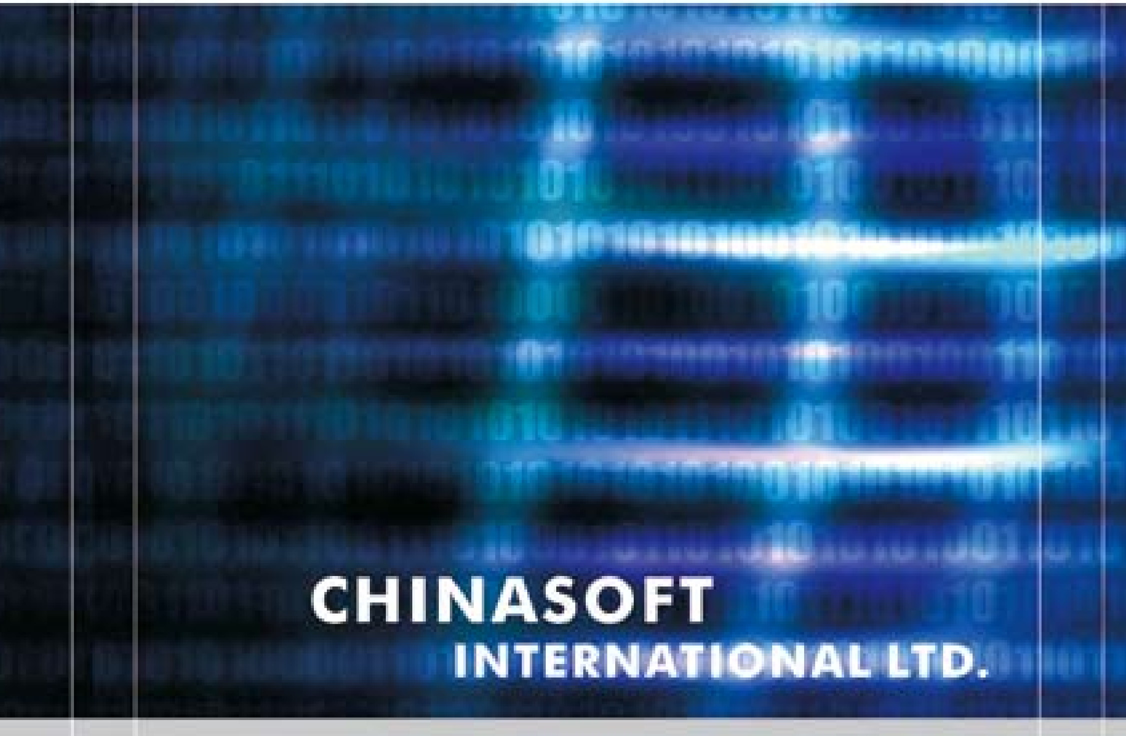
CHINASOFT INTERNATIONAL LIMITED
中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8216)



2007
Interim Report

CS&S
中软国际

* for identification purpose only

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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

- Achieved a turnover of approximately RMB326,764,000 (2006: RMB133,789,000) for the six months ended 30 June, 2007, representing an increase of approximately 144.2% as compared to the corresponding period in 2006. The increase in turnover was attributable to a drastic increase in total solution to approximately RMB229,775,000 from last year of approximately RMB74,470,000, representing an increase of 208.5% and a substantial increase in IT outsourcing to approximately RMB83,272,000 from last year of approximately RMB47,016,000, representing an increase of 77.1% and finally an increase in consulting and training to approximately RMB7,904,000 from last year of approximately RMB5,404,000, representing an increase of 46.3%.

- To be consistent with prior year's basis, if we take out the impact of HKAS39 of having RMB4,255,000 redeemable convertible preferred shares dividend taken up as the finance costs and RMB18,111,000 as the loss arising from changes in fair value of redeemable convertible preferred shares in the unaudited income statement, the restated net profit should be approximately RMB37,192,000 (2006: RMB24,509,000), representing an increase of 51.7%. If we have taken into account of the redeemable convertible preferred shares, a gross profit and a net profit of approximately RMB116,033,000 and RMB14,826,000 have been accomplished respectively (2006: RMB60,723,000 and RMB24,509,000) for the six months ended 30 June, 2007, representing an increase of approximately 91.1% and a decrease of 39.5% respectively as compared to the corresponding period in 2006.

- The gross profit margin and the restated net profit margin of the Group for the six months ended 30 June 2007 was approximately 35.5% and 11.4% (Year 2006: approximately 45.4% and 18.3%) representing a decrease of 9.9% and 6.9% respectively as compared to the corresponding period in 2006. The slight drop in the gross profit margin was related to having the hardware turnover of approximately RMB139,000,000 taken up in this half year and the lower gross profit margin of these hardware of approximately 15% have slightly drifted down the overall gross profit margin ratio. While the drop in the net profit margin was related to an increase in hardware turnover of approximately RMB112,000,000 compared to the corresponding period last year on one hand, and to as light increase in the administrative expenses and increase in the amortization of development costs and technical know how and the absorption of the impact of HKAS39 of having RMB4,255,000 redeemable convertible preferred shares dividend taken up as the finance costs and RMB18,111,000 as the loss arising from changes in fair value of redeemable convertible preferred shares in the unaudited income statement.

