THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This circular is for information purpose only and does not constitute an invitation or offer to acquire or subscribe for securities.

If you are in any doubt as to any aspect of this circular, you should consult a stockbroker, or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Chinasoft International Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee. This circular is addressed to the shareholders of Chinasoft International Limited in connection with the extraordinary general meeting to be held on 9 July 2007. This circular is not and does not constitute an offer of, nor is it intended to invite offers for, shares in or other securities in Chinasoft International Limited.

CHINASOFT INTERNATIONAL LIMITED
中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8216)

MAJOR TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF HINGE GLOBAL RESOURCE INC.

Strategic Adviser to Chinasoft International Limited

Compliance Adviser to Chinasoft International Limited

A notice convening the EGM to be held at Units 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong at 3:30 p.m on 9 July 2007 is set out on pages 147 to 148 of this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit with the Company's principal place of business in Hong Kong at Units 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the EGM or adjourned meeting. Completion and return of the enclosed form of proxy will not preclude you from attending and voting at the EGM should you wish.

This circular will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for at least seven days from the date of its posting.

* *For identification purpose only*

13 June 2007

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors. Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM listed issuers.

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In this circular, unless the context requires otherwise, the following expressions shall have the following meanings:

"2006 Net Profit"	approximately US$2.91 million (equivalent to approximately RMB22.64 million), being the aggregate of (i) the audited consolidated net profit after taxation of the HGR Group for the financial year ending 31 December 2006, which is approximately RMB21.49 million; and (ii) the audited consolidated net profit after taxation of DoubleBridge for the two months ended 28 February 2006, which is approximately US$0.15 million (equivalent to approximately RMB1.17 million), both prepared in accordance with HKFRS;
"2007 Net Profit"	the audited consolidated net profit after taxation of the HGR Group for the financial year ending 31 December 2007 prepared in accordance with HKFRS;
"Acquisition"	the proposed acquisition of 7,474,624 HGR Shares (or such other additional number of the HGR Shares to be sold by other HGR Shareholders prior to the Closing) by the Company pursuant to the terms and conditions set forth in the Agreements;
"Agreements"	the Sale and Purchase Agreement and the Supplemental Agreement in relation to the Acquisition;
"Announcement"	the announcement of the Company dated 5 January 2007 in relation to, among other things, the Acquisition;
"associates"	has the meaning ascribed to it under the GEM Listing Rules;
"Beijing Daoda"	北京道達技術有限公司 (Beijing Daoda Technology Co., Ltd*), a wholly-foreign owned enterprise established in the PRC and a wholly-owned subsidiary of DoubleBridge;
"Board"	the board of Directors;
"Business Day"	a day on which banks in Hong Kong are generally open for business excluding Saturdays, Sundays and public holidays in Hong Kong;
"CAD"	computer-aided design;
"Chinasoft (HK)"	Chinasoft International (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company;

"Closing"	closing of the Acquisition in accordance with the terms and conditions set forth in the Agreements;
"Closing Date"	subject to the satisfaction of the Conditions, the first Business Day which falls 15 days after the date of the approval of the audited consolidated accounts of the HGR Group for the financial year ended 31 December 2006 or such other day (which must be a Business Day) as agreed by the parties to the Sale and Purchase Agreement;
"Companies Law"	Companies Law (2004 Revision) of the Cayman Islands;
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
"Company"	Chinasoft International Limited, a company incorporated in the Cayman Islands with limited liability;
"Conditions"	the conditions precedent to the Closing;
"connected person"	has the meaning ascribed under the GEM Listing Rules;
"Consideration Shares"	up to 306,087,566 new Ordinary Shares to be issued and allotted by the Company to the HGR Shareholders (including the Selling Shareholders) pursuant to the terms and conditions of the Sale and Purchase Agreement;
"CNSS"	中國軟件與技術服務股份有限公司 (China National Software and Service Company Limited), a joint stock limited company established in the PRC with the A-shares listed on the Shanghai Stock Exchange. CNSS is the holding company of CS&S (HK);
"CS&S(HK)"	China National Computer Software & Information Technology Service Corporation (Hong Kong) Limited, a company incorporated in Hong Kong and a substantial shareholder (as such term is defined under the GEM Listing Rules) of the Company;
"Dalian Digitall"	大連全數科技有限公司 Dalian Digitall Technology Co., Ltd., a wholly-foreign owned enterprise established in the PRC and a 60 per cent. owned subsidiary of HGR;
"Dalian Xinhua"	大連信華信息技術有限公司 Dalian Xinhua Infotech Co., Ltd., a wholly-foreign owned enterprise established in the PRC and a wholly-owned subsidiary of HGR;
"Director(s)"	director(s) of the Company;

"DoubleBridge"	DoubleBridge Technologies, Inc., a company incorporated in the state of Delaware, the US and a wholly-owned subsidiary of HGR;
"DoubleBridge Hong Kong"	DoubleBridge Technologies Hong Kong Limited 達銳技術香港有限公司, a company incorporated under the Companies Ordinance and owned by DoubleBridge as to 99.9999 per cent.;
"Earn-out Payment"	the earn-out payment based on 15.5 times the 2007 Net Profit minus the Share Purchase Price;
"EGM"	the extraordinary general meeting of the Company to be convened at which certain ordinary resolutions will be proposed to consider and, if appropriate, approve the transactions contemplated under the Agreements which include, but without limitation to, the issue and allotment of the Consideration Shares;
"Enlarged Group"	the Group immediately upon the Closing;
"Far East"	Far East Holdings International Limited (formerly known as Far East Technology International Limited), a company incorporated in Hong Kong and a substantial shareholder (as such term is defined under the GEM Listing Rules) of the Company;
"GEM"	The Growth Enterprise Market of the Stock Exchange;
"GEM Listing Rules"	The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited;
"GPC"	Greater Pacific Capital Ltd., a company incorporated in the Cayman Islands and a general partner of Greater Pacific Capital Partners, L.P., a limited liability partnership established under the laws of the Cayman Islands, which is one of the Selling Shareholders;
"Greater China"	the PRC, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
"Group"	the Company and its subsidiaries (as such term is defined under the Companies Ordinance) as at the date of the Sale and Purchase Agreement;
"HGR"	Hinge Global Resource Inc., a company incorporated in the Cayman Islands with limited liability;

"HGR Group"	HGR and its subsidiaries (as such term is defined under the Companies Ordinance) which include Shanghai Huateng, Dalian Xinhua, Dalian Digitall, Hinge Xinhua, DoubleBridge, Beijing Daoda, DoubleBridge Hong Kong and Tokyo Xinhua;
"HGR Shares"	the 7,729,073 ordinary shares of no par value in the issued share capital of HGR as at the Latest Practicable Date, all of which are registered in the name of the HGR Shareholders, representing all the issued share capital of HGR;
"HGR Shareholder(s)"	shareholder(s) of the HGR Share(s), including the Selling Shareholders;
"Hinge Xinhua"	和勤信華信息技術(大連)有限公司 Hinge Xinhua Information & Technology (Dalian) Co., Ltd., a wholly-foreign owned enterprise established in the PRC and a wholly-owned subsidiary of HGR;
"HKFRS"	the Hong Kong Financial Reporting Standards as promulgated from time to time by the Hong Kong Institute of Certified Public Accountants;
"Hong Kong"	The Hong Kong Special Administrative Region of the People's Republic of China;
"IT"	information technology;
"Latest Practicable Date"	7 June 2007, being the latest practicable date prior to the printing of this circular for the purposes of ascertaining certain information contained herein;
"Listing Committee"	the listing sub-committee of the directors of the Stock Exchange responsible for the GEM listing matters;
"Main Board"	the stock market operated by the Stock Exchange in parallel with GEM;
"Offer"	the offer made by the Company to all HGR Shareholders to acquire the HGR Shares pursuant to the Sale and Purchase Agreement;
"Ordinary Share(s)"	ordinary share(s) of HK$0.05 each in the share capital of the Company;
"PRC" or "China"	the People's Republic of China, for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan;

"Principal Shareholders" — the Selling Shareholders other than GPC, China Tiger Investments Limited and Daniel RUAN;

"Sale and Purchase Agreement" — the conditional share and purchase agreement dated 2 January 2007 entered into between the Company, the Selling Shareholders and HGR;

"Selling Shareholders" — the following HGR Shareholders with the expected number of the HGR Shares held immediately prior to the Closing Date:–

Name of the HGR Shareholders	**Expected number of HGR Shares held**	**Expected percentage to all issued HGR Shares**
GPC	3,143,223	40.668
Scube Systems Limited	1,166,180	15.088
XFY Limited	846,256	10.949
Pine Flower River Inc.	784,828	10.154
China GIWIN Investments Limited	571,346	7.392
Genius Investments Company Limited	265,205	3.431
George WU	182,568	2.362
Easy Win Technology Limited	171,970	2.225
IDG Technology Venture Investments, LP	149,868	1.939
Biliang HU	88,918	1.150
China Tiger Investments Limited	75,729	0.980
Daniel RUAN	28,533	0.369
	7,474,624	96.707

"Series A Preferred Share(s)" — the senior redeemable convertible preferred share(s) of HK$0.05 each in the issued share capital of the Company;

"SFO" — the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);

"Shanghai Huateng" — 上海華騰軟件系統有限公司 Shanghai Huateng Software Systems Co., Ltd., a sino-foreign joint venture established in the PRC and owned by HGR as to 88.78 per cent.;

"Share Purchase Price"	approximately US$45.06 million (equivalent to approximately RMB350.57 million), being 15.5 times the 2006 Net Profit;
"Share(s)"	Ordinary Share(s) and the Series A Preferred Share(s);
"Shareholder(s)"	the holder(s) of the all issued Shares;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Supplemental Agreement"	the agreement dated 2 January 2007 entered into between the Company, HGR and the Principal Shareholders;
"Tokyo Xinhua"	株式會社東京信華 (Kabushiki Kaisha Tokyo Xinhua*), a company established in the Japan and is a wholly-owned subsidiary of HGR;
"Total Consideration"	the total amount of consideration payable by the Company to the HGR Shareholders under the Offer pursuant to the Sale and Purchase Agreement, comprising the Share Purchase Price and the Earn-out Payment, to be settled by way of cash and the Consolidation Shares, the aggregate amount of which shall not exceed US$55.00 million (equivalent to approximately RMB427.90 million) on the basis that the Company is to acquire all the HGR Shares in issue;
"US"	United States of America;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"RMB"	Renminbi, the lawful currency of the PRC; and
"US$"	United States dollars, the lawful currency of the United States of America.

