



2008

Third Quarterly Report

CHINASOFT INTERNATIONAL LIMITED
中 軟 國 際 有 限 公 司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8216)

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

HIGHLIGHTS**Third Quarter Results for 2008**

	For the three months ended 30 September, 2008			For the nine months ended 30 September, 2008		
	2008 RMB'000	2007 RMB'000	changes	2008 RMB'000	2007 RMB'000	changes
Total revenue	214,488	209,484	2.4%	664,160	536,248	23.9%
EBITDA	32,699	35,100	-6.8%	98,282	85,995	14.3%
Profit for the period	23,427	68,218	-65.7%	92,395	83,044	11.3%
Profit attributable to shareholders	22,192	66,296	-66.5%	85,622	77,852	10.0%
Basic earnings per share (cents)	2.21	7.38	-70.1%	8.58	9.54	-10.1%

- Accomplished a net profit of approximately RMB92,395,000 (2007: RMB83,044,000) for the nine months ended 30 September, 2008, representing an increase of approximately 11.3% as compared to the corresponding period in 2007.
- Achieved a turnover of approximately RMB664,160,000 (2007: RMB536,248,000) for the nine months ended 30 September, 2008, representing an increase of approximately 23.9% as compared to the corresponding period in 2007.
- EBITDA of approximately RMB98,282,000 (2007: RMB85,995,000) for the nine months ended 30 September, 2008, representing an increase of approximately 14.3% as compared to the corresponding period in 2007.
- Basic earnings per share and diluted earnings per share for the nine months ended 30 September, 2008 of the Company were approximately RMB8.58 cents (2007: RMB9.54 cents) and RMB4.51 cents (2007: RMB4.60 cents) respectively.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September, 2008.
- No closure for the Register of Members of the Company.

THIRD QUARTER 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 nine months ended 30 September, 2008, respectively, with corresponding figures as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	Notes	For the three months ended 30 September,		For the nine months ended 30 September,	
		2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Turnover	2	214,488	209,484	664,160	536,248
Cost of sales		(140,776)	(140,586)	(445,100)	(351,317)
Gross profit		73,712	68,898	219,060	184,931
Other income		4,992	2,373	10,206	8,924
Selling and distribution costs		(12,997)	(9,248)	(31,529)	(24,223)
Administrative expenses		(36,322)	(32,852)	(114,036)	(92,392)
Amortisation of intangible assets		(5,256)	(2,980)	(15,290)	(8,946)
Profit from operations		24,129	26,191	68,411	68,294
Finance costs		(623)	–	(1,159)	–
Redeemable convertible preferred shares dividend		–	(1,958)	–	(6,213)
Gain arising from changes in fair value of redeemable convertible preferred shares		3,097	46,574	30,859	28,463
Share of result of associates		97	859	2,795	2,378
Profit before taxation		26,700	71,666	100,906	92,922
Taxation	3	(3,274)	(3,448)	(8,511)	(9,878)
Profit for the period		23,426	68,218	92,395	83,044
Attributable to:					
Equity holders of the parent		22,192	66,296	85,622	77,852
Minority interests		1,234	1,922	6,773	5,192
		23,426	68,218	92,395	83,044
Dividend	4	4,514	797	4,514	797
Earnings per share					
– Basic (cents)	5	2.21	7.38	8.58	9.54
– Diluted (cents)	5	1.58	1.73	4.51	4.60