The increase of hardware turnover in the half year is attributable to a large composite service project undertaken by the Group as the composite service provider entrusted by the client. This does not affect the development strategy of the Group to reposition to the business with higher gross margin (software development, IT outsourcing and BPO) since last year and the service income of the Group still maintained good growth momentum.

- Basic earnings per share and diluted earnings per share for the six months ended 30 June 2007 of the Company were approximately RMB1.49 cents (2006: RMB3.34 cents) and RMB1.28 cents (2006: RMB2.45 cents) respectively.

- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June, 2007.

- 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 three months and six months ended 30 June, 2007, respectively, with corresponding figures as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	Notes	For the three months ended 30 June, 2007 RMB'000	2006 RMB'000	For the six months ended 30 June, 2007 RMB'000	2006 RMB'000
Turnover	2	**207,756**	70,721	**326,764**	133,789
Cost of sales		**(138,497)**	(37,790)	**(210,731)**	(73,066)
Gross profit		**69,259**	32,931	**116,033**	60,723
Other operating income		**2,863**	2,488	**6,551**	3,966
Distribution costs		**(8,047)**	(7,424)	**(14,975)**	(11,816)
Administrative expenses		**(34,958)**	(11,224)	**(59,540)**	(23,034)
Amortisation of intangible assets		**(2,983)**	(926)	**(5,966)**	(1,853)
Profit from operations		**26,134**	15,845	**42,103**	27,986
Finance costs		**–**	(2)	**–**	(3)
Redeemable convertible preferred shares dividend		**(2,139)**	–	**(4,255)**	–
Loss arising from changes in fair value of redeemable convertible preferred shares		**(18,111)**	–	**(18,111)**	–
Share of result of associates		**591**	959	**1,519**	1,273
Profit before taxation		**6,475**	16,802	**21,256**	29,256
Taxation	3	**(4,187)**	(2,792)	**(6,430)**	(4,747)
Profit for the year		**2,288**	14,010	**14,826**	24,509
Attributable to:					
Equity holders of the parent		**(415)**	14,132	**11,556**	24,524
Minority interests		**2,703**	(122)	**3,270**	(15)
		2,288	14,010	**14,826**	24,509
Dividend	4	**797**	18,859	**797**	18,859
Earnings per share					
– Basic (cents)	5	**(0.05)**	1.94	**1.49**	3.34
– Diluted (cents)	5	**N/A**	1.39	**1.28**	2.45

CONSOLIDATED BALANCE SHEET

	Notes	(Unaudited) 30 June, 2007 RMB'000	(Audited) 31 December, 2006 RMB'000
Non-current assets			
Property, plant and equipment		**46,821**	42,326
Intangible assets		**50,273**	48,894
Goodwill	6	**140,157**	140,157
Interest in associates		**9,970**	8,452
Trademark use right		**1,550**	1,550
Payment for acquisition of software		**–**	3,654
		248,771	245,033
Current assets			
Inventories		**75,660**	34,107
Trade and other receivables	7	**396,867**	233,963
Trade receivable from an associate		**–**	1,091
Trade receivables from related companies		**2,053**	11,292
Trademark use right		**189**	189
Held-for-trading investment		**351**	501
Amount due from a related company		**200**	–
Pledged deposits		**1,599**	1,474
Bank balances and cash		**131,658**	133,571
		608,577	416,188
Current liabilities			
Trade and other payables	8	**194,798**	107,670
Trade payable to a related company		**–**	195
Bills payable		**31,265**	24,252
Amount due to a related company		**286**	501
Dividend payable to shareholders		**162**	74
Redeemable convertible preferred shares dividend payable to shareholders		**2,139**	–
Taxation payable		**5,661**	4,715
Deferred consideration		**16,380**	15,600
Consideration payable on acquisition of a subsidiary and technical expertise		**–**	3,491
		250,691	156,498
Net current assets		**357,886**	259,690
Total assets less current liabilities		**606,657**	504,723
Non-current liabilities			
Deferred tax liabilities		**3,496**	2,588
Redeemable convertible preferred shares		**286,591**	268,480
Net assets		**290,087**	271,068
		316,570	233,655
Capital and reserves			
Share capital	9	**40,525**	40,184
Reserves		**251,955**	172,651
Equity attributable to equity holders of the parent		**292,480**	212,835
Minority interests		**24,090**	20,820
Total equity		**316,570**	233,655

