhongyan Industrial Company

The successful implementation of the tobacco production and operation decision system of the tobacco industry has made a deep impact on the local tobacco industry. As such, local tobacco industry began to accelerate their pace in the application of informatization as a means to manage their enterprises.

Guangdong Zhongyan Industrial Company acted as a pioneer and decided to engage the Group to develop a system that will enable it to manage the production at its head factory, branch factories and production outlets more effectively. Such system will include:

- Unified bar codes identifying production location of tobacco pieces
- Monitoring the compliance of brand specifications by various branch factories and production outlets
- Administering the production plan at workshops of various production outlets
- Encoding function of the coding machines at the branch factories
- Maintaining historical records on the codes not returned
- Inputting monthly tobacco specification production plans of various branch factories at the head factory
- Inputting monthly tobacco specification production plans at various branch factories
- Providing monitoring and queries of records in respect of the branch factories (production outlets) at the head factory
- Storing finished goods at the warehouse and transfer of finished goods from the warehouse
- Improving statistical queries and analysis

2) As to the audit industry:

(1) the first phase of "e-Audit" project expanded into Sanya of Hainan, Shenzhen of Guangdong, Anyang of Henan and Dalin of Liaoning

During the reporting period, the Group entered into marketing agreements at Sanya of Hainan, Shenzhen of Guangdong, Anyang of Henan and Dalin of Liaoning. This paved the way to launch the audit field implementation system and audit field management system developed by the Group.

3. In industries under development

1) Entered into contract in respect of the feasibility study report on the e-Farming project for the development of software market for the e-Farming industry

The "e-Farming" project is one of the 12 "e" projects of the State. The Group has devoted much endeavours to the construction of the State's "e" projects. Leading edge was already made in the "e-Audit" project, and the Group has reached the core of the "e-Quality" and "e-Insurance" projects.

The overall objectives of the e-Farming project are to improve the construction of agricultural electronic facilities, to establish and perfect the agricultural and rural economic monitoring and administration service information system, to strengthen the capabilities in economic adjustment and market regulation by the agricultural authorities, to consolidate the construction of rural information services systems, to establish major public information services systems applicable to rural villages in China, to consolidate and expand the work results on agricultural and rural informatization at various levels of the government, to enhance the internal information integration of agricultural authorities, to promote information sharing and business synergy between different authorities, to improve the level of utilization for the development of rural information resources, to eliminate the phenomenon of "isolated information island", to further enhance network coverage in rural areas, to establish a team of information research and development, administration and servicing of higher quality, to promote service to the public at large, to gradually reduce the "digital gap" between urban and rural areas in accordance with the requirements for the construction of a new village with socialist characteristics. Through five years of construction, informatization of agricultural decision, monitoring and servicing were achieved in principle. An agricultural information system that basically adapted to the development requirements of rural economy was established in principle.

The principal elements for the construction of the first phase of the e-Farming project will be the construction of application systems in three categories, the development of information sources in two categories, and improvement on a service network, which will be the construction of agricultural monitoring and alert system, agricultural products and production information market monitoring information system, agricultural market and technology information servicing system, to develop integration of the domestic and international agricultural information resources, and the construction of national agricultural information services network extending to counties and villages.

The Group is confident that the "e-Farming" project will obtain leading position in future and develop the "e-Farming" project into a new industry with market dominance.

4. Rapid growth in IT outsourcing

The Group devoted much endeavours to develop contracting. The number of staff engaged in contracting business increased by 8% when compared with the same period last year. In the meantime, the proportion of bidding awarded during the reporting period improved significantly, with four more bids won. At the same time, there is no loss of existing customers. During the reporting period, the proportion of the Group's turnover attributable to IT outsourcing increased substantially to 37.9%, representing an increase of 21.4 percentage points as compared with the same period last year. The Group recognized that outsourcing business brings steady earnings and efforts will be devoted to expand this business continuously in the future.

Prospects

- To continue to consolidate the leading position in industries with market dominance.

The Group will continue to expand its market share in the tobacco industry and audit industry with its leading position.

As to the tobacco industry, the Group continued its discussion with the State Tobacco Control Bureau on phase 3 of "the tobacco production and operation decision system of the tobacco industry", which is the implementation plan for the project of "operation decision system for the encoding of pieces on receipt and order collection system by the State Bureau". The data collection basis of "the tobacco production and operation decision system of the tobacco industry" developed by the Group for the State Tobacco Control Bureau was by boxes (i.e. 1 box = 10,000 cigarettes). About 180 million of bar codes will be generated every year through the system by the tobacco industry. In order to further enhance the accuracy and timeliness of the data, State Tobacco Control Bureau planned to change the data collection basis to pieces (i.e. 1 piece = 200 cigarettes). The number of bar codes to be generated will be increased to 9 billion. It is expected by the Group that the scale of this project will be similar to the aggregate of phase 1 and 2. As to the local tobacco industry, the Group will achieve the objective through the strategy of forming joint ventures with entities in the tobacco industry.