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the parent company										
	Ordinary share capital RMB'000	Ordinary share premium RMB'000	Translation reserve RMB'000	Share options reserve RMB'000	General reserve fund RMB'000	Statutory enterprise expansion fund RMB'000	Statutory surplus reserve fund RMB'000	Accu- mulated fund RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January, 2007	40,184	128,899	(6,942)	11,243	9,714	8,868	341	20,528	212,835	20,820	233,655
Exchange differences arising from translation of overseas operations	(2,243)	(7,723)	8,736	(400)	-	-	-	-	(1,630)	-	(1,630)
New issue of shares	11,155	304,481	-	(2,645)	-	-	-	-	312,991	-	312,991
Expenses incurred in connection to new issue of share	-	(114)	-	-	-	-	-	-	(114)	-	(114)
Recognition of equity-settled share based payments	-	-	-	3,564	-	-	-	-	3,564	-	3,564
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	3,042	3,042
Dividend paid for 2006	-	-	-	-	-	-	-	(797)	(797)	-	(797)
Net profit for the period	-	-	-	-	-	-	-	77,852	77,852	5,192	83,044
At 30 September, 2007	49,096	425,543	1,794	11,762	9,714	8,868	341	97,583	604,701	29,054	633,755
At 1 January, 2008	51,398	505,483	(1,224)	25,116	15,793	8,868	505	129,730	735,669	39,019	774,688
Exchange differences arising from translation of overseas operations	-	-	12,597	-	-	-	-	-	12,597	-	12,597
New issue of shares	397	11,881	-	-	-	-	-	-	12,278	-	12,278
Recognition of equity-settled share based payments	-	-	-	8,978	-	-	-	-	8,978	-	8,978
New issue of shares upon exercise of share option	384	5,626	-	(1,088)	-	-	-	-	4,922	-	4,922
Dividend paid for 2007	-	-	-	-	-	-	-	(4,514)	(4,514)	-	(4,514)
Net profit for the period	-	-	-	-	-	-	-	85,622	85,622	6,773	92,395
At 30 September, 2008	52,179	522,990	11,373	33,006	15,793	8,868	505	210,838	855,552	45,792	901,344

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 30 September,				For the nine months ended 30 September,			
	2008		2007		2008		2007	
	RMB'000		RMB'000		RMB'000		RMB'000	
Solutions	115,618	53.9%	135,334	64.6%	380,282	57.3%	365,109	68.1%
IT outsourcing	85,742	40.0%	63,402	30.3%	246,592	37.1%	146,674	27.4%
IT consulting and training services	3,518	1.6%	4,849	2.3%	15,402	2.3%	12,753	2.4%
Standalone software product	9,610	4.5%	5,899	2.8%	21,884	3.3%	11,712	2.1%
	214,488	100%	209,484	100%	664,160	100%	536,248	100%

3. TAXATION

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

On 16 March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% from 1 January, 2008.

Pursuant to an approval document issued by the State Bureau of Beijing Haidian District dated 21 November, 2000, Chinasoft Beijing, a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Beijing was entitled to the three year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profitmaking year with effect from 2000. As a result, Chinasoft Beijing is subject to the income tax computed at the rate of 7.5% for the three years ended 31 December, 2005 and at the rate of 15% on its taxable profit up to year 2007. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulation of the New Law.

Pursuant to an approval document issued by the Guangzhou Science and Technology Bureau dated 31 March, 2004, Chinasoft Guangzhou, a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, pursuant to another approval document issued by the Guangzhou National Tax Bureau dated 2 June, 2004, Chinasoft Guangzhou was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2003. The tax rate with effect from 2008, is 25% under the New Law.

Pursuant to an approval document issued by the State Bureau of Kunming City, Yunnan Province dated 15 June, 2007, Chinasoft Kunming, a subsidiary of the Company, had been designated as a technology development enterprise. As a result, Chinasoft Kunming was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2006. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulation of the New Law.

Pursuant to an approval document issued by the Hunan Science and Technology Bureau dated 13 June, 2006, Chinasoft Hunan, a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Hunan was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2006. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulation of the New Law.

Pursuant to an approval document issued by the State Bureau of Tianjin Economic and Technology Development Zone dated 20 February, 2003, Cyber Resources, a subsidiary of the Company, was established before the end of the year 1995 and was approved as an production enterprise and its income tax rate was reduced from 33% to 15%. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulation of the New Law.

Pursuant to an approval document issued by the Beijing Science and Technology Commission dated 25 June, 2004, Chinasoft Resources Beijing, a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Resources Beijing was entitled to the three year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2004. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulations of the New Law.

Pursuant to an approval document issued by the State Bureau of Shenzhen Nanshan District dated 1 March, 2005, Chinasoft Resources Shenzhen, a subsidiary of the Company, had been designated as a newly established software enterprise. As a result, Chinasoft Resources Shenzhen was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2004. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulations of the New Law.