The English names of the PRC established companies in this circular are for identification purposes only. In case of inconsistency, the Chinese names prevail.

In this circular, US$ has been converted into RMB and HK$ at the rates of US$1 = RMB7.78 and US$1 = HK$7.78 respectively for illustration purpose only. No representation is made that any amounts in RMB or US$ or HK$ have been, could have been or could be converted at the above rate or at any other rates or at all.

* *for identification purpose only*

中软国际

CHINASOFT INTERNATIONAL LIMITED
中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 8216)

Executive Directors:–
Dr. CHEN Yuhong *(Managing Director)*
Dr. TANG Zhenming
Mr. WANG Hui

Non-executive Directors:–
Mr. SU Zhenming *(Chairman)*
Dr. CUI Hui
Mr. CHEN Yung Cheng Timothy
Mr. Duncan CHIU
Mr. LIU Zheng

Independent non-executive Directors:–
Mr. HE Ning
Mr. ZENG Zhijie
Dr. LEUNG Wing Yin

Registered office:–
Century Yard, Cricket Square,
Hutchins Drive, P.O. Box 2681 GT,
George Town, Grand Cayman,
Cayman Islands,
British West Indies

Principal place of business in Hong Kong:–
Units 4607-08, 46th Floor
COSCO Tower,
No. 183 Queen's Road Central,
Hong Kong

13 June 2007

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF HINGE GLOBAL RESOURCE INC.

INTRODUCTION

On 5 January 2007, the Company announced that it had entered into the Sale and Purchase Agreement and the Supplemental Agreement on 2 January 2007 whereby the Company has agreed to purchase, and the Selling Shareholders have agreed to accept the Offer to sell, an aggregate of 7,474,624 HGR Shares, representing approximately 96.71 per cent. of the HGR Shares expected to be in issue on the Closing Date, subject to the terms and conditions of the Sale and Purchase Agreement.

* *For identification purpose only*

Implications under the GEM Listing Rules

Based on the applicable ratios set forth in Chapter 19 of the GEM Listing Rules, the Acquisition constitutes a major transaction (as such term is defined under the GEM Listing Rules) for the Company and hence, is subject to the approval of the Shareholders. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, no Shareholders will be required to abstain from voting at the EGM.

General

The purposes of this circular are (i) to provide you with further information on the Acquisition and the implications on the Group following the Closing and (ii) to give you notice of the EGM to be convened for considering, if thought fit, approving, among other things, the issue and allotment of the Consideration Shares and the transactions contemplated under the Agreements.

THE SALE AND PURCHASE AGREEMENT

The Sale and Purchase Agreement has been entered into as a result of the Offer. The Offer has also been made to all HGR Shareholders other than the Selling Shareholders to acquire the remaining HGR Shares.

Date : 2 January 2007

Parties : The Company, *being the acquiror*;

The Selling Shareholders, *being the vendors*; and

HGR.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Selling Shareholders and their ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

HGR Shares to be acquired

Pursuant to the Sale and Purchase Agreement, the Company has agreed to purchase, and the Selling Shareholders have agreed to accept the Offer to sell, an aggregate of 7,474,624 HGR Shares, representing approximately 96.71 per cent. of the HGR Shares expected to be in issue on the Closing Date.

Prior to the Closing, as separately agreed between HGR and GPC, HGR may issue additional HGR Shares to GPC with an aggregate value of US$1.00 million (equivalent to approximately RMB7.78 million) if the Share Purchase Price reaches US$46.50 million. As the Share Purchase Price is determined to be less than US$46.50 million (equivalent to approximately RMB361.77 million), accordingly HGR will not issue additional HGR Shares to GPC.

The HGR Shares to be acquired by the Company, pursuant to the terms and conditions of the Sale and Purchase Agreement, shall be free from all encumbrances, claims, liabilities, demands, charges and all third parties' rights. Following the Closing, the Company shall hold approximately 96.71 per cent. of the HGR Shares expected to be in issue on the Closing Date. Hence, members of the HGR Group will become subsidiaries of the Company following the Closing.

Total Consideration and the down-payment

The Total Consideration comprises the Share Purchase Price and the Earn-out Payment. The Total Consideration was determined after arm's length negotiations between the Company and the Selling Shareholders with reference to, among other things, the historical performance of the HGR Group and the expected earnings growth of the HGR Group in 2007.

Pursuant to the Sale and Purchase Agreement, the Company has made a down-payment of US$3.00 million (equivalent to approximately RMB23.34 million), being part of the Share Purchase Price, to an escrow account designated by the Company within 15 days from the date of the Sale and Purchase Agreement

If (i) the Shareholders do not approve at the EGM the Acquisition and the transactions contemplated thereunder; or (ii) the Closing cannot proceed with because the Selling Shareholders cannot sell more than 90 per cent. of the HGR Shares pursuant to the terms of the Sale and Purchase Agreement, the down-payment will be returned to the Company.

If, however, the Directors do not recommend the Acquisition and the transactions contemplated thereunder to the Shareholders in this circular and the Shareholders do not approve the Acquisition and the transactions contemplated thereunder at the EGM, the down-payment will be released to the Selling Shareholders.

The Share Purchase Price is equivalent to 15.5 times the 2006 Net Profit, provided that it cannot be less than US$25.00 million (equivalent to approximately RMB194.50 million) and more than US$50.00 million (equivalent to approximately RMB389.00 million).

As the 2006 Net Profit is approximately US$2.91 million (equivalent to approximately RMB22.64 million), the Share Purchase Price is approximately US$45.06 million (equivalent to approximately RMB350.57 million). On the basis of the maximum Total Consideration of US$55.00 million (equivalent to approximately RMB427.90 million) and that the Company chooses to pay a minimum amount of cash of US$5.50 million (equivalent to approximately RMB42.79 million) as part of the Total Consideration, the maximum number of the Consideration Shares to be issued and allotted at the issue price of HK$1.44 for each Consideration Share in relation to the Share Purchase Price and at the minimum possible issue price of HK$0.80 for each Consideration Share in relation in the Earn-out Payment, for settlement of the Total Consideration is expected to be 306,087,566 Ordinary Shares, representing approximately 30.60 per cent. of the existing Shares in issue and approximately 23.43 per cent. of the Shares in issue as enlarged by the issuance of the maximum possible number of Consideration Shares.

THE COMPULSORY PURCHASE

If not all HGR Shareholders choose to sell all the HGR Shares to the Company at the aggregate of the Total Consideration on the Closing Date, i.e. the Company can only acquire 7,474,624 HGR Shares following the Closing, the Directors currently intend to exercise the compulsory purchase right under the Companies Law to acquire the remaining HGR Shares.

THE SHARE PURCHASE PRICE AND THE EARN-OUT PAYMENT

Assuming that the Company can acquire all the HGR Shares in issue, the aggregate of the Share Purchase Price and the Earn-out Payment shall not exceed US$55.00 million (equivalent to approximately RMB427.90 million). Settlement of the Share Purchase Price and the Earn-out Payment will be at different stages involving a cash payment and the issue and allotment of the Consideration Shares at such percentages as determined by the Company prior to the Closing Date provided that the cash portion shall be no more than 30 per cent. and no less than 10 per cent. of the Total Consideration. The Selling Shareholders may elect to receive their respective Share Purchase Price and Earn-out Payment by (i) Consideration Shares in full; or (ii) Consideration Shares and cash on a *pro rata* basis amongst the other HGR Shareholders on the same percentages as determined by the Company after taking into consideration the election of GPC and the amount of cash payable to the HGR Shareholders other than the Selling Shareholders. HGR Shareholders other than the Selling Shareholders will only receive cash for their respective entitlement to the Share Purchase Price and Earn-out Payment. In this connection, GPC has elected its entire entitlement to the Total Consideration to be settled by way of the Consideration Shares with the remaining Selling Shareholders to be settled by cash and the Consideration Shares on a *pro rata* basis, subject to such adjustments as approved by the Company prior to the Closing, within the overall percentages of cash and the Consideration Shares to be determined by the Company.

Further announcement(s) will be made by the Company disclosing, among other things, the shareholding structure of HGR as at the Closing Date and the updated shareholding structure of the Company (i) immediately after the issuance of the Consideration Shares as part of the Share Purchase Price but before making the Earn-out Payment; and (ii) immediately after the issuance of the Consideration Shares as part of the Share Purchase Price and the Earn-out Payment, as and whenever appropriate.

The following table illustrates the situation where the Company chooses to pay a minimum cash amount as part of the maximum Total Consideration, which will result in a corresponding increase in the aggregate value of the Consideration Shares.

	Total Consideration		
	Cash *US$ million*	**Aggregate value of the Consideration Shares** *US$ million*	**Total** *US$ million*
Share Purchase Price *(Note 1)*	4.50 *(Note 2)*	40.56 *(Note 2)*	45.06 *(Note 1)*
Earn-out Payment *(Notes 3 & 4)*	1.00 *(Note 5)*	8.94 *(Note 5)*	9.94
Total	**5.50**	**49.50**	**55.00**

Notes:–

1. Pursuant to the Sale and Purchase Agreement, at the Company's discretion, no more than 30 per cent. and no less than 10 per cent. of the Share Purchase Price shall be settled by way of cash and the remaining balance shall be satisfied by the issue and allotment of the Consideration Shares on the Closing Date. Subject to a minimum price of HK$0.80 for each Consideration Share, the issue price of each Consideration Share of HK$1.44 was determined based on the lower of the average of the daily closing price of the Ordinary Shares as quoted on GEM (i) for a period of 30 trading days up to the date immediately before the date of announcement of the annual results of the Company for the financial year ending 31 December 2006, which is HK$1.90 per Ordinary Share; and (ii) for a period of 45 trading days up to 11 December 2006, being the last trading day of the Ordinary Shares on GEM prior to the issue of the Announcement, which is HK$1.44 per Ordinary Share.