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*	Issuable shares *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*	Statutory public welfare fund *RMB'000*	Accu-mulated profits *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total *RMB'000*
At 1 January, 2006	38,816	120,672	24,420	(2,047)	7,098	1,573	728	63	32	103,648	295,003	14,032	309,035
Exchange adjustment	(1,099)	(3,415)	(235)	–	–	–	–	–	–	–	(4,749)	–	(4,749)
New issue of ordinary shares	1,197	22,988	(24,185)	–	–	–	–	–	–	–	–	–	–
Recognition of equity-settled share based payments	–	–	–	–	1,891	–	–	–	–	–	1,891	–	1,891
Acquisition of additional interest of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(12,856)	(12,856)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	2,332	2,332
Dividend for 2005 paid	–	–	–	–	–	–	–	–	–	(18,859)	(18,859)	–	(18,859)
Profit for the period	–	–	–	–	–	–	–	–	–	24,524	24,524	–	24,524
At 30 June, 2006	38,914	140,245	–	(2,047)	8,989	1,573	728	63	32	109,313	297,810	3,508	301,318
At 1st January, 2007	40,184	128,899	–	(6,942)	11,243	9,714	8,868	341	–	20,528	212,835	20,820	233,655
Exchange differences arising from translation of overseas operations and net gain recognised directly in equity	(2,243)	(7,723)	–	10,864	(402)	–	–	–	–	–	496	–	496
New issue of shares	2,584	66,339	–	–	(2,516)	–	–	–	–	–	66,407	–	66,407
Expenses incurred in connection to new issue of share	–	(114)	–	–	–	–	–	–	–	–	(114)	–	(114)
Recognition of equity-settled share based payments	–	–	–	–	2,097	–	–	–	–	–	2,097	–	2,097
Dividend paid for 2006	–	–	–	–	–	–	–	–	–	(797)	(797)	–	(797)
Net profit for the period	–	–	–	–	–	–	–	–	–	11,556	11,556	3,270	14,826
	40,525	187,401	–	3,922	10,422	9,714	8,868	341	–	31,287	292,480	24,090	316,570

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 June,	
	2007	2006
	RMB'000	*RMB'000*
Net cash used in operating activities	**(36,665)**	(35,570)
Net cash used in investing activities	**(33,605)**	(91,112)
Net cash generated from financial activities	**68,357**	160,998
Net (decrease) increase in cash and cash equivalents	**(1,913)**	34,316
Cash and cash equivalents at the beginning of the period	**133,571**	100,086
Cash and cash equivalents at the end of the period	**131,658**	134,402

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 30 June,		For the six months ended 30 June,	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Solutions	**149,038**	40,122	**229,775**	74,470
IT outsourcing	**49,780**	23,111	**83,272**	47,016
IT consulting and training services	**3,895**	2,814	**7,904**	5,404
Standalone software product	**5,043**	4,674	**5,813**	6,899
	207,756	70,721	**326,764**	133,789

3. TAXATION

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

Pursuant to an approval document issued by the State Tax Bureau of Beijing Haidian District dated 21 November 2000, 北京中軟國際信息技術有限公司 ("Chinasoft Beijing"), a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Beijing was entitled to the three year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2000. As a result, Chinasoft Beijing is subject to the income tax computed at the rate of 7.5% for the three years ended 31 December 2005 and at the rate of 15% on its taxable profit thereafter.

Pursuant to an approval document issued by the Guangzhou Science and Technology Bureau dated 31 March 2004, 中軟國際(廣州)信息技術有限公司 ("Chinasoft Guangzhou"), a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, pursuant to another approval document issued by the Guangzhou Municipal Office of the State Administration of Taxation dated 2 June 2004, Chinasoft Guangzhou was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profitmaking year with effect from 2003.

Pursuant to an approval document issued by the Hunan Science and Technology Bureau dated 13 June 2006, 中軟國際(湖南)信息技術有限公司 ("Chinasoft Hunan"), a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Hunan was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year.

Pursuant to an approval document issued by the State Bureau of Tianjing Economic and Technology Development Zone dated 20 February 2003, 中軟賽博資源軟件技術(天津)有限公司 ("Cyber Resources"), a subsidiary of the Company, was established before the end of the year 1995 and was approved as an production enterprise and its income tax rate was reduced from 33% to 15%.

Pursuant to an approval document issued by the Beijing Science and Technology Commission dated 25 June 2004, 北京中軟資源信息科技服務有限公司 ("Chinasoft Resources Beijing"), a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Resources Beijing was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2004.

Pursuant to an approval document issued by the State Bureau of Shenzhen Nanshan District dated 1 March 2005, 深圳市中軟資源技術服務有限公司 ("Chinasoft Resources Shenzhen"), a subsidiary of the Company, had been designated as a newly established software enterprise. As a result, Chinasoft Resources Shenzhen was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2004.