Pursuant to an approval document issued by the Shanghai City District Bureau dated 27 February, 2007, Chinasoft Resources Shanghai, a subsidiary of the Company, was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction with effect from 2006. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulations of the New Law.

4. DIVIDEND

On 30 March, 2008, the Company declared final dividend amounting to HK\$5,011,393 (equivalent to RMB4,514,000) for the year ended 31 December, 2007 to its shareholders. The amount was paid to its shareholders on 30 September, 2008.

5. EARNINGS PER SHARE

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

	For the three months ended 30 September,		For the nine months ended 30 September,	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Earnings for the purposes of calculating basic earnings per share	22,192	66,296	85,622	77,852
Effect of dilutive potential ordinary shares:				
Gain arising from changes in fair value of redeemable convertible preferred shares	3,097	46,574	30,859	28,463
Earnings for the purposes of calculating diluted earnings per share	19,095	19,722	54,763	49,389
	Number of shares		Number of shares	
	2008	2007	2008	2007
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,003,019,564	898,115,378	998,501,613	815,893,522
Effect of dilutive potential ordinary shares:				
Issuable under the Company's share option scheme	13,356,659	48,189,341	21,570,486	63,473,650
Conversion of the redeemable convertible preferred shares	194,500,000	194,500,000	194,500,000	194,500,000
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,210,876,223	1,140,804,719	1,214,572,099	1,073,867,172

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September, 2008 (2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the nine months ended 30 September, 2008, the Company reported an unaudited turnover of approximately RMB664,160,000 (2007: RMB536,248,000), representing an increase of approximately 23.9% as compared with the corresponding period last year. The increase in turnover was attributable to an increase in total solution to approximately RMB380,282,000 from last year of approximately RMB365,109,000, representing an increase of 4.2% and substantial increase in IT outsourcing to approximately RMB246,592,000 from last year of approximately RMB146,674,000, representing an increase of 68.1% and finally an increase in consulting and training to approximately RMB15,402,000 from last year of approximately RMB12,573,000, representing an increase of 22.5%.

For the nine months ended 30 September 2008, the Company accomplished an unaudited gross profit of approximately RMB219,060,000 (2007: RMB184,931,000), representing an increase of approximately 18.5% as compared with last year. The gross profit margin for the nine months was 33.0% (2007: 34.5%). The EBITDA for the nine months ended 30 September 2008 was approximately RMB98,282,000 (2007: RMB85,995,000) representing an increase of approximately 14.3%. The EBITDA margin for the nine months was 14.8% (2007: 16.0%). The slightly drop in the gross profit margin and EBITDA margin were mainly due to the decrease in gross profit margin from software and hardware sales compared to the same period last year. In addition, according to our development strategy, the percentage share of IT sourcing has increased and the gross profit margin of sourcing business was slightly lower than that of solutions business. Moreover, the gross profit margin of HGR's business acquired in the second half of 2007 was lower than that of the original business of the Group. The above three factors have resulted in a slight decrease in overall gross profit margin of the Group during the reporting period. With the development of our business management and the gradual surfacing of the synergy effect from acquisitions, our gross profit margin and EBITDA margin will improve and increase accordingly.

The selling and distribution cost was approximately RMB31,529,000 (2007: RMB24,223,000), representing an increase of 30.2% as compared with last year which is in line with an increase of 23.9% in turnover. The ratio of selling and distribution cost to turnover was 4.7% (2007: 4.5%), representing a mild increase of 0.2%.

The administrative expenses (excluding depreciation of approximately RMB3,314,000) for the nine months ended 30 September 2008 was approximately RMB110,722,000 (2007: RMB86,463,000), representing an increase of approximately 28.1%. The ratio of administrative expenses (excluding depreciation) to turnover is 16.7% (2007: approximately 16.1%), representing an increase of 0.6%.

Basic EPS for the nine months ended 30 September 2008 was RMB8.58 cents (2007: RMB9.54 cents), representing a decrease of 10.1%.

BUSINESS REVIEW

During the reporting period, the Group's overall business revenue amounted to RMB214,000,000, of which revenue of services business amounted to RMB186,000,000, representing an increase of 2.4% and 29.8% compared to the same period last year. The Group's EBITDA amounted to RMB32,700,000, representing an decrease of 6.8% compared to the same period of 2007.