2. This is on the assumption that the Company chooses to pay a minimum amount of cash under the Share Purchase Price. Hence, such number of the Ordinary Shares representing approximately US$40.56 million (equivalent to approximately RMB315.56 million) shall be satisfied by the issue and allotment of the Consideration Shares and the remaining balance of approximately US$4.50 million (equivalent to approximately RMB35.01 million) by way of cash.

3. In the event that the 2007 Net Profit is no less than US$3.16 million (equivalent to approximately RMB24.58 million), the Company has agreed to pay the Earn-out Payment to the HGR Shareholders, which shall be equal to 15.5 times the 2007 Net Profit minus the Share Purchase Price, provided that the Total Consideration shall not exceed US$55.00 million (equivalent to approximately RMB427.90 million). If the 2007 Net Profit is less than US$3.16 million, no Earn-out Payment will be made.

4. Pursuant to the Sale and Purchase Agreement, at the Company's discretion, no more than 30 per cent. and no less than 10 per cent. of the Earn-out Payment shall be settled by way of cash and the remaining balance shall be satisfied by the issue and allotment of the Consideration Shares on the first Business Day falling 15 days after the date of approval of the audited consolidated accounts of the HGR Group for the financial year ending 31 December 2007 by the board of directors of HGR or such other day as agreed by the parties to the Sale and Purchase Agreement. Subject to a minimum price of HK$0.80 for each Consideration Share, the issue price of each Consideration Share shall be determined based on the average of the daily closing price of the Ordinary Shares as quoted on GEM

for a period of 30 trading days up to the date immediately before the date of approval of the annual results of the HGR Group for the financial year ending 31 December 2007 by the board of directors of HGR.

5. This is on the assumption that the Company chooses to pay a minimum amount of cash for the Earn-out Payment. Hence, such number of the Ordinary Shares representing approximately US$8.94 million (equivalent to approximately RMB69.55 million) shall be satisfied by the issue and allotment of the Consideration Shares and the remaining balance of approximately US$1.00 million (equivalent to approximately RMB7.78 million) by way of cash.

6. The maximum amount of cash to be paid as the Total consideration is approximately US$16.50 million (equivalent to approximately RMB128.37 million).

The proposed issue and allotment of the Consideration Shares will trigger the pre-emptive right on the part of holders of the Series A Preferred Shares to purchase on a *pro rata* basis the Ordinary Shares but will not result in any adjustment to the conversion price of the Series A Preferred Shares. Each holder of the Series A Preferred Shares has agreed to waive its pre-emptive right in relation to the issue of the Consideration Shares.

STATUS OF THE CONSIDERATION SHARES

The Consideration Shares shall rank *pari passu* in all respects with the existing Ordinary Shares in issue, including the rights to receive in full all dividends and other distributions declared after the respective dates of allotment of the Consideration Shares. Ordinary resolutions will be proposed at the EGM to seek a specific approval from the Shareholders on the Acquisition and the issue and allotment of the maximum number of the Consideration Shares as part of the Total Consideration.

An application has been made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

CONDITIONS

Pursuant to the Sale and Purchase Agreement, the Closing is conditional upon the fulfillment or to the applicable extent, the waiver of, inter alia, the following Conditions:–

(a) the Company obtaining the approval from the Shareholders at the EGM for the transactions contemplated under the Sale and Purchase Agreement in accordance with the requirements under the GEM Listing Rules or the Stock Exchange;

(b) the Listing Committee approving the listing of, and permission to deal with, the Consideration Shares to be issued pursuant to the Sale and Purchase Agreement on GEM;

(c) the representations and warranties set forth in the Sale and Purchase Agreement being true and correct in all material respects when made;

(d) all parties to the Sale and Purchase Agreement shall have performed and complied in all aspects with all agreements, obligations and conditions contained in all the documents relating to the Acquisition that are required to be performed or complied with by any of them on or before the Closing;

(e) not less than 90 per cent. of the 571,346 options granted by HGR to employees of the HGR Group shall have been cancelled in full;

(f) there being no matter, event or circumstance in relation to any member of the HGR Group or their respective businesses which was in existence as at the date of the Sale and Purchase Agreement but was not disclosed to the Company on or before that date, which would have a material adverse effect to the business of the HGR Group as a whole; and

(g) such other conditions set forth in the Sale and Purchase Agreement relating to certain matters shall have been dealt with to the satisfaction of the Company.

The parties to the Sale and Purchase Agreement have agreed to use their respective best endeavors to procure fulfillment of the Conditions on or before 30 September 2007. HGR has also agreed to use its best endeavors to procure that all options issued by each member of the HGR Group shall have been cancelled prior to the Closing.

If any of the Conditions has not been fulfilled or waived by the Company on or before 30 September 2007, the Sale and Purchase Agreement shall then lapse and no party shall have any claim against the other save for claim (if any) in respect of any of the antecedent breaches of the Sale and Purchase Agreement. As at the Latest Practicable Date, the Company does not have the intention to waive any of the Conditions.

CLOSING AND CERTAIN ARRANGEMENTS PRIOR TO THE CLOSING

Pursuant to the Sale and Purchase Agreement, the Closing shall take place on the later of:–

(a) the third Business Day after satisfaction of the Condition set forth in (a) above;

(b) the first Business Day falling fifteen (15) calendar days after the date on which the audited consolidated accounts of the HGR Group for the financial year ending 31 December 2006 are approved by the board of directors of HGR;

(c) such other date as agreed by the Company and HGR and the Selling Shareholders.

Prior to the Closing, pursuant to the Sale and Purchase Agreement, the Company shall determine the percentages of cash payment and the number of the Consideration Shares shall be made to satisfy the Share Purchase Price.

Prior to the Closing, pursuant to the Sale and Purchase Agreement, all major decisions involving financial commitment on the part of the HGR Group shall be approved by a committee to be established with members nominated by the Company, certain HGR Shareholders and HGR. Representative of the Company has a casting vote in all decisions of the committee.

Further announcement(s) will be made by the Company disclosing, among other things, the shareholding structure of HGR as at the Closing Date and the updated shareholding structure of the Company (i) immediately after the issuance of the Consideration Shares as part of the Share Purchase Price but before making the Earn-out Payment; and (ii) immediately after the issuance of the Consideration Shares as part of the Share Purchase Price and the Earn-out Payment, as and whenever appropriate.

NON-COMPETITION UNDERTAKINGS GIVEN BY CERTAIN SELLING SHAREHOLDERS

Pursuant to the Supplemental Agreement, upon the Closing, each of the Principal Shareholders and their associates shall undertake, jointly and severally, to the Company that, for a period of two (2) years after the Closing Date, each of them shall not, and shall procure that his or its associates shall not, either on its/his own account or in conjunction with or on behalf of any person, firm or company, directly or indirectly, be interested or engaged in or acquire or hold in any business activity that directly competes with that of the Group and the HGR Group in the areas of:–

(a) software outsourcing business for banks and financial institutions; and

(b) software outsourcing business which is originated outside the Greater China region.

The above restriction will not be applicable to any holding by the Principal Shareholders in any listed company or other entity of not more than five (5) per cent.

LOCK-UP PERIOD OF THE CONSIDERATION SHARES

Pursuant to the Sale and Purchase Agreement, each of the Selling Shareholders undertakes that for a period commencing from the date of issue of the Consideration Shares and ending on the date of the Earn-out Payment, each of them shall not sell any such Consideration Shares without the prior written consent of the Board.

During the lock-up period, the Selling Shareholders may dispose of their Consideration Shares to institutional investors as part of any private placement transaction approved by the Board.

PRE-EMPTIVE RIGHT AND REGISTRATION RIGHTS

Pursuant to the Supplemental Agreement, the Company has agreed to grant to GPC a pre-emptive right in the event that the Company proposes to offer any shares of, or securities convertible into or exchangeable or exercisable for any shares of, any class of its share capital to any subscribers. The pre-emptive right shall not be applicable to any issue by the Company of:–

(a) any Ordinary Shares issued or issuable upon conversion of the preferred shares comprising the share capital of the Company;

(b) any Ordinary Shares issued pursuant to the exercise of options granted or to be granted under the share option scheme adopted by the Company;

(c) any share split, share dividend, recapitalization of the Company or similar transaction for which proportional adjustments are made;

(d) any Ordinary Shares issued in an underwritten public offering; and

(e) any Ordinary Shares to be issued pursuant to the general mandate granted or to be granted to the Directors, pursuant to the requirements under the GEM Listing Rules, to the extent that such new issue of the Ordinary Shares shall not exceed 15 per cent. of the total issued share capital of the Company, provided that the 15 per cent. threshold shall be dispensed with in the event that none of the Series A Preferred Shares remain in issue.

The exercise of the pre-emptive right by GPC shall be subject to the approval of the independent Shareholders.

GPC shall also have the registration rights in respect of the Ordinary Shares held by it in the event that the Company is seeking listing of the Ordinary Shares in the stock market in the US.

OTHER PRINCIPAL TERMS

Before the Closing:–

Mr. LEI Hongsang, currently the chairman and a director of HGR, and Mr. WANG Xi, currently the president, the chief executive officer and a director of HGR, shall be nominated as the observers on the Board from the date of the Sale and Purchase Agreement.

From the date of the Sale and Purchase Agreement, the Company shall be entitled to appoint four observers on the board of directors of each member of the HGR Group. The observers appointed shall have unlimited right of access to all records of all members of the HGR Group. Upon Closing, the observers appointed shall be nominated and appointed as the directors of the relevant member of the HGR Group.