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

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

4. DIVIDEND

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

5. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and the six months ended 30 June, 2007 was based on the net loss of approximately RMB415,000 and the net profit of approximately RMB11,556,000 respectively (three months and six months ended 30 June, 2006: net profit of approximately RMB14,132,000 and RMB24,524,000 respectively) divided by the weighted average number of shares issued during the three months ended 30 June, 2007 of 789,216,965 shares (2006: 755,620,755 shares) and the six months ended 30 June, 2007 of 774,101,197 shares (2006: 732,372,453 shares) as if the sub-division of the Company's shares as described in Appendix VI of the prospectus of the Company dated 10 June, 2003 ("Prospectus") had taken place at the beginning of the relevant periods.

The calculation of diluted earnings per share for the six months ended 30 June, 2007 was based on the net profit of RMB11,556,000 for the six months ended 30 June, 2007, divided by the weighted average number of shares used in calculation of the diluted earnings per share for the six months ended 30 June, 2007 of 902,401,564 shares (2006: 999,751,728 shares) respectively.

The diluted loss per share for the three months ended 30 June 2007 was not presented as the exercise of the share options and conversion of the redeemable convertible preferred shares outstanding would result in a decrease in loss per share.

6. GOODWILL

Goodwill arose mainly from the acquisition of the remaining 49% interest of a subsidiary, Chinasoft Resources Information Technology Services Limited (北京中軟資源信息科技服務有限公司) and the additional 50% interest in a subsidiary, CS&S Cyber Resources Software Technology (Tianjin) Co. Ltd. (中軟賽博資源軟件技術(天津)有限公司) during the period.

7. TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 June, 2007 *RMB'000*	(Audited) 31 December, 2006 *RMB'000*
Trade receivables	**322,982**	208,273
Advances to suppliers	**12,564**	6,929
Deposits, prepayments and other receivables	**37,921**	18,761
Down payment for acquisition	**23,400**	–
	396,867	233,963

The credit terms of the Group ranged from 30 to 90 days.

Aged analysis of trade receivables are as follows:

	(Unaudited) 30 June, 2007 *RMB'000*	(Audited) 31 December, 2006 *RMB'000*
0 – 90 days	**185,523**	124,536
91 – 180 days	**84,472**	16,504
181 – 365 days	**21,313**	33,966
Over 365 days	**31,674**	33,267
	322,982	208,273

The fair value of the Group's trade and other receivables at 30 June 2007 was approximately equal to the corresponding carrying amount.

8. TRADE AND OTHER PAYABLES

	(Unaudited) 30 June, 2007 *RMB'000*	(Audited) 31 December, 2006 *RMB'000*
Trade payables	**169,329**	64,579
Deposits received from customers	**5,506**	2,593
Other payables and accrued charges	**19,963**	40,498
	194,798	107,670

Aged analysis of trade payables are as follows:

	(Unaudited) 30 June, 2007 *RMB'000*	(Audited) 31 December, 2006 *RMB'000*
0 – 90 days	**86,729**	17,715
91 – 180 days	**31,625**	7,193
181 – 365 days	**4,624**	14,443
Over 365 days	**46,351**	25,228
	169,329	64,579

The fair value of the Group's trade and other payables at 30 June 2007 was approximately equal to the corresponding carrying amount.

9. SHARE CAPITAL

	Ordinary shares		
	Number of shares	Nominal value per share HK$	Ordinary shares capital HK$
Authorised shares capital			
At 1 January 2006, 30 June 2006, 1 January 2007 and 30 June 2007	1,500,000,000	0.05	75,000,000
Issued shares capital			
At 1 January 2006	732,372,453	0.05	36,618,623
Issue of ordinary shares	23,248,302	0.05	1,162,415
At 30 June 2006	755,620,755	0.05	37,781,038
At 1 January 2007	758,817,476	0.05	37,940,874
Issue of ordinary shares	51,683,500	0.05	2,584,175
At 30 June 2007	810,500,976	0.05	40,525,049

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 2006 and 2007, the Group had the following transactions with the following related parties:

	For the three months ended 30 June,		For the six months ended 30 June,	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
China National Computer Software & Technology Service Corporation ("CS&S") *(Note a)*				
– Rental expenses *(Note b)*	**1,147**	1,072	**2,294**	2,144
China National Software & Service Company Limited ("CNSS")				
– Provision of technical development services *(Note c, d)*	**342**	–	**342**	–
Microsoft Corporation ("Microsoft") *(Note e)*				
– Provision of IT outsourcing services	**25,812**	14,066	**40,537**	21,464

Notes:

(a) A director of CS&S is also a director of Beijing Chinasoft.

(b) The transactions were carried out in accordance with the relevant agreements.

(c) CNSS was a holding company of a shareholder of the Company.

(d) Dr. Cui Hui, is a director of the Company, is also a director of CNSS.

(e) Microsoft was interested in 97,250,000 Shares which could be issued to it upon the conversion of the 97,250,000 Series A Preferred Shares agreed to be subscribed for by it pursuant to a subscription agreement with the Company dated 26th September 2005 subject to the satisfaction of condition precedents set forth in the subscription agreement.