For the cumulative results of the first three quarters, the Group's overall business revenue was to RMB664,000,000, of which revenue of services business was to RMB524,000,000, representing an increase of 23.9% and 46.4% compared to the same period last year; the Group's EBITDA was to RMB98,280,000, representing an increase of 14.3% compared to the same period of 2007.

During the reporting period, the Group had advanced its practice of unique business mode by adhering to its fundamental principle of "Consolidation of resource in leading verticals, innovation through interaction" so as to further integrate the competitive advantages of the Group's existing industry solution business and IT outsourcing services business. On one hand, industry solution business maintained its steady and sound development, and based on the extensive business experience and technology and skills accumulated through conducting the business in dominant industries, the Group was able to further expand IT outsourcing services rendered to domestic and overseas clients by the industry and similar industries; on the other hand, with rapid development of the existing IT outsourcing business, the Group was able to capitalize on its existing domestic industrial experience to work with MNC clients with an aim to expand their solution businesses in China. By way of introducing advanced industrial management experience worldwide, the Group could deeply identify the business needs of domestic industrial clients and help them expand their solution businesses.

During the reporting period, the Group was committed to set its overall goals as corporate profitability, social responsibility and concern for people's livelihood. With its sustained outstanding results and performance, brand influence and quality products, the Group contributed to the continuous advancement of China's IT services industry and progressively established itself as a world famous brand name; meanwhile, the Group achieved excellent outcome in the domain of building corporate management information system and gradually formed unified corporate culture with the characteristics of Chinasoft International by strengthening its internal operation management.

During the reporting period, the Group sustained steady growth in its core business based on the "Human Resources Supply Chain" created by ETC (Excellence Training Center). Industry solution business had not only further established itself in industries with competitive advantages such as government, financial industry, urban construction and manufacturing industry but also continued to expand into new industries; IT outsourcing services business continued to provide quality services to clients and win various commendations from clients.

Status of Business Development

During the reporting period, the Group continued to reinforce the competitive positions of all its businesses in the existing industries and also attached great importance to expanding into new industries and markets. Under the influence of macro-economic situations both internally and domestically, the Group's results for the reporting period showed slower growth trend despite all its businesses attained steady development.

During the reporting period, the Group further increased its investments in the construction of elementary technology platform. Among its proprietary research and development businesses, ResourceOne® V4.0 had awarded IBM SOA Specialty Certification and was listed in IBM SOA Business Catalogue; besides, the Group had successfully trained dozens of SOA architects for various industries relating to finance, manufacturing, government and public services.

Government and Manufacture Industry

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

During the reporting period, with the "e-" projects of national informationization and business and technical competitive advantage accumulated over the years in various supervisory business domains, the Group continued to provide high-level resolutions and IT services to the customers in the government and manufacture segment. The Group had for a number of times undertaken e-Government resolutions for Ministry of Agriculture, Ministry of Human Resources and Social Security, State Auditing Administration, State General Administration of Quality Supervision, Inspection and Quarantine, State Food and Drug Administration and the like in respect of food and drug regulation and state-owned enterprise regulation.

During the reporting period, the Group continued to promote the application, implementation and deployment of the two systems of e-Audit project Phase 1 at the city and district levels. The advanced technology, stability, functions and scale of this system as well as our good services were highly recognized by audit system clients. As of the end of the reporting period, the On-site Audit Implementation System (AO) of e-Audit project Phase 1 issued over 70,000 packages to audit authorities in China. Based on the fact that there are 80,000 audit personnel in the audit authorities in China, a situation where each audit personnel has one On-site Audit Implementation System (AO) is nearly reached, and the On-site Audit Implementation System (AO) has become a necessary tool for all audit personnel in China. During the reporting period, the Group continued to carry out nationwide deployment of Audit Management System (OA), signed contracts with clients such as the Audit Bureau of Xinzhou and the Audit Bureau of Baise etc., and realized intensive coverage of OA deployment on a nationwide scale, of which 36 out of the total 37 provincial audit authorities, with a coverage of 97%, 258 out of 329 audit authorities at the district and city level, with a coverage of 78%, and 1,812 out of 2,862 counties, with a coverage rate of 63%.