Following the Closing:–

(a) the Company shall nominate a majority of the directors to be appointed to the board of directors of each member of the HGR Group;

(b) Mr. LEI Hongsang shall be nominated as a non-executive Director. Mr. WANG Xi, the chief executive officer and a director of HGR, shall be nominated as an executive Director and designated as the "Co-CEO" of the Group;

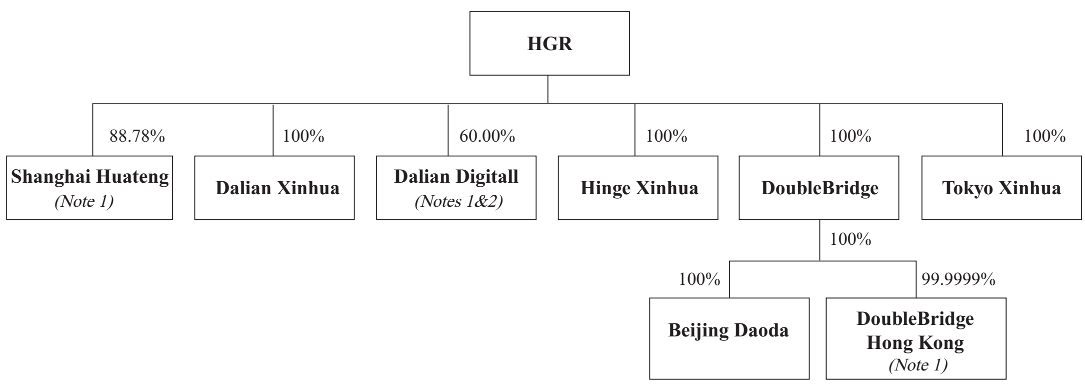
(c) GPC shall be entitled to appoint an observer to the Board; and

(d) certain senior management staff of the HGR Group shall enter into service contracts with members of the HGR Group upon terms and conditions approved by the Company.

INFORMATION ON THE HGR GROUP

Business activities

The principal activity of HGR is investment holding and its business activities are carried out by its eight subsidiaries. The table below sets out of the group structure of the HGR Group:–



Notes:

1. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, holders of the remaining 11.22% equity interest of Shanghai Huateng, 40.00% equity interest of Dalian Digitall and 0.0001% of DoubleBridge Hong Kong are parties independent of the Company and not connected persons of the Company.

2. Pursuant to the articles of association of Dalian Digitall, HGR is entitled to 100% of its distributable profit.

The following sets forth a brief description of the business activities of each member of the HGR Group:–

Shanghai Huateng

HGR acquired its equity interest in Shanghai Huateng in September 2005. Shanghai Huateng is headquartered in Shanghai and with branch offices in Beijing and Guangzhou. It is principally engaged in the provision of application software development and integration services to financial institutions such as China UnionPay, Bank of Communications, Agricultural Bank of China, China Post and e-commerce and public utility companies such as Shanghai Social Security Smart Card Service Center, Shanghai Shentong Metro Group Co., Ltd., Shanghai Public Traffic Card Co., Ltd. and Shanghai Subway Operation Company. It had approximately 473 employees as at 31 December 2006.

Dalian Xinhua

HGR acquired its equity interest in Dalian Xinhua in September 2005. Dalian Xinhua is headquartered in Dalian Software Park and is principally engaged in the provision of software development outsourcing services to the Japanese market. It specializes in the architectural CAD design for telecommunications and engineering industries and its end customers include large companies such as Meitec Corporation and NTT Communications Corporation. Dalian Xinhua's outsourcing business is mainly contracted through Tokyo Xinhua, the marketing arm of HGR for the Japanese market. It had approximately 649 employees as at 31 December 2006.

Dalian Digitall

HGR acquired its equity interest in Dalian Digitall in September 2005. Dalian Digitall is headquartered in Dalian and is principally engaged in the provision of software development outsourcing services to the Japanese market. It specializes in the production of CAD design for various industries including IT, business solution providers and professional staffing and services and its only end customer is CDI Corporation, one of the shareholders of Dalian Digitall. It had approximately 79 employees as at 31 December 2006.

Hinge Xinhua

HGR set up Hinge Xinhua in February 2006 which is currently dormant.

DoubleBridge

HGR acquired its equity interest in DoubleBridge in January 2006. DoubleBridge is headquartered in Princeton, New Jersey, the US with offices in Boston, Toronto, Paris and Hong Kong. It also established development centers in the PRC through the incorporation of a wholly-owned subsidiary, Beijing Daoda. DoubleBridge provides software consulting and development services to pharmaceutical, financial services, healthcare, software development and telecommunication companies. With its global infrastructure support, DoubleBridge has the ability and flexibility to deploy services onshore, offshore, near-shore, offshore-onshore to companies in North America, Japan and Europe. DoubleBridge has customers specializing in different industries including leading industry enterprises such as Pfizer Inc. and Sanofi-aventis Pharmaceuticals, Inc. in the pharmaceutical industry, as well as Bank of China in the finance industry. DoubleBridge uses Beijing Daoda, its wholly owned subsidiary, as its offshore development center to deliver some software consulting and development services to its clients. It had approximately 35 employees as at 31 December 2006.

Beijing Daoda

Beijing Daoda is a wholly-owned subsidiary of DoubleBridge. HGR acquired its interest in Beijing Daoda, through its acquisition of the entire equity interest in DoubleBridge, in January 2006. Located in Beijing, Beijing Daoda is the development center of DoubleBridge, which undertakes outsourcing software development services from DoubleBridge. Apart from that, it is also engaged in the provision of software development, software consulting and integration services to companies in the finance and pharmaceutical industries and its end customers include DoubleBridge and Viador Inc.. Beijing Daoda had approximately 58 employees as at 31 December 2006.

DoubleBridge Hong Kong

DoubleBridge Hong Kong is a subsidiary of DoubleBridge and is currently dormant.

Tokyo Xinhua

HGR acquired its equity interest in Tokyo Xinhua in September 2005. Tokyo Xinhua is headquartered in Tokyo, Japan. It is the marketing arm of the HGR Group for the Japanese market. It had approximately 5 employees as at 31 December 2006.

Financial information on the HGR Group

Based on the audited consolidated accounts of the HGR Group for the periods from 28 June 2005 (being the date of incorporation of HGR) to 31 December 2005 and from 1 January 2006 to 31 December 2006, the net asset values of the HGR Group as at 31 December 2005 and 31 December 2006 were approximately RMB30.24 million and RMB52.55 million respectively. The audited consolidated net (loss)/profit before and after taxation and minority interests of HGR Group for the periods from 28 June 2005 (being the date of incorporation of HGR) to 31 December 2005 and from 1 January 2006 to 31 December 2006 were approximately RMB(0.52) million and RMB(0.67) million, and approximately RMB22.20 million and RMB21.49 million respectively.

As at 31 December 2006, HGR have the amounts due from related companies and amount due from shareholders of approximately RMB39.64 million and RMB2.22 million respectively. It is expected that they will be fully repaid prior to the Closing.

The following summarizes the unaudited financial information as adjusted to HKFRS of each member of the HGR Group:

	For the year ended 31 December 2005		2006		
	Net profit before tax and minority interest *(RMB million)*	**Net profit after tax and minority interest** *(RMB million)*	**Net profit/(loss) before tax and minority interest** *(RMB million)*	**Net profit/(loss) after tax and minority interest** *(RMB million)*	**As at 31 December 2006 Net asset value** *(RMB million)*
HGR	0 *(Note 1)*	0 *(Note 1)*	5.19	5.09	37.21
Shanghai Huateng	3.72	3.60	4.20	3.72	28.88
Dalian Xinhua	2.46	2.41	6.44	6.44	11.77
Dalian Digitall	0.78	0.78	4.34	4.34	5.98
DoubleBridge *(Note 2)*	0.58	0.46	6.37	6.23	2.68
Tokyo Xinhua	0.81	0.81	(0.67)	(0.67)	0.71

Notes:–

(1) For the period from 28 June 2005 (being the date of incorporation of HGR) to 31 December 2005; and

(2) Consolidated with the financial statements of Beijing Daoda and DoubleBridge Hong Kong, both of which are the subsidiaries.

INFORMATION ON THE SELLING SHAREHOLDERS

The principal business activities of all the Selling Shareholders which are companies or legal entities, namely GPC, Scube Systems Limited, China Tiger Investments Limited, Easy Win Technology Limited, Pine Flower River Inc., XFY Limited, Genius Investments Company Limited, IDG Technology Venture Investments, LP and China GIWIN Investments Limited, are investment holding.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is an investment holding company, and the subsidiaries of the Company are principally engaged in different kinds of IT businesses, ranging from the provision of e-government solutions, IT consulting and training services and IT outsourcing services.

The Group's existing market is the PRC, with PRC government authorities and other state owned enterprises as its major clients. The provision of e-government solutions accounted for over 50 per cent. of the Group's total revenue for each of the three years ended 31 December 2006.

The Group intends to expand its IT business activities, in particular IT outsourcing services, both organically and by way of acquisitions.

Leveraging the established infrastructure, management expertise and professional knowledge of IT outsourcing and customer base of HGR Group, the Directors expect that the Acquisition will bring to the Group the following strategic benefits:–

1. expand the Group's geographical reach into overseas markets such as Japan and strengthen its US and PRC domestic presence;

2. broaden the Group's multinational customer base;

3. enhance the Group's expertise with a focus on new commercial sectors, such as banking, financial services and pharmacy; and

4. enable the Group to become one of the leading IT service companies in the PRC in terms of headcount.

Following the Closing, the combination of the businesses of the Group and the HGR Group will become one of the major players in the PRC with a broad customer base in different industries.

BASIS OF THE TOTAL CONSIDERATION

The consideration for the Acquisition was determined after arm's length negotiations between the Company and the Selling Shareholders. The Directors have also taken into account the following factors:–

1. the historical results of each member of the HGR Group for the periods ended 31 December 2005 (as the case may be);

2. the prospective earnings of the HGR Group for the financial years ending 31 December 2006 and 2007;

3. the consolidated net assets of the HGR Group as at 31 December 2005;

4. the domain and vertical knowledge and clientele of the HGR Group; and

5. HGR's experienced management and its IT outsourcing team.

To finance its acquisition plans, the Company initially raised US$20 million (equivalent to approximately RMB155.60 million) through the issuance of Series A Preferred Shares in January 2006.

The Directors consider that the Agreements were entered into on normal commercial terms and in the ordinary course of business of the Company, and that the terms of the Agreements are fair and reasonable and in the interests of the Company as a whole.