(ii) Pursuant to an agreement entered into between CS&S and Beijing Chinasoft on 10 May 2002 (the "Agreement"), CS&S has granted to Beijing Chinasoft an exclusive right for no consideration to use the trademark as defined in the Agreement in the PRC for a period pending registration of such trademark with the Trademark Bureau of the PRC. Under the Agreement, CS&S has agreed to enter into a further trademark licence agreement pursuant to which CS&S will grant an exclusive licence to Beijing Chinasoft for a period of 25 years.

(iii) Under a trademark licence agreement (the "Licence Agreement") dated 3 June 2002 made between CS&S and Beijing Chinasoft, CS&S granted to Beijing Chinasoft a non-exclusive right for no consideration to use the trademarks as defined in the Licence Agreement in the PRC for 10 years.

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 2007 is presented below:

Income statement

	Solutions *RMB'000*	IT outsourcing *RMB'000*	IT consulting and training services *RMB'000*	Standalone software product *RMB'000*	Consolidated *RMB'000*
Turnover	229,775	83,272	7,904	5,813	326,764
Segment result	79,319	29,111	4,568	3,035	116,033
Unallocated corporate revenue					6,551
Unallocated corporate expenses					(102,847)
Finance costs					–
Share of result of an associate					1,519
Profit before taxation					21,256
Taxation					(6,430)
Net profit before minority interests					14,826

(ii) Segment information about these businesses for the six months ended 30 June 2006 is presented below:

Income statement

	Solutions	IT outsourcing	IT consulting and training services	Standalone software product	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	74,470	47,016	5,404	6,899	133,789
Segment result	42,305	13,107	3,035	2,276	60,723
Unallocated corporate revenue					3,966
Unallocated corporate expenses					(36,703)
Finance costs					(3)
Share of result of an associate					1,273
Profit before taxation					29,256
Taxation					(4,747)
Net profit before minority interests					24,509

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 RMB83,445,000, including the directors' emoluments of approximately RMB1,547,000 during the six months ended 30 June, 2007 (2006: approximately RMB47,210,000, including the directors' emoluments of approximately RMB984,000). The increase in employee remuneration resulted from the increase in the number of employees from 1,676 to 2,679 and the increase in bonus to individual staff during the relevant period.

The depreciation and amortisation charge of the Group including amortisation of intangible assets of RMB5,966,000 (2006: RMB1,853,000) during the six months ended 30 June, 2007 amounted to RMB8,792,000 (2006: RMB5,898,000).

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June, 2007 (2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2007, the Company reported an unaudited turnover of approximately RMB326,764,000 (2006: RMB133,789,000), representing an increase of approximately 144.2% as compared with the corresponding period last year. The increase in turnover was attributable to a drastic increase in total solution to approximately RMB229,775,000 from last year of approximately RMB74,470,000, representing an increase of 208.5% and substantial increase in IT outsourcing to approximately RMB83,272,000 from last year of approximately RMB47,016,000, representing an increase of 77.1% and finally an increase in consulting and training to approximately RMB7,904,000 from last year of approximately RMB5,404,000, representing an increase of 46.3%.

For the six months ended 30 June 2007, the Company recorded an unaudited net profit attributable to Shareholders of RMB11,556,000 (2006: RMB24,524,000), representing a decrease of 52.9% as compared with the corresponding period last year. The above unaudited net profit attributable to Shareholders of RMB11,556,000 have been taken into consideration of expensing the redeemable convertible preferred shares dividend of RMB4,255,000 as a finance cost and the loss arising from changes in fair value of redeemable convertible preferred shares of RMB18,111,000 in the unaudited income statement which is affecting the earnings per share. The above accounting treatment is in line with the auditor treatment of the preference share issued to IFC and Microsoft as a derivative and liability under the Hong Kong Accounting Standard 39. Therefore, the management is in the view that if adding back the redeemable convertible preferred shares dividend of RMB4,255,000 and the loss arising from changes in fair value of redeemable convertible preferred shares of RMB18,111,000 due to the accounting treatment of HKAS39 to the unaudited net profit attributable to Shareholders of RMB11,556,000, then the adjusted unaudited net profit attributable to Shareholder should be RMB33,922,000 under the same basis with last year (2006: RMB24,524,000), representing an increase of 38.3%.

For the six months ended 30 June 2007, the Company accomplished a gross profit and a net profit of approximately RMB116,033,000 and RMB14,826,000 respectively (2006: RMB60,723,000 and RMB24,509,000) for the six months ended 30 June 2007, representing an increase of approximately 91.1% and a drop of 39.5% respectively as compared to the corresponding period in 2006. To be consistent with prior year's basis, if we take out the impact of HKAS39 of having RMB4,255,000 redeemable convertible preferred shares dividend taken up as a finance cost and RMB18,111,000 of the loss arising from changes in fair value of redeemable convertible preferred shares in the unaudited income statement, the restated net profit should be approximately RMB37,192,000 (2006: RMB24,509,000), representing an increase of 51.7% rather than a drop of 39.5% just mentioned.