During the reporting period, “e-Agriculture” Project successfully passed expert appraisal of its overall design plan and software developed for the supervision of Social Security Fund under “e-Security Project” (Phase 1) for the Ministry of Labour successfully passed trial run; meanwhile, the Group was successfully awarded the tenders of and started services for various projects such as application integration platform system of China Securities Regulatory Commission and Olympic Food Safety Monitoring System.

The Group was able to provide comprehensive services from management consultancy, business consultation, software development, project implementation to day-to-day system operation maintenance for large and medium-sized manufacturers, our business scope covers ERP, MES, industrial and commercial logistics, industrial and commercial marketing, commercial network set up, information center, office automation, enterprise application integration etc. The Group had successfully provided high-quality services to various industries, including the tobacco, high technology, consumer goods, and food industries.

As a long term strategic partner of the State Tobacco Monopoly Administration, the Group further fueled the promotion and implementation of the “State Tobacco Monopoly Administration carton-level tobacco track and trace system and purchase order information collecting system” project on a nationwide scale during the reporting period. Implementation and deployment services for more than 300 tobacco companies was provided. As at the end of the reporting period, we have passed the final examination and approval stage of 226 clients and 51 were in pilot stage. During the reporting period, the Group was successfully awarded the tender of corporate portal and cooperation office platform project from Central Fujian Tobacco Industry Company; meanwhile, CIMS projects for Central Shandong Tobacco Industry Company successfully passed inspection.

In the domain of drug production, the Group continued to provide systems targeting at drug supervision authorities and drug manufacturers during the reporting period. Meanwhile, the Group incorporated supervision into services, providing production process information input, enquiry, statistics compilation, real-time monitoring and warning, and basic purchase, sales and inventory control functions for enterprises. During the reporting period, all the functions of drug production monitoring system provided by the Group to drug manufacturers were developed in two phases with function development under way for Phase 1. The overall function development had completed for Phase 1 and is now in the internal testing stage.

Financial and Banking Services Industry

The business scope of the Group’s financial and banking services covers financial payment, settlement, exchange domains and the development and application services of various kinds of card-based businesses and financial management. The Group had focused on providing industry solution and IT outsourcing services for clients from financial and banking institutions and Quasi-financial domains, including public transportation, ticketing classification, social security (card) and civil aviation, over the years.

During the reporting period, “TOP FCS railroad transport ‘One ticket all transit’ (‘一票换乘’) funds classification and settlement application software V1.0.0” product developed by the Group was awarded “2008 China’s Top Ten Innovative Software Products” at the China Software Industry Development and Corporate Innovation Summit organized by China Software Industry Association.

Leveraged on the leading advantage of “TOP FCS railroad transport ‘One ticket all transit’ funds classification and settlement application software system in the PRC, the Group had accomplished the first nationwide “one ticket all transit” funds classification and settlement system for railroad transport in Shanghai. During the reporting period, it had also won the tender for the “one ticket all transit” funds classification and settlement system for railroad transport in Chongqing.

As the nation’s pioneer total integration and software development enterprise to have successfully implemented the “one ticket all transit” and the “Multi-pass” projects for urban railroad transport, the Group had, during the reporting period, formally secured by contract the largest project in the market of ticketing informatization for Shanghai Metro, i.e., the ticketing system of Shanghai Metro Line 7 and Line 11.

During the reporting period, the Group was successfully awarded the tenders of and activated projects such as the small enterprise loan management of Bank of Communications, AMLKYC system development of Sumitomo Bank (井住友銀行), new accounting standards conversion system development of Sumitomo Mitsui (三井住友), in addition to being awarded the tenders of and activated the projects such as IC card data center processing system for construction businesses, Shanghai social security card and senior citizen card system, Chongqing “railroad transport classification system”. Meanwhile, the World Expo ticketing system (Phase 1) developed by the Group successfully entered the trial run stage; bus rapid transit (BRT) project in Xiamen was officially put into operation.

