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 nally 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 nance 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 pro t 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 pro t and a net pro t 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 pro t margin and the restated net pro t 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 pro t margin was related to having the hardware turnover of approximately RMB139,000,000 taken up in this half year and the lower gross pro t margin of these hardware of approximately 15% have slightly drifted down the overall gross pro t margin ratio. While the drop in the net pro t 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 nance 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 gures as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

	Notes	For the three months ended 30 June, 2007 RMB'000	For the three months ended 30 June, 2006 RMB'000	For the six months ended 30 June, 2007 RMB'000	For the six months ended 30 June, 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 pro t		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)
Pro t 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
Pro t before taxation		6,475	16,802	21,256	29,256
Taxation	3	(4,187)	(2,792)	(6,430)	(4,747)
Pro t 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 pro ts 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)
Pro t 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 pro t 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 nancial 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 nancial 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 Certi ed 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 RMB’000	2006 RMB’000	2007 RMB’000	2006 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, / • ´ 7 ç ¦ ¹ ¦ ” Þ " ® ! (“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 rst pro t-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 pro t thereafter.

Pursuant to an approval document issued by the Guangzhou Science and Technology Bureau dated 31 March 2004, •´7ç €?È• ¦¹¦”Þ"®! (“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 Of ce 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 rst pro tmaking year with effect from 2003.

Pursuant to an approval document issued by the Hunan Science and Technology Bureau dated 13 June 2006, •´7ç €³Ì• ¦¹¦”Þ"®! (“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 rst pro t-making year.

Pursuant to an approval document issued by the State Bureau of Tianjing Economic and Technology Development Zone dated 20 February 2003,•´„ù U´•¦” €Âu• Þ "®! (“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, /•´ U¦¹Å¦ Þ"®! (“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 rst pro t-making year with effect from 2004.

Pursuant to an approval document issued by the State Bureau of Shenzhen Nanshan District dated 1 March 2005, -9•´ U¦” Þ"®! (“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 rst pro t-making year with effect from 2004.

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

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

4. DIVIDEND

On 30 March 2007, the Company declared nal 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 pro t of approximately RMB11,556,000 respectively (three months and six months ended 30 June, 2006: net pro t 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 pro t 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 (/ • ´ U ¦ ¹ Å ¦ Þ " ® !) and the additional 50% interest in a subsidiary, CS&S Cyber Resources Software