As to the audit industry, the Group will continue to promote the first phase of the "e-Audit" project. At the same time, it will expand the internal audit and intranet audit system. Meanwhile, the Group will actively participate in phase 2 of the "e-Audit" project. The objectives for the construction of phase 2 of the "e-Audit" project are to comprehensively launch and improve the expansion of the audit and management system established by phase 1 of "e-Audit" project. Intranet audit system and sharing of audit authorities information source at various level were initially achieved. Modern audit methodology with Chinese features was initially established, which laid the foundation for the systematic establishment of China National Audit Information System. Total investment for phase 2 is expected to be about RMB400 million. The Group will first launch the intranet audit scheme throughout China.

- To continue to pursue new industries with market dominance

  The Group is fully aware of the fact that apart from maintaining its leading position in industries with market dominance at present, it has to continue to pursue new industries with market dominance so as to realize high speed growth. The Group has entered into the industries of "e-Quality" and "e-Farming" projects. The feasibility reports for these two industries were prepared by the Group. The Group is confident that it will enjoy comparative advantage in these two industries in future.

- Endeavours were devoted to software contracting business and to tap into the contracting market in Europe and Japan

  There have been stable customers of the Group with respect to the contracting market in Europe and Japan. In the future, the Group will continue to explore market potential. Of which, businesses of Microsoft will still be the focus of the Group. Expansion will be targeted at services concerning ERP MBS system and mobile solutions.

  At the same time, the Group became aware of the significance in the contracting market in Japan, and understood the advantageous position of China in this respect. Therefore, the Group will also tap into the contracting market in Japan.

It is expected by the Group that software outsourcing in the future will account for more than 50% of the Group's turnover.

- To continue to pursue new targets of acquisition

  In future the Group will pursue new targets of acquisition in:

  1. Industries with market dominance at present

     Excellent enterprises in the niche market of industries will be acquired

     As to the tobacco industry, the Group is actively seeking joint venture opportunities with entities in the local tobacco industry. Substantial progress was achieved. At the same time the Group is maintaining good working relationships with various divisional authorities of the State Tobacco Control Bureau. In areas where the Group had been performing relatively weaker, such as the franchising division and the planning division, the Group plans to gain advantage quickly through acquisition.

  2. New industries with market dominance

     Enterprises with certain edge in the industry will be acquired so as to rapidly enter the industries and establish a foothold with leading edge. These industries will be finance, banking and telecommunications.

  3. Contracting

     The Group will continue to acquire contracting companies of a certain scale, and to rapidly increase the Group's contracting customers and staff engaging in contracting. The Group is now working on the expansion of outsourcing in Microsoft's market. At the same time it will also devote efforts to expand the outsourcing market in Japan.

DIRECTORS' INTERESTS IN SHARES

As at 31 March, 2006, the following Directors had interests in the underlying shares of the Company set out below as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in rule 5.46 of the GEM Listing Rules:

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

Name of Director	No. of Shares	Approximate percentage of total issued ordinary share capital of the Company
Chen Yuhong	22,967,472	3.14%
Cui Hui	20,000,000	2.73%
Wang Hui	7,017,838	0.96%
Tang Zhen Ming	10,207,765	1.39%

Options to subscribe for Shares

Name of Director	Exercise Price *(HK$)*	No. of share options outstanding as at 31 March 2006	Percentage of total issued ordinary share capital of the Company	No. of underlying Shares interested in	Note
Chen Yuhong	0.58	1,200,000	0.16%	6,200,000	(1)
	0.65	5,000,000	0.68%		(2)
Cui Hui	0.65	500,000	0.07%	500,000	(2)
Duncan Chiu	0.65	1,000,000	0.14%	1,000,000	(2)
Wang Hui	0.58	1,000,000	0.14%	4,500,000	(1)
	0.65	3,500,000	0.48%		(2)
Tang Zhen Ming	0.58	320,000	0.04%	2,920,000	(1)
	0.65	2,600,000	0.36%		(2)

Notes:

(1) The above share options were offered on 13th August 2003 under the share option scheme of the Company adopted on 2nd June 2003 (the "Share Option Scheme") and were accepted on 27th August 2003. The share options are exercisable for a period of ten years from the date of offer, subject to the following conditions:

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

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

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

Save as disclosed above and so far as was known to the Directors, as at 31 March, 2006 none of the Directors or chief executive of the Company had any interests or short positions in the shares, debentures or underlying shares of the Company or its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

As at 31 March, 2006, share options to subscribe for an aggregate of 62,810,000 Shares granted to certain directors and employees of the Group pursuant to the Share Option Scheme with terms on the exercise of the share options granted as set out in Notes (1) and (2) in the section headed "Directors' Interests in Shares" above were outstanding. During the three months ended 31 March, 2006, the Company offered to certain participants of the Share Option Scheme for acceptance options to subscribe for a total of 15,400,000 Shares. Among these options, options to subscribe for 1,200,000 Shares were offered to Dr. Chen Yuhong, options to subscribe for 1,000,000 Shares were offered to Mr. Wang Hui, and options to subscribe for 800,000 Shares were offered to Dr. Tang Zhen Ming, all being executive Directors.

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, 2006.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the three months ended 31 March, 2006 none of the Directors was granted options to subscribe for shares of the Company and as at 31 March, 2006 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, 2006, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the Directors, the Directors had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the three months ended 31 March, 2006.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 31 March, 2006, the interest of the persons (not being a Director or chief executive of the Company) in the shares of the Company which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in Shares

Name	Nature of interest	Approximate number of Shares *(million)*	Approximate percentage of total issued ordinary share capital of the Company
China National Computer Software & Information Technology Service Corporation (Hong Kong) Limited ("CS&S (HK)") *(Note 1)*	Beneficial interest	199.01	27.17%
Chinasoft National Software and Service Company Limited ("CNSS") *(Note 1)*	Interest of controlled corporation	199.01	27.17%

Name	Nature of interest	Approximate number of Shares *(million)*	Approximate percentage of total issued ordinary share capital of the Company
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)") *(Note 2)*	Interest of persons acting in concert	199.01	27.17%
Far East Technology International Limited ("Far East Technology") *(Note 3)*	Beneficial interest	169.89	23.2%
International Finance Corporation ("IFC") *(Note 4)*	Beneficial interest	97.25	13.28%
Microsoft Corporation ("Microsoft") *(Note 4)*	Beneficial interest	97.25	13.28%
Authorative Industries Limited	Beneficial interest	57.49	7.85%
Prosperity International Investment Corporation ("Prosperity") *(Note 5)*	Beneficial interest	39.79	5.43%
Joseph Tian Li *(Note 5)*	Interest of controlled corporation	39.79	5.43%
ITG Venture Capital Limited ("ITG") *(Note 6)*	Beneficial interest	36.94	5.04%
Zhou Qi *(Note 6)*	Interest of controlled corporation	36.94	5.04%

Notes:

1 CNSS is taken to be interested in the Shares in which CS&S (HK) is interested. CNSS holds approximately 99.3% of the total voting rights of CS&S (HK). 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 28th April 2005 subject to fulfillment of a condition and the exercise of a cash option.

2. Chinasoft (HK) and CS&S (HK) are parties to agreements to acquire interests in the Company which include provisions imposing restrictions with respect to the disposal of interests acquired, and Chinasoft (HK) is taken to be interested in the Shares in which CS&S (HK) is interested pursuant to section 318 of the SFO.

3. Mr. Duncan Chiu, a non-executive Director, is nominated by Far East Technology. Mr. Duncan Chiu is a director of Far East Technology.

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

5. The entire issued share capital of Prosperity is beneficially owned by Mr. Joseph Tian Li. Mr. Joseph Tian Li is taken to be interested in the Shares held by Prosperity.

6. The entire issued share capital of ITG is beneficially owned by Mr. Zhou Qi. Mr. Zhou Qi is taken to be interested in the Shares held by ITG.

Save as disclosed above, as at 31 March 2006, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

COMPETING INTERESTS

As at 31 March, 2006, Dr. Cui Hui, an executive Director, was interested in approximately 1.34% of the issued share capital of CNSS. Dr. Cui Hui also served as a director of CNSS. In addition, Madam Tang Min (a non-executive Director) and Dr. Chen Yuhong (an executive Director) had been appointed as directors of CNSS since August 2000 and April 2004 respectively. Although the Directors are of the view that the principal activities of CNSS do not directly compete with those of the Group currently, the Group and CNSS however are both engaged in the provision of information technology outsourcing.

Save as disclosed above, as at 31 March, 2006, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

AUDIT COMMITTEE

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

The audit committee of the Company has reviewed the first quarterly results of the Group for the three months ended 31 March, 2006.

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, 2006.

On behalf of the Board
Dr. Chen Yuhong
Managing Director

15 May, 2006, Beijing, PRC