SHAREHOLDING STRUCTURE OF THE COMPANY BEFORE AND AFTER COMPLETION OF THE ACQUISITION

Following the Closing and assuming that (i) the Company has acquired all the HGR Shares; (ii) the Consideration Shares will satisfy GPC's entire entitlement in full to the Total Consideration before all other HGR Shareholders; (iii) the cash portion of the Total Consideration will satisfy the entire entitlement to HGR Shareholders other than the Selling Shareholders in full before the applicable Selling Shareholders; (iv) the Selling Shareholders other than GPC, which has elected to have its entire entitlement in the form of Consideration Shares, will elect to have their entitlement to the Total Consideration to be satisfied by the Consideration Shares and cash on a *pro rata* basis amongst other HGR Shareholders on the same percentage as determined by the Company after taking into consideration the election of GPC and the amount of cash payable to the HGR Shareholders other than the Selling Shareholders; and (v) all the options granted by HGR to employees of the HGR Group shall have been cancelled in full.

Based on the above assumptions, the following table illustrates the shareholding structure of the Company as at the Latest Practicable Date and the expected shareholding structure (i) immediately after the issuance of the Consideration Shares as part of the Share Purchase Price at the issue price of HK$1.44 per Consideration Share but before making the Earn-out Payment; and (ii) immediately after the issuance of the maximum possible number of Consideration Shares as part of the Share Purchase Price at the issue price of HK$1.44 per Consideration Share and the Earn-out Payment at the minimum possible issue price of HK$0.80 per Consideration Share:–

Name of Shareholders	As at the Latest Practicable Date		Immediately after the issuance of the Consideration Shares as part of the Share Purchase Price at the issue price of HK$1.44 per Consideration Share but before making the Earn-out Payment *(Note 3)*		If the issue price in relation to the Earn-out Payments is determined to be at HK$0.80 per Consideration Share *(Note 1)* — Immediately after the issuance of the maximum possible number of Consideration Shares as part of the Share Purchase Price and the Earn-out Payment *(Note 4)*		If the issue price in relation to the Earn-out Payments is determined to be at HK$1.818 per Consideration Share *(Note 2)* — Immediately after the issuance of the maximum possible number of Consideration Shares as part of the Share Purchase Price and the Earn-out Payment *(Note 4)*	
	Number of Ordinary Shares/ Series A Preferred Shares	%	Number of Ordinary Shares/ Series A Preferred Shares	%	Number of Ordinary Shares/ Series A Preferred Shares	%	Number of Ordinary Shares/ Series A Preferred Shares	%
Ordinary Shares								
CS&S (HK)	199,010,755	19.90*	199,010,755	16.32*	199,010,755	15.24*	199,010,755	15.83*
Far East	130,129,822	13.01*	130,129,822	10.67*	130,129,822	9.96	130,129,822	10.35*
ABN AMRO Holding N.V.	45,540,000	4.55	45,540,000	3.73	45,540,000	3.49	45,540,000	3.62
Dr. Chen Yuhong	27,617,472	2.76*	27,617,472	2.27*	27,617,472	2.11*	27,617,472	2.20*
Dr. Cui Hui	20,000,000	2.00*	20,000,000	1.64*	20,000,000	1.53*	20,000,000	1.59*
Mr. Wang Hui	7,017,838	0.70*	7,017,838	0.58*	7,017,838	0.54*	7,017,838	0.56*
Dr. Tang Zhenming	10,207,765	1.02*	10,207,765	0.84*	10,207,765	0.78*	10,207,765	0.81*
Selling Shareholders elected for Consideration Shares as part of all of their respective Total Consideration								
GPC			99,014,099	8.12	138,309,166	10.59*	116,305,658	9.25
Scube Systems Limited			32,338,459	2.65	45,172,408	3.46	37,985,962	3.02
XFY Limited			23,466,888	1.92	32,780,035	2.51	27,565,082	2.19
Pine Flower River Inc.			21,763,474	1.78*	30,400,599	2.33*	25,564,189	2.03*
China GIWIN Investments Limited			15,843,566	1.30*	22,131,296	1.69*	18,610,444	1.48*
Genius Investments Company Limited			7,354,200	0.60*	10,272,813	0.79*	8,638,518	0.69*
George WU			5,062,656	0.42	7,071,838	0.54	5,946,784	0.47
Easy Win Technology Limited			4,768,771	0.39	6,661,321	0.51	5,601,576	0.45
IDG Technology Venture Investments, LP			4,155,877	0.34	5,805,192	0.44	4,881,648	0.39
Biliang HU			2,465,718	0.20	3,444,271	0.26	2,896,325	0.23
China Tiger Investment Limited			2,099,984	0.17	2,933,390	0.22	2,466,719	0.20
Daniel RUAN			791,227	0.06	1,105,236	0.08	929,405	0.07
			219,124,918	17.97	306,087,566	23.43	257,392,310	20.47
Other Public	366,137,324	36.61	366,137,324	30.03	366,137,324	28.03	366,137,324	29.12
Total Ordinary Shares	805,660,976	80.55	1,024,785,894	84.05	1,111,748,542	85.11	1,063,053,286	84.53
Series A Preferred Shares								
Microsoft Corporation	97,250,000	9.72	97,250,000	7.98	97,250,000	7.44	97,250,000	7.73
International Finance Corporation	97,250,000	9.72	97,250,000	7.98	97,250,000	7.44	97,250,000	7.73
Total Series A Preferred Shares	194,500,000	19.45	194,500,000	15.95	194,500,000	14.89	194,500,000	15.47
TOTAL	1,000,160,976	100.00	1,219,285,894	100.00	1,306,248,542	100.00	1,257,553,286	100.00
Percentage of Shares held by the public		60.61		64.00		64.40		64.47

* Shareholders which are not public

Notes:

1. This is the minimum possible issue price of each Consideration Share in relation to the Earn-out Payment.

2. This is the average of the daily closing price of the Ordinary Shares as quoted on GEM for a period of 30 trading days up to the date immediately before the Latest Practicable Date.

3. For illustration purposes, 90 per cent. of the Share Purchase Price of approximately US$45.06 million, which is equal to approximately US$40.56 million (equivalent to approximately RMB315.56 million) shall be satisfied by the allotment of the Consideration Shares and the remaining balance by way of cash.

4. For illustration purposes, 90 per cent. of the Earn-out Payment of approximately US$9.94 million, which is equal to approximately US$8.94 million (equivalent to approximately RMB69.55 million) shall be satisfied by the allotment of the Consideration Shares and the remaining balance by way of cash.

5. The above table does not take into accounts the potential dilution effect caused by the outstanding share options of the Company of approximately 116.77 million as at the Latest Practicable Date as it accounts for approximately 9% of the enlarged issued share capital of the Company which does not have material potential dilution effect on the shareholding of the Company.

6. Mr. LEI Hongsang, the proposed Director upon Closing, is the sole beneficial owner of Genius Investments Company Limited. Mr. WANG Xi, the proposed Director upon Closing, is the sole beneficial owner of Pine Flower River Inc. China GIWIN Investments Limited is equally owned by Mr. LEI Hongsang and Mr. WANG Xi.

Further announcement(s) will be made by the Company disclosing, among other things, the shareholding structure of HGR as at the Closing Date and the updated shareholding structure of the Company (i) immediately after the issuance of the Consideration Shares as part of the Share Purchase Price but before making the Earn-out Payment; and (ii) immediately after the issuance of the Consideration Shares as part of the Share Purchase Price and the Earn-out Payment, as and whenever appropriate.

FINANCIAL EFFECTS OF THE ACQUISITION

Earnings

A loss of approximately RMB11.50 million arising from the professional fee is expected to be resulted from the Acquisition.

Goodwill

Based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in appendix III to this circular, the audited net asset value of the HGR Group attributable to the HGR Shareholders before the Closing of approximately RMB52.55 million and a maximum Total Consideration of approximately US$55.00 million (equivalent to approximately RMB427.90 million), a goodwill of approximately RMB375.35 million would be arisen from the Acquisition.

Net tangible assets

Based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in appendix III to this circular, the Group has audited consolidated net tangible assets attributable to the Shareholders of approximately RMB23.78 million before the Closing and the Enlarged Group had an unaudited consolidated pro forma net tangible assets of approximately RMB15.10 million upon the Closing.

Gearing ratio

Based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in appendix III to this circular, the gearing ratio of the Group before the Closing was 0.41 which is calculated by dividing the total of the interest-bearing borrowings and the non-interest bearing borrowings by the total assets. The gearing ratio of the Enlarged Group was 0.26 upon the Closing which is calculated by dividing the total of the interest-bearing borrowings and the non-interest bearing borrowings by the total assets.

Upon the Closing, HGR and its subsidiaries will become subsidiaries of the Company, leading to their financial statements to be consolidated into the financial statements of the Company.

CURRENT TRADING AND PROSPECTS

The overall market capacity of the outsourcing industry in the PRC is increasing but competition in the industry is becoming more intense. The Group will continue to pursue the business transformation strategy, enhance service quality and integrated service capability, and form interactive strategic partnership with clients to maintain long-term cooperation and achieve mutual expansion.

For these purposes, the Group will consolidate its existing status in the industries in which it has leading position while further improve its industry solutions, and make innovations to lead the technological development in the industries and maintain a steady growth. For expansion into new industries, the Group will take vigorous actions to expand into the industries promptly and try to establish a dominant position in the industries. With regard to the outsourcing service business, emphasis will be placed on enhancing service quality and capability, attracting top talents and improving the plan to retain and train talents in order to enlarge the business rapidly.

Moreover, in order to secure the outcome of the acquisition of HGR, the Group will draw up well-conceived integration plans to integrate HGR in all respects including corporate culture, business operation, financial affairs, personnel affairs, clients and work process, and ensure HGR's transition to a subsidiary of the Group will be smooth.