Hi-tech MNC IT Services

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

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

Up to now, the Group had been issued ISO 9000, ISO 27001 and CMMI 3 certifications. During the reporting period, the office premise of the Group's Hi-tech MNC IT outsourcing services business successfully passed information security system certification oversight audit and received the annual audit certificate.

Information Processing and Engineering Design IT Services

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

The Group had over ten years experience in data processing and engineering design domains, providing IT services to more than 100 global companies. At the present, we have almost a thousand staff members providing multilingual IT services in a wide range of industries, both domestically and internationally, such as information technology, manufacturing industry, financial services, education, health care institutions, transportation and government agencies. During the reporting period, the Group further expanded the scale of its data processing and engineering design services business and received various awards from clients.

Excellence Training Centers (ETC)

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

In the construction of Excellence Training Centers, beside further expanding the business scale of ETC in Beijing, the Group actively promoted the establishment of practical training centers in Wuxi, Changsha, Chongqing, Dalian and Xiamen, forming sizable IT vocational education system. ETC had functioned as the talent bank of the Group, training and providing high caliber software talents to various business departments.

During the reporting period, traditional IT training business in the training centers developed well and maintained good cooperation with multinational companies such as Microsoft, IBM and Sun, a total of 35 classes were offered, with 964 students completed such training.

As the training base of the Group, Excellence Training Centers not only provide a large number of back up personnel for the Group internally, but also improve the existing staff's technical and project management ability through sustainable internal training such that they grow up rapidly to become business key personnel meeting work requirements. During the reporting period, a total of 207 internal staff of the Group participated the internal training from the training centers.

AWARDS RECEIVED

Awarded “2008 China’s Top Ten Innovative Software Products”

Recently, “TOP FCS railroad transport ‘One ticket all transit’ (‘一票换乘’) funds classification and settlement application software V1.0.0” product developed by Shanghai Huateng Software Systems Co., Ltd., a member enterprise of the Group, was awarded “2008 China’s Top Ten Innovative Software Products” at the China Software Industry Development cum Corporate Innovation Summit organized by China Software Industry Association.

Awarded 2008 China Software Service Outsourcing “Star Brand”

The Group was awarded 2008 China Software Export and Service Outsourcing “Star Brand” at 2008 Asia-Pacific Service Outsourcing International Conference organized by the Ministry of Commerce and Municipal People’s Government of Wuxi.

DIRECTORS’ INTERESTS IN SHARES

As at 30 September, 2008, the following Directors had interests in the shares and 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 issued ordinary shares of HK\$0.05 each in the capital of the Company (“Shares”)

Name of Director	Total No. of Shares	Approximate percentage of total issued ordinary share capital as at 30 September 2008
CHEN Yuhong	66,187,608	6.57%
CUI Hui	20,000,000	1.99%
WANG Hui	9,517,838	0.94%
TANG Zhenming	11,747,765	1.17%

Options to subscribe for Shares

Name of the Director	Exercise Price (HK\$)	Number of share options outstanding as at 30 September, 2008	Approximate percentage of the total number of the Shares in issue as at 30 September, 2008	Number of underlying Shares interested in	Notes
CHEN Yuhong	0.97	1,200,000	0.12%	10,000,000	(3)
	1.78	3,800,000	0.38%		(4)
	1.37	5,000,000	0.50%		(5)
CUI Hui	0.65	500,000	0.05%	500,000	(1)
Duncan CHIU	0.65	1,000,000	0.10%	11,000,000	(1)
	1.37	10,000,000	0.99%		(5)
TANG Zhenming	0.58	80,000	0.01%	6,180,000	(1)
	0.65	1,300,000	0.13%		(2)
	0.97	800,000	0.08%		(3)
	1.78	2,000,000	0.20%		(4)
	1.37	2,000,000	0.20%		(5)
WANG Hui	0.58	250,000	0.02%	7,600,000	(1)
	0.65	1,750,000	0.17%		(2)
	0.97	1,000,000	0.10%		(3)
	1.78	2,000,000	0.20%		(4)
	1.37	2,600,000	0.26%		(5)
ZENG Zhijie	1.78	750,000	0.07%	750,000	(4)

Notes:

- (1) 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

- (2) 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

- (3) 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

- (4) 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

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

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

SHARE OPTION SCHEME

As at 30 September, 2008, there were share options to subscribe for an aggregate of 112,976,500 Shares granted to certain Directors and employees of the Group pursuant to the Share Option Scheme outstanding.