The gross profit margin and the net profit margin of the Group for the six months ended 30 June 2007 was approximately 35.5% and 11.4% (Year 2006: approximately 45.4% and 18.3%) representing a decrease of 9.9% and 6.9% respectively as compared to the corresponding period in 2006. The slight drop in the gross profit margin was related to having the hardware turnover of approximately RMB139,000,000 taken up in this half year and the lower gross profit margin of these hardware of approximately 15% have slightly drifted down the overall gross profit margin ratio. While the drop in the net profit margin was related to an increase in hardware turnover of approximately RMB112,000,000 compared to the corresponding period last year on one hand, and to a slight increase in the administrative expenses and increase in the amortization of development costs and technical knowhow and the absorption of the impact of HKAS39 of having RMB4,255,000 redeemable convertible preferred shares dividend taken up as the finance cost and RMB18,111,000 as the loss arising from changes in fair value of redeemable convertible preferred shares in the unaudited income statement. The increase of hardware turnover in the half year is attributable to a large composite service project undertaken by the Group as the composite service provider entrusted by the client. This does not affect the development strategy of the Group to reposition to the business with higher gross margin (software development, IT outsourcing and BPO) since last year and the service income of the Group still maintained good growth momentum.

Due to the higher selling expenses of software development and high gross profit margin, the ratio of distribution costs to turnover was 4.6% (Year 2006: approximately 8.8%) representing a decrease of 4.2% as compared to the corresponding period in 2006. The ratio of administrative expenses to turnover was 18.2% (Year 2006: approximately 17.2%) representing an increase of 1.0% as compared to the corresponding period last year. With an expansion of the size and scale of the Group's operations into new strategic vertical industries and new strategic clients, the increase in administrative expenses due to the increase in technical support staff division, number of employees, new offices and increase in amortization and depreciation are reasonable.

BUSINESS REVIEW

For the six months ended 30 June 2007, the Group obtained satisfactory results in each of the principal businesses, with aggregate business revenue amounting to RMB327,000,000, representing an increase of 144% over the corresponding period of 2006. Operating profit was RMB42,100,000, representing an increase of 50% over the corresponding period of 2006.

To handle the rapid growing business, the Group also outpaced the training and recruit of professionals. As at 30 June 2007, the Group had a total of 2,679 staff and 2,262 were technical staff, at a percentage 85%.

Consulting and Solution Business

In the second quarter of 2007, performance of the Group's solution business was as follows:

CONSULTING AND SOLUTION BUSINESS

Category	Numeric Data	Growth Over the Corresponding Period of 2006
Service Revenue	RMB82.91 million	50%
Staff size	1,060	126%

Industries with Leading Position

1. TOBACCO INDUSTRY

During the reporting period, the Group further advanced the promotion work of the project of "State Tobacco Monopoly Administration Bar-coding Cigarettes by Carton and Order Collection System" throughout the nation. Leveraging on the thorough development of strategic partnership between the Group and the State Tobacco Monopoly Administration, and the effective utilization of resources and in-depth exploitation of the Group's technical expertise, the Group continued to seek cooperation with various tobacco industrial groups and provincial tobacco companies in order to consolidate its leading position in the industry.

(1) Entry into service contracts with 13 provinces and municipals (including Guangdong and Liaoning) in respect of the implementation of Bar-coding Cigarettes by Carton project;

(2) Entry into contracts with China Tobacco Industrial Corporation in respect of the RFID whole-pallet tobacco barcode transportation project in places such as Anhui and Hubei;

Through the decision making system on integrated cigarettes manufacturing and operations, and the adoption of the cutting-edge RFID technology, the whole-pallet entry inventory or entry to electronic labels upon the mount-forming process upon single batch of cigarettes with large display of entry scanning information. The operating efficiency and accuracy of the decision-making system and commercial delivery and warehouse entry bar-coding.

The adoption of RFID technology has the following major advantages:

a) An advanced, efficient, sophisticated, flexible, open, integrated and safe logistic management platform was built with the application of modern supply chain and logistic management philosophy and the planning, design, implementation and operations of a consistent modern logistics information system;

b) The ‘Business Flow Demands of a Unified Management’ was achieved through integrating cost-effective, rational and reliable logistics technology, equipment and measures;

c) A consistent stable growth is attained by focusing on logistical service quality, logistic efficiency and lowering logistic costs with enhanced market power;

d) Capability in regional logistic management and third party logistic business management necessary for the establishment of a well-divided and rationally-deployed regional supply centers and the competency to support a closely integrated enterprise-commercial logistic system in line with the industrial development.