BIOGRAPHICAL DETAILS OF PROPOSED DIRECTORS FOLLOWING THE CLOSING

Mr. LEI Hongsang, aged 47, is the chairman of HGR, the chairman and president of Hinge Software Co., Ltd. Mr. LEI was the president of EC-Founder (Holdings) Company Limited, a company listed on the Main Board, from June 2000 to August 2002. Mr. LEI served as the senior vice president of Founder (Hong Kong) Limited and president of Beijing Founder Electronics Company Limited, both of which are subsidiaries of Founder Holdings Limited, a company listed on the Main Board, from May 1999 to June 2000. Mr. LEI spent 12 years at Hewlett – Packard (China) in a series of management positions from 1987 to 1999. Mr. LEI holds a Bachelor of Science degree from the University of Hong Kong.

Mr. WANG Xi, aged 44, is president and chief executive officer of HGR. Mr. WANG has 16 years of experience as an IT professional. Mr. WANG founded several successful start-up companies, led the turn-around of NASDAQ listed company, and has extensive experience in mergers and acquisitions and business integrations. Mr. WANG also served as the President, then later chairman of America Multi-Technology Association 亞美科技商業協會, an Asia American IT business association in Silicon Valley and Beijing, China, from January 2004 to December 2005. Mr. WANG started his career as a software engineer at Oracle in 1990. In 1995, Mr. WANG co-founded his first software company in Silicon Valley, Viador, Inc. as its chief executive officer, whose shares were subsequently listed on NASDAQ in October 1999. After leaving Viador Inc. in 2000, Mr. WANG started his endeavor in China. Mr. WANG rejoined Viador Inc in October 2001. as chief executive officer, and subsequently managed his first turn-around of a public company. He took Viador private and focused its business growth in China. Mr. WANG gained a Bachelor of Science degree in Electrical Engineering from Tsing Hua University in Beijing in 1985, a Masters of Science degree in Mathematics from Oregon State University in 1989 and a Masters of Science degree in Mechanical Engineering from California Institute of Technology in 1990.

BIOGRAPHICAL DETAILS OF PROPOSED SENIOR MANAGEMENT OF THE GROUP FOLLOWING THE CLOSING

Mr. Shenyao HAN, aged 52, is the president of the China business section of HGR and the chief executive officer of Shanghai Huateng. Mr. HAN had served as the general manager of e-commerce & public service and as the vice president to sales & marketing department in Shanghai Huateng. Prior to joining Shanghai Huateng and HGR in May 1999, Mr. HAN had worked as director of President's Office of China-Europe International Business School (CEIBS) from April 1997 to April 1999. From April 1984 to March 1997, Mr. HAN had served for the Shanghai Municipal Government as the Director for Shanghai Municipal Office Information Processing Center and Director of the Department of Technologies of the Shanghai Municipal Government General Office, and was engaged in the planning and construction of the office decision-making service system for the Shanghai Municipal Government. Mr. HAN graduated from Shanghai Jiaotong University with a bachelor degree, majoring in Electronic Engineering in 1982, and graduated from East China Politic and Law Institution with a college degree of Law in 1989. He obtained an executive master of business administration degree from CEIBS in 1997.

EGM

Set out on pages 147 to 148 in this circular is a notice convening the EGM to be held at 3:30 p.m. on 9 July 2007 at Units 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong at which resolutions to be proposed to approve the issue and allotment of the Consideration Shares and the transactions contemplated under the Agreements.

You will find enclosed a form of proxy for use at the EGM. Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's principal place of business in Hong Kong at Unit 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at the EGM should you so desire.

PROCEDURE FOR DEMANDING A POLL

Pursuant to Article 66 of the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless voting by way of a poll is required by the GEM Listing Rules or unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:–

(a) by the chairman of such meeting; or

(b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(c) by any Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) by any Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Shareholder.

RECOMMENDATION

The Directors, including the independent non-executive Directors, consider that the Acquisition is in the best interest of the Company and the Shareholders as a whole and that the terms and conditions thereof are fair and reasonable so far as the Company and the Shareholders are concerned. On this basis, the Directors recommend Shareholders to vote in favour of the relevant resolutions at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
for and on behalf of
Chinasoft International Limited
Dr. CHEN Yuhong
Managing Director

1. SUMMARY OF FINANCIAL STATEMENTS

Set out below is a summary of the audited income statements of the Company for the years ended 31 December 2006, 2005 and 2004 and the audited balance sheets of the Company for the years ended 31 December 2006, 2005 and 2004 as extracted from the Company's financial statements for the years ended 31 December 2006, 2005 and 2004. The auditors of the Company have given an unqualified opinion on each of the Company's financial statements for the years ended 31 December 2006, 2005 and 2004.

2. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

	NOTES	2006 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	6	355,236	382,275	293,896
Cross of inventories sold		(186,338)	(264,279)	(213,243)
Gross profit		168,898	117,996	80,653
Other operating income		9,147	4,649	802
Selling and distribution costs		(20,631)	(18,918)	(10,613)
Administrative expenses		(78,082)	(44,564)	(27,401)
Amortisation of intangible Assets		(8,364)	(2,950)	(702)
Impair loss recognised in respect of technical expertise		(1,087)	–	–
Impair loss recognised in respect of goodwill		(988)	–	–
Discount on acquisition of additional interests in a subsidiary		1	–	–
Allowance for doubtful debts		(2,033)	(9,264)	(3,768)
Amortisation of goodwill		–	–	(977)
Finance costs	7	–	(25)	(104)
Share of results of associate		2,489	1,790	1,143
Loss arising from changes in fair value of redeemable				
Convertible preferred shares		(110,558)	–	–
Redeemable convertible preferred shares issue expenses		(10,764)	–	–
Release of negative goodwill of associate		–	–	19
(Loss)/profit before taxation		(51,972)	48,714	39,052
Taxation	8	(11,881)	(5,718)	(3,841)
(Loss)/profit for the year	9	(63,853)	42,996	35,211
Attributable to:				
Equity holders of the Company		(66,593)	39,656	32,205
Minority interests		2,740	3,340	3,006
		(63,853)	42,996	35,211
Dividends	11	18,309	7,394	6,784
(Loss)/earnings per Share				
Basic *(RMB)*	12	(0.0891)	0.0556	0.0487
Diluted *(RMB)*		N/A	0.0543	0.0485

CONSOLIDATED BALANCE SHEETS

	NOTES	2006 RMB'000	2005 RMB'000	2004 RMB'000
Non-current assets				
Property, plant and equipment	*13*	42,326	23,288	11,682
Intangible asset	*14*	48,894	18,003	14,909
Goodwill	*15*	140,157	79,168	27,226
Interests in associates	*16*	8,452	8,303	1,658
Trademark use right	*17*	1,550	–	–
Payment for acquisition of software		3,654	–	–
Prepaid lease payments	*38(v)*	–	216	–
		245,033	128,978	55,475
Current assets				
Inventories	*18*	34,107	22,670	34,485
Trade and other receivables	*19*	233,963	182,113	163,955
Trade receivable from an associate	*20*	1,091	–	–
Trade receivables from related companies	*21*	11,292	–	–
Trademark use right	*17*	189	–	–
Held-for-trading investments	*22*	501	–	–
Amount due from a related company	*21*	–	1,815	1,978
Loan to a related company	*38(vi)*	–	1,450	–
Loan to employees		–	–	310
Pledged deposits	*23*	1,474	1,653	1,093
Cash and cash equivalents	*23*	133,571	100,086	74,029
		416,188	309,787	275,850
Current liabilities				
Trade and other payables	*24*	107,670	98,270	100,321
Trade payable to a related company	*25*	195	–	–
Bills payable	*26*	24,252	26,781	28,414
Amount due to a shareholder	*25*	–	9	50
Amounts due to a related company	*25*	501	–	–
Dividend payable to a shareholder		74	–	498
Taxation payable		4,715	2,846	1,426
Deferred consideration	*32(b)*	15,600	–	–
Consideration payable on acquisition of a subsidiary and technical expenses	*31(a) & 32(a)*	3,491	–	–
		156,498	127,906	130,709

	NOTES	2006 RMB'000	2005 RMB'000	2004 RMB'000
Net current assets		259,690	181,881	145,141
Total assets less current liabilities		504,723	310,859	200,616
Non-current liabilities				
Deferred tax liabilities	27	2,588	1,824	1,221
Redeemable convertible preferred share	28	268,480	–	–
		233,655	309,035	199,395
Capital and reserves				
Share capital	29	40,184	38,816	36,968
Reserves	30	172,651	256,187	162,427
Equity attributable to equity holders of the parent		212,835	295,003	199,395
Minority interests		20,820	14,032	–
Total equity		233,655	309,035	199,395

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the equity holders of the parent											Minority interests	Total
	Share capital RMB'000	Share premium RMB'000	Issuable shares RMB'000 (note 30)	Translation reserve RMB'000	Share Options reserve RMB'000	General reserve fund RMB'000 (note 29)	Statutory enterprise expansion fund RMB'000 (note 29)	Statutory surplus reserve fund RMB'000 (note 29)	Statutory public welfare fund RMB'000 (note 29)	Accumulated profits RMB'000	Total RMB'000	RMB'000	RMB'000
At 1 January 2004 as restated	33,920	45,080	–	49	164	1,074	589	–	–	45,235	126,111	14,182	140,293
Exchange differences arising from translation of overseas operations and net gain not recognized in consolidated income statements	–	–	–	41	–	–	–	–	–	–	41	–	41
Share of changes in equity of an associate	–	–	–	–	–	176	–	–	–	(176)	–	–	–
Profit for the year	–	–	–	–	–	–	–	–	–	32,205	32,205	3,006	35,211
Total recognised income for the year	–	–	–	41	–	176	–	–	–	32,029	32,246	3,006	35,252
Recognition of equity-settled share-based Payments	–	–	–	–	3,328	–	–	–	–	–	3,328	–	3,328
New issue of shares *(see note 27(a))*	3,048	41,446	–	–	–	–	–	–	–	–	44,494	–	44,494
Acquisition of additional interest of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(17,188)	(17,188)
Dividend for 2004 paid	–	(1,341)	–	–	–	–	–	–	–	(5,443)	(6,784)	–	(6,784)
At 31 December 2004	36,968	85,185	–	90	3,492	1,250	589	–	–	71,821	199,395	–	199,395
Effects of changes in accounting policies *(see note 3)*	–	–	–	–	–	–	–	–	–	111	111	–	111
At 1 January 2005 as restated	36,968	85,185	–	90	3,492	1,250	589	–	–	71,932	199,506	–	199,506