During the nine months ended 30 September, 2008, an aggregate of 17,950,000 share options were exercised and an aggregate of 32,700,000 share options were granted under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, during the nine months ended 30 September, 2008, none of the Directors was granted options to subscribe for shares of the Company and as at 30 September, 2008, none of the Directors had any rights to acquire shares in the Company.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the nine months ended 30 September, 2008, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the Directors, the Directors had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the nine months ended 30 September, 2008.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the nine months ended 30 September, 2008, the Company had 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 September, 2008, 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	19.76%
Chinasoft National Software and Service Company Limited ("CNSS") (Note 1)	Interest of controlled corporation	199.01	19.76%
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)") (Note 2)	Interest of persons acting in concert	199.01	19.76%
Far East Holdings International Limited ("Far East Holdings") (Note 3)	Beneficial interest	131.27	13.03%
Greater Pacific Capital Partners, LP ("GPC") (Note 4)	Beneficial interest	99.27	9.86%
International Finance Corporation ("IFC") (Note 5)	Beneficial interest	97.25	9.65%
Microsoft Corporation ("Microsoft") (Note 5)	Beneficial interest	97.25	9.65%
Dr. Chen Yuhong (Note 6)	Beneficial interest	66.19	6.57%
The Royal Bank of Scotland Group plc. (Note 7)	Beneficial interest	60.08	5.96%

Notes:

1. CNSS was taken to be interested in the Shares in which CS&S (HK) is interested. CNSS holds approximately 99.3% of the total voting rights of CS&S (HK). The number of Shares in which CS&S (HK) is interested includes 23,248,302 Shares which may be issued by the Company to CS&S (HK) pursuant to an acquisition agreement between Chinasoft (HK) and CS&S (HK) dated 28 April, 2005 subject to fulfillment of a condition and the exercise of a cash option.
2. Chinasoft (HK) and CS&S (HK) are parties to agreements to acquire interests in the Company which include provisions imposing restrictions with respect to the disposal of interests acquired, and Chinasoft (HK) is taken to be interested in the Shares in which CS&S (HK) is interested pursuant to section 318 of the SFO.
3. Mr. Duncan Chiu, a non-executive Director, is nominated by Far East Holdings. Mr. Duncan Chiu is a director of Far East Holdings.
4. GPC was interested in 99,268,639 Shares.
5. IFC and Microsoft were each interested in 97,250,000 Shares which could be issued to each of them upon the conversion of the 97,250,000 series A preferred shares of HK\$0.05 each in the capital of the Company ("Series A Preferred Shares") allotted and issued to each of them on 6 January, 2006. Each of IFC and Microsoft holds 50% of the total 194,500,000 Series A Preferred Shares in issue.
6. Dr. Chen Yuhong, an executive Director, was interested in 66,187,608 issued Shares and options to subscribe for 10,000,000 shares. Please refer to the section headed "Directors' interests in Shares" for further details.
7. The Royal Bank of Scotland Group plc. was interested in 60,080,000 shares.

Save as disclosed above, as at 30 September, 2008, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

COMPETING INTERESTS

As at 30 September, 2008, Dr. Cui Hui, an executive Director, was interested in approximately 1.34% of the issued share capital of CNSS. Dr. Cui Hui also served as a director of CNSS. In addition, Mr. Su Zhenming, a non-executive Director, had been appointed as directors of CNSS since September 2006. Although the Directors are of the view that the principal activities of CNSS do not directly compete with those of the Group currently, the Group and CNSS however are both engaged in the provision of information technology outsourcing.

Save as disclosed above, as at 30 September, 2008, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

AUDIT COMMITTEE

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

The audit committee of the Company has reviewed the quarter results of the Group for the nine months ended 30 September, 2008.

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

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any listed securities of the Company during the nine months ended 30 September, 2008.

On behalf of the Board

Dr. Chen Yuhong

Managing Director

12 November, 2008, Beijing, PRC