(3) Entry into contracts with China Tobacco Industrial Corporation in Hunan and Henan etc in respect of the application expansion project of the changes in group mode and decision making system;

Through the development of the project, the production operating decision-making system adapted for the current operating management mode in China Tobacco Hunan Industrial Corporation. The development and implementation of the project built fundamental information codes, fundamental business practices and fundamental business index system that are consistent with industrial standards. Collection channels for multiple data necessary for the project building was established and a fundamental platform consisting State Tobacco Control Bureau No. One Project Data to be used by China Tobacco Hunan Industrial Corporation for developing the applicable management was structured. Information such as output, sale volume, inventory, price, costs, profit and direction of various types of cigarettes from China Tobacco Hunan Industrial Corporation and such fundamental data as the status of contract implementation were controlled completely, promptly and precisely. A monitoring analysis on cigarettes production and operation as well as market situations was realized, which truly reflected the market performance of products and market situations. A better manufacturing-commercial relationship was built and the implementation of products sources (output set by sales) was reinforced which assisted the enterprise to achieve their brand strategy and enhance their core competence.

(4) The development and application project of the production operating decision-making and management system for China Tobacco Guangdong Industrial Corporation.

2. AUDIT INDUSTRY

During the reporting period, the Group continued to promote phase 1 of the e-Audit project throughout the nation and carried out the implementation and deployment work of the audit application system at city level, and entered into the collective contract on the deployment, implementation and service regarding the Audit Management System of the e-Audit project in the auditing bureaus in Shandong province. This contract is the master contract for the localized deployment of the Audit Management System comprising the Shandong Provincial Auditing Bureau and 16 municipal auditing departments (inclusive of districts and counties) in the province. Through sound service and timely response, the Group's services were highly recognized by the clients in the auditing system and the OA systems in 10 cities including Beijing, Tianjin and Suzhou entered into a second year's service contract.

The Group enjoyed leading position in the domestic auditing industry, and the implementation of the Group's OA systems basically achieved an in-depth coverage throughout the country as of 30 June 2007. 31 of the 37 provincial auditing bureaus in the country chose the system with a coverage ratio of 84%; 152 of 316 regional cities were covered with a coverage ratio of 48%, and 1,210 of the 2,757 counties were covered, with a coverage ratio of 44%.

NEWLY DEVELOPED INDUSTRIES

During the reporting period, the Group continued to implement the strategy of introducing matured solutions for the industries in which it had leading position to new industries. In addition to realizing duplicate use of technologies and reduction of total development costs, the Group also expanded into new industries and enlarged its market share. During the reporting period, the Group succeeded in entering into the e-Insurance Project with the Xiangfan Labor Bureau. The project comprises the localized development and implementation of municipal social insurance application software, the local development and implementation of the labor employment software, the development and implementation of municipal social insurance gateway website, the development and implementation of interface software, data clearance and data transformation for the designated medical institutions of the medical insurance as well as retail pharmaceutical stores, projects including the system interfaces, bank network interface, medial insurance interface software for the labor employment system and the application system for the social insurance. The implementation of the Project will effectively ensure a highly efficient operation of the social insurance system in Xiangfan City. During the period, the Group received financial assistance from the Electronic Information Industry Development Fund (電子信息產業發展基金) for the development of a software project, namely the ResourceOne data center platform commercial business intelligence (BI) software project.

SOFTWARE SERVICE OUTSOURCING BUSINESS

During the reporting period, the Group further pursued the business transformation strategy. Through a combination of organic growth and mergers and acquisitions, the software service outsourcing business grew rapidly with revenue from the outsourcing business amounting to RMB83.27 million for the half year, representing an increase of 77% over the corresponding period of last year. Amongst the revenue in the second quarter of 2007:

RMB3.73 million was revenue derived from Japanese customers;

RMB13.88 million was revenue derived from European and American customers; and

RMB32.7 million was revenue derived from other regions.

The workforce for the outsourcing business also recorded rapid growth. As at 30 June 2007, there were 1,555 outsourcing staffs, representing a 30% growth over the corresponding period of last year.

During the reporting period, for the purpose of further enhancing its integrated service capability in the outsourcing service business, the Group placed greater emphasis on introducing overseas talents and internal training. The Group drew up a series of measures to increase the employees' sense of belongings to the company. Due to such measures, the employee turnover rate of the company was relatively low compared with members of the same industry.

TRAINING BUSINESS

During the reporting period, the Group's strategic transformation in the training business won initial success:

In order to adapt to the development strategies of the market and the Group, Chinasoft International training centre, while securing steady growth in the traditional training business, continued to transform into career training and gradually increased the size of the Chinasoft International practical training base. Concurrently, the training center enacted more application oriented programs and plans pursuant to the existing business structure (particularly the development of software outsourcing business) of the Company, which was welcomed by trainees as these efforts effectively ensured that trainees receive applicable trainings with immediate application value. As at 30 June 2007, the Chinasoft International practical training base formed cooperation with 58 universities. During first half-year period, a total of 865 students attended the training courses conducted at the base. Chinasoft Training has gained sound brand reputation amongst universities and education and training institutes.