	Attributable to the equity holders of the parent												
	Share capital *RMB'000*	Share premium *RMB'000*	Issuable shares *RMB'000* *(note 30)*	Translation reserve *RMB'000*	Share Options reserve *RMB'000*	General reserve fund *RMB'000* *(note 29)*	Statutory enterprise expansion fund *RMB'000* *(note 29)*	Statutory surplus reserve fund *RMB'000* *(note 29)*	Statutory public welfare fund *RMB'000* *(note 29)*	Accumulated profits *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total *RMB'000*
At 1 January 2005 as restated	36,968	85,185	–	90	3,492	1,250	589	–	–	71,932	199,506	–	199,506
Exchange differences arising from translation of overseas operations and net loss not recognised in consolidated income statements	–	–	–	(2,137)	–	–	–	–	–	–	(2,137)	–	(2,137)
Profit for the year	–	–	–	–	–	–	–	–	–	39,656	39,656	3,340	42,996
Total recognised (expense)/income for the year	–	–	–	(2,137)	–	–	–	–	–	39,656	37,519	3,340	40,859
New issue of shares *(see note 29(a))*	1,848	35,487	–	–	–	–	–	–	–	–	37,335	–	37,335
Shares issuable on acquisition of subsidiaries	–	–	24,420	–	–	–	–	–	–	–	24,420	–	24,420
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	10,692	10,692
Recognition of equity-settled share-based payments	–	–	–	–	3,617	–	–	–	–	–	3,617	–	3,617
Transfer of share options reserve to accumulated profits upon laps of share options	–	–	–	–	(11)	–	–	–	–	11	–	–	–
Appropriation	–	–	–	–	–	139	139	63	32	(373)	–	–	–
Share of changes in equity of an associate	–	–	–	–	–	184	–	–	–	(184)	–	–	–
Dividend for 2005	–	–	–	–	–	–	–	–	–	(7,394)	(7,394)	–	(7,394)
At 31 December 2005	38,816	120,672	24,420	(2,047)	7,098	1,573	728	63	32	103,648	295,003	14,032	309,035

	Attributable to the equity holders of the parent												
	Share capital *RMB'000*	**Share premium** *RMB'000*	**Issuable shares** *RMB'000* *(note 30)*	**Translation reserve** *RMB'000*	**Share Options reserve** *RMB'000*	**General reserve fund** *RMB'000* *(note 29)*	**Statutory enterprise expansion fund** *RMB'000* *(note 29)*	**Statutory surplus reserve fund** *RMB'000* *(note 29)*	**Statutory public welfare fund** *RMB'000* *(note 29)*	**Accumulated profits** *RMB'000*	**Total** *RMB'000*	**Minority interests** *RMB'000*	**Total** *RMB'000*
At 1 January 2006 as restated	38,816	120,672	24,420	(2,047)	7,098	1,573	728	63	32	103,648	295,003	14,032	309,035
Exchange differences arising from translation of overseas operations and net loss recognised directly in equity	–	–	–	(4,895)	–	–	–	–	–	–	(4,895)	–	(4,895)
(Loss)/profit for the year	–	–	–	–	–	–	–	–	–	(66,593)	(66,593)	2,740	(63,853)
Total recognised (expense)/income for the year	–	–	–	(4,895)	–	–	–	–	–	(66,593)	(71,488)	2,740	(68,748)
New issue of shares *(see note 29(b))*	1,368	26,536	(24,420)	–	–	–	–	–	–	–	3,484	–	3,484
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	2,215	2,215
Acquisition of additional interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(12,867)	(12,867)
Capital contribution from a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	14,700	14,700
Recognition of equity-settled share-based payments	–	–	–	–	4,145	–	–	–	–	–	4,145	–	4,145
Appropriations	–	–	–	–	–	8,141	8,140	246	–	(16,527)	–	–	–
Transfer *(see note 30)*	–	–	–	–	–	–	–	32	(32)	–	–	–	–
Dividend for 2006	–	(18,309)	–	–	–	–	–	–	–	–	(18,309)	–	(18,309)
At 31 December 2006	40,184	128,899	–	(6,942)	11,243	9,714	8,868	341	–	20,528	212,835	20,820	233,655

CONSOLIDATED CASH FLOW STATEMENT

	Notes	2006 RMB'000	2005 RMB'000	2004 RMB'000
Operating activities				
(Loss)/profit before taxation		(51,972)	48,714	39,052
Adjustments for:				
Share of results of associates		(2,489)	(1,790)	(1,143)
Finance costs		–	25	104
Interest income		(3,676)	(548)	(442)
Amortisation of intangible assets and trademark use right		8,364	2,950	702
Impair loss recognised in respect of technical expertise		1,087	–	–
Amortisation of goodwill		988	–	977
Discount on acquisition of additional interest in a subsidiary		(1)	–	–
Loss arising from changes in fair value of redeemable convertible preferred shares		110,558	–	–
Expenses on issue of redeemable convertible preferred shares		10,764	–	–
Depreciation of property, plant and equipment		6,496	3,646	2,370
Gain on disposal of property, plant and equipment		(2)	–	–
Release of negative goodwill of an associate		–	–	(19)
Allowance for doubtful debts		2,033	9,264	3,768
Allowance for inventories		138	1,181	653
Share option expenses		4,114	3,578	3,298
Operating cash flows before movements in working capital		86,402	67,020	49,320
(Increase)/decrease in inventories		(9,946)	12,113	(27,819)
Increase in trade and other receivables		(45,854)	(17,882)	(91,744)
(Increase)/decrease in trade and other payables		1,490	(11,613)	72,112
(Decrease)/increase in bills payable		(2,529)	(1,633)	25,466
Increase in trade receivable from an associate		(1,091)	–	–
Increase in trade receivables from related companies		(11,292)	–	–
Increase in held-for-trading investment		(501)	–	–
Increase in trade payable to a related company		195	–	–

	Notes	2006 RMB'000	2005 RMB'000	2004 RMB'000
Cash generated from operations		16,874	48,005	27,335
Interest paid		–	(25)	(104)
PRC Enterprise Income Tax paid		(9,446)	(3,696)	(2,767)
Net cash from operating activities		7,428	44,284	24,464
Investing activities				
Dividend received from an associate		–	1,768	1,000
Repayment from employees		–	310	721
Interest received		3,676	548	442
Acquisition of a subsidiary, net of cash and cash equivalents acquired	31	(27,811)	15,214	365
Acquisition of additional interests in subsidiaries		(41,892)	–	–
Acquisition of contract-based customer – related intangible and technical expenses	32	(10,920)	–	–
Additions of development costs		(9,410)	(5,424)	(5,890)
Purchase of technical knowhow		–	(500)	(6,222)
Purchase of software		–	(120)	–
Purchases of property, plant and equipment		(24,014)	(11,421)	(5,386)
Establishment of an associate		–	(2,300)	–
Acquisition of an associate		–	(4,200)	(1,444)
Increase in pledged deposits		179	(560)	(350)
Payment for acquisition of software		(3,654)	–	–
Proceeds from disposal of property, plant and equipment		116	–	–
Net cash used in investing activities		(113,730)	(6,685)	(16,764)
Financing activities				
Proceeds from issue of redeemable convertible preferred shares		161,824	–	–
Expenses on issue of redeemable convertible preferred shares		(10,764)	–	–
Advances to related companies		(2,840)	–	–
Dividend paid		(18,235)	(7,892)	(6,286)
Loan to a related company		–	(1,450)	–
Bank loan repaid		–	–	(10,000)
Capital contribution from a minority shareholder of a subsidiary		14,700	–	(1,500)
Repayment to a shareholder		(9)	(41)	–

	Notes	2006 RMB'000	2005 RMB'000	2004 RMB'000
Net cash generated from/(used in) financing activities		144,676	(9,383)	(17,786)
Net increase/(decrease) in cash and cash equivalents		38,374	28,216	(10,086)
Cash and cash equivalents at beginning of the year		100,086	74,029	84,074
Effect of foreign exchange rate changes		(4,889)	(2,159)	41
Cash and cash equivalents at end of the year, representing bank balances and cash		133,571	100,086	74,029

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION OF THE COMPANY

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 16 February 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The shares of the Company are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 June 2003.

The addresses of the registered office and principal places of business of the Company are North Wing 12/F., Raycon Infotech Park Tower C, No. 2 Kexuiyuan Nanlu Haidian District, Beijing, 100080, PRC and Units 4607-8, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong.

The financial statements are presented in Renminbi, which is the same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of the Company are development and provision of solutions, provision of information technology ("IT") consulting, training, outsourcing services and sale of standalone software and hardware products.