The training centre's traditional IT training business trained a total number of more than 2,200 students during the first half-year period.

AWARDS RECEIVED

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

- 2006-2007 Annual Award for the Best Application Information Project by the 21st Century Economic News Reports (二十一世界經濟報導).

- The Office Automation Project for the State Tobacco Monopoly Administration was rewarded by the China Information Association (中國信息協會).

- At the 11TH INT'L SOFT CHINA 2007 held in June, the Chinasoft International Auditing software AE V3.5 won the gold award, tobacco logistics management system V3.0.0 won the innovation award and China International Limited won the award for the best development capability.

FINANCING AND INTRODUCTION OF SHAREHOLDERS

During the reporting period, the Group successfully introduced JPMorgan Chase & Co. as its shareholder with a 4.91% interests in the Group.

DIRECTORS' INTERESTS IN SHARES

As at 30 June, 2007, the following Directors had interests in the underlying shares of the Company set out below as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in rule 5.46 of the GEM Listing Rules:

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

Name of Director	No. of Shares	Approximate percentage of total issued ordinary share capital of the Company
CHEN Yuhong	27,617,472	3.41%
CUI Hui	20,000,000	2.47%
WANG Hui	9,517,838	1.17%
TANG Zhenming	11,747,765	1.45%

Options to subscribe for Shares

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

Notes:

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

(2) An aggregate of 240,000 shares options were exercised by Dr. TANG Zhenming at the exercise price of HK$0.58 each and an aggregate of 1,300,000 share options were exercised by Dr. TANG Zhenming at the exercise price of HK$0.65 each. Hence, following the exercise of these share options and the grant of new share options the number of share options outstanding reduced to 4,180,000 as at 30 June 2007.

(3) An aggregate of 750,000 shares options were exercised by Mr. WANG Hui at the exercise price of HK$0.58 each and an aggregate of 1,750,000 share options were exercised by Mr. WANG Hui at the exercise price of HK$0.65 each. Hence, following the exercise of these share options and the grant of new share options the number of share options outstanding reduced to 5,000,000 as at 30 June 2007.

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

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

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

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

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

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

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

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

SHARE OPTION SCHEME

As at 30 June 2007, share options to subscribe for an aggregate of 111,926,500 Ordinary Shares were granted to certain Directors and employees of the Group pursuant to the Share Option Scheme. The terms on the exercise of the share options granted to the Directors are set out in notes (4), (5), (6) and (7) under "Directors' Interests in Shares".

Save as disclosed above and that there was an aggregate of 19,383,500 share options exercised by various employees of the Group during the period between 4 May 2007 and 20 June 2007, no option has been granted, exercised and lapsed pursuant to the Share Option Scheme for the six months ended 30 June 2007.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the six months ended 30 June, 2007 none of the Directors was granted options to subscribe for shares of the Company and as at 30 June, 2007 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, 2007, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the Directors, the Directors had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the six months ended 30 June, 2007.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June, 2007, the Company has fully complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 30 June, 2007, the interest of the persons (not being a Director or chief executive of the Company) in the shares of the Company which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in Shares

Name	Nature of interest	Approximate number of Shares *(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	24.55%
Chinasoft National Software and Service Company Limited ("CNSS") *(Note 1)*	Interest of controlled corporation	199.01	24.55%
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)") *(Note 2)*	Interest of persons acting in concert	199.01	24.55%
Far East Holdings International Limited ("Far East Holdings") *(Note 3)*	Beneficial interest	130.13	16.06%
International Finance Corporation ("IFC") *(Note 4)*	Beneficial interest	97.25	12.00%

Name	Nature of interest	Approximate number of Shares *(million)*	Approximate percentage of total issued ordinary share capital of the Company
Microsoft Corporation (“Microsoft”) *(Note 4)*	Beneficial interest	97.25	12.00%
ABN AMRO Holding N.V. *(Note 5)*	Beneficial interest	46.39	5.72%

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 Holdings. Mr. Duncan Chiu is a director of Far East Holdings.

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. ABN AMRO Holding N.V. was interesed in 46,390,000 shares.

Save as disclosed above, as at 30 June, 2007, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

COMPETING INTERESTS

As at 30 June, 2007, Dr. Cui Hui, an executive Director, was interested in approximately 1.34% of the issued share capital of CNSS. Dr. Cui Hui also served as a director of CNSS. In addition, Mr. Su Zhenming (a non-executive Director) had been appointed as directors of CNSS since September 2006. Although the Directors are of the view that the principal activities of CNSS do not directly compete with those of the Group currently, the Group and CNSS however are both engaged in the provision of information technology outsourcing.

Save as disclosed above, as at 30 June, 2007, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

AUDIT COMMITTEE

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

The audit committee of the Company has reviewed the Interim results of the Group for the six months ended 30 June, 2007.

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, 2007.

On behalf of the Board
Dr. Chen Yuhong
Managing Director

6 August, 2007, Beijing, PRC