Particulars of the Company's subsidiaries at 31 December 2006 are set out as follows:

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company Directly	Indirectly	Principal activities
Chinasoft International Holdings Limited*	Samoa/Hong Kong	US$1	100%	–	Investment holding
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)")**	Hong Kong	HK$100	–	100%	Investment holding and trading of standalone software and hardware products
Chinasoft International Treasury Management (Hong Kong) Limited**	Hong Kong	HK$1	–	100%	Securities trading
Chinasoft Resource (International) Limited**	Hong Kong	HK$100,000	–	100%	Provision for information technology outsourcing services
Chinasoft International Inc.	United States of America	US$0.01	–	100%	Provision for information technology outsourcing services
北京中軟國際信息技術有限公司 Chinasoft International Information Technology Limited ("Chinasoft Beijing")***	People's Republic of China ("PRC")	RMB50,000,000	–	100%	Provision of solutions, information technology outsourcing, information technology consulting services, software development and trading of standalone software and hardware products

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
中軟國際(廣州)信息技術有限公司 Chinasoft International (Guang Zhou) Information Technology Limited ("Chinasoft Guangzhou")***	PRC	HK$5,000,000	–	100%	Provision of solutions, information technology outsourcing, information technology consulting services and trading of standalone software and hardware products
中軟國際(杭州)信息技術有限公司 Chinasoft International (Hang Zhou) Information Technology Limited ("Chinasoft Hangzhou")***	PRC	HK$5,000,000	–	100%	Provision of solutions, information technology outsourcing, information technology consulting services and trading of standalone software and hardware products
中軟總公司計算機培訓中心****	PRC	RMB500,000	–	100%	Provision of information, technology consultancy and training services
中軟國際(昆明)信息技術有限公司 Chinasoft International (Kunming) Information Technology Limited*** ("Chinasoft Kunming")	PRC	HK$8,000,000	–	100%	Provision of solutions, information technology outsourcing, information technology consulting services and trading of standalone software and hardware products
中軟國際(湖南)信息技術有限公司 Chinasoft International (Hunan) Information Technology Limited ("Chinasoft Hunan")***	PRC	US$1,000,000	–	100%	Provision of solutions, information technology outsourcing, information technology consulting services and trading of standalone software and hardware products
中軟賽博資源軟件技術(天津)有限公司 CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd ("Cyber Resources")****	PRC	RMB5,000,000	–	76%	Provision of information technology outsourcing services
廈門中軟海晟信息技術有限公司******	PRC	RMB30,000,000	–	51%	Provision of solutions, information technology outsourcing, information technology consulting services and trading of standalone software and hardware products
北京中軟資源信息科技服務有限公司 Chinasoft Resources Information Technology Services Limited*** ("Chinasoft Resources Beijing")	PRC	US$800,000	–	100%	Provision of information technology outsourcing services

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
深圳市中軟資源技術服務有限公司 Shenzhen Chinasoft Resources Information Technology Services Limited**** ("Chinasoft Resources Shenzhen")	PRC	RMB5,000,000	–	100%	Provision of information technology outsourcing services
上海中軟資源技術服務有限公司 Shanghai Chinasoft Resources Information Technology Services Limited****** ("Chinasoft Resources Shanghai")	PRC	RMB3,000,000	–	60%	Provision of information technology outsourcing services

* International company

** Limited liability company

*** Wholly foreign-owned enterprise

**** 中華人民共和國事業單位

***** Sino foreign equity joint venture enterprise

****** Sino foreign-owned enterprise

None of the subsidiaries had any debt securities subsisting at 31 December 2006 or at any time during the years.

2. APPLICATION OF NEW HONG KONG FINANCIAL STANDARDS ("HKFRSS")

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new Hong Kong Accounting Standard ("HKAS"), Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations ("HK(IFRIC)-INT") that have been issued but are not yet effective. The directors of the Company anticipate that the application of these HKAS, HKFRS and Interpretations will have no material impact on how the results and the financial position of the Group are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures [1]
HKFRS 7	Financial instruments: Disclosures [1]
HKFRS 8	Operating segments [2]
HK(IFRIC) – Int 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [3]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [4]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives [5]
HK(IFRIC) – INT 10	Interim financial reporting and impairment [6]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions [7]
HK(IFRIC) – Int 12	Service concession arrangements [8]

[1] Effective for annual periods beginning on or after 1 January 2007.

[2] Effective for annual periods beginning on or after 1 January 2009.

[3] Effective for annual periods beginning on or after 1 March 2006.

[4] Effective for annual periods beginning on or after 1 May 2006.

[5] Effective for annual periods beginning on or after 1 June 2006.

[6] Effective for annual periods beginning on or after 1 November 2006.

[7] Effective for annual periods beginning on or after 1 March 2007.

[8] Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured initially at fair value.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisition prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

For previously capitalised goodwill, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit ("CGU") to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant CGUs, or groups of CGUs, that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Interests in associates

An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the interests in associates and is assessed for impairment as part of the interests.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Service income from solutions and IT outsourcing on project-based IT development contracts is recognised on the percentage of completion method by reference to the value of work carried out during the year.

Income from provision of IT outsourcing, IT consulting and training services is recognised when the services are performed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Impairment losses (other than goodwill (see the accounting policy in respect of goodwill))

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	18% – $33^1/_3$%
Furniture, fixtures and equipment	9% – 20%
Motor vehicles	9% – 20%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Retirement benefit costs

Payments to the state-managed retirement benefit schemes or the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses.

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over lives. Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over the estimated useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred form the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses.

Technical knowhow

Technical knowhow is measured initially at cost and amortised on a straight-line basis over its estimated useful life.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Project-based IT development contracts

When the outcome of a contract for project-based IT development can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date bear to estimated costs for each contract.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Where it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Equity-settled share-based payment transactions

Share options granted to employees of the Group, employees of an associate of the Group and customers of the Group

The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group chose not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005 in accordance with the transitional provisions of HKFRS 2. The Group has applied HKFR 2 to share options that were granted after 7 November 2002 and has not yet vested on 1 January 2005.

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expenses on a straight-line basis over the vesting period, with a corresponding increase in share options reserve.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Acquisition of additional interests in subsidiaries

When the Group increases its interest in an entity that is already controlled by the Company, goodwill (if any) arising on such acquisition represents the difference between the cost of additional interest acquired and the increase in the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities. No revaluation surplus or deficit on revaluating all of the identifiable assets, liabilities and contingent liabilities of the subsidiary to current fair value is recognised in the consolidated balance sheet. The difference between the fair value, representing the amount of consideration less the amount of goodwill, and the carrying amount of the net assets attributable to the additional interest acquired is recognised as a reserve movement and will be transferred to accumulated profits upon the disposal of the subsidiary. This difference represents the portion of the revaluation difference that arose since the original acquisition date that is attributable to the Group's increased interest in the subsidiary.

Government grants

Government grants represent incentive subsidies from the government for the Group's IT, technology research and development activities. There are no specific conditions attached to the grants and, therefore, they are recognised by the Group when they are received or receivable.

Tax incentive subsidies is recognised when it becomes receivable.

Trademark use right

Trademark use right is amortised on a straight-line basis over the effective period stipulated on the trademark license registration certificate.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss comprise of held-for-trading investment.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, trade receivable from an associate, trade receivables from related companies, amount due from a related company, loan to a related company, pledged deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

The Group's financial liabilities at fair value through profit or loss comprise of financial liabilities designated at fair value through profit or loss on initial recognition.

Redeemable convertible preferred shares issued by the Company that comprise of the host debt instrument and the embedded derivatives (including the redemption option and conversion option for the holder to convert the preferred shares into ordinary shares which will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments which does not meet the equity classification under HKAS 32) are designated as financial liabilities at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, the entire redeemable convertible preferred shares are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the redeemable convertible preferred shares designated as financial liabilities at fair value through profit or loss are charged to profit or loss immediately.

Other financial liabilities

Other financial liabilities including trade and other payables, trade payable to a related company, bills payable, amount due to a shareholder, amounts due to related companies and deferred consideration are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Allowance for doubtful debts

In determining whether there is objective evidence of allowance for doubtful debts, the Group takes into consideration the collectability, aging analysis of trade receivables and estimation of future cash flows. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. The amount of the allowance for doubtful debts is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, an allowance for doubtful debts may arise.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated. The Group has obtained business valuations of the relevant CGUs prepared by independent professional valuers for the purpose of goodwill impairment testing. The valuations are based on an estimation of a weighted average of market multiples based on comparable companies in the relevant industry. As at 31 December 2006, the carrying amount of goodwill was RMB140,157,000 (2005: RMB79,168,000). Details of the business valuations are disclosed in note 15. Should there be any change in the market conditions, it may lead to a change in the results of the valuations and an impairment to goodwill may be required.

Fair value of redeemable convertible preferred shares

The fair value of the financial liability component of the redeemable convertible preferred shares is calculated using the effective interest method. The amount is estimated by using a discount cash flow model with assumptions on estimating the discount rate. The fair value of the derivative component of the redeemable convertible preferred shares is calculated using the binomial option pricing model. The model involves assumptions on the Company's share price, exercise price, time to maturity, risk free rate, share price volatility and others.

Should any of the assumptions be changed, it may lead to a material change to the fair value of the redeemable convertible preferred shares.

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances, trade and other payables and bills payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

It is the Group's policy for each operating entity to operate in local currency as far as possible to minimise currency risk. The Group's principal businesses are conducted and recorded in Renminbi dollars. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management.

Fair value interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short-term bank deposits. Since the bank deposits are all short-term in nature, any future variation in interest rates will not have a significant impact on the results of the Group.

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short-term bank deposits at market rates. Since the bank deposits are all short-term in nature, any future variation in interest rates will not have a significant impact on the results of the Group.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses, if necessary, are made for irrecoverable amounts.

In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical locations is mainly in the PRC. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Price risk

The Group is exposed to security price risk in respect of the conversion option embedded in the redeemable convertible preferred shares, which allows the holders to convert to its own equity instruments.

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

6. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold and services rendered during the year.

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 and hardware products. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented as follows:

INCOME STATEMENT
For the year ended 31 December 2006

	Solutions	IT outsourcing	IT consulting and training services	Sale of standalone software and hardware products	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	193,513	127,821	12,184	21,718	355,236
Segment result	103,502	25,060	545	7,570	136,677
Unallocated other operating income					9,147
Unallocated corporate expenses					(66,492)
Amortisation of intangible assets and trademark use right					(8,364)
Allowance for doubtful debts					(2,033)
Impairment loss recognised in respect of technical expertise					(1,087)
Impairment loss recognised in respect of goodwill					(988)
Discount on acquisition of additional interest in a subsidiary					1
Share of net results of associates					2,489
Loss arising from changes in fair value of derivative financial instruments					(110,558)
Redeemable convertible preferred shares issue expenses					(10,764)
Loss before taxation					(51,972)
Taxation					(11,881)
Loss for the year					(63,853)

INCOME STATEMENT
For the year ended 31 December 2005

	Solutions	IT outsourcing	IT consulting and training services	Sale of standalone software and hardware products	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	301,075	53,034	7,552	20,614	382,275
Segment result	96,597	8,743	133	5,252	110,725
Unallocated other operating income					4,649
Unallocated corporate expenses					(56,211)
Amortisation of intangible assets					(2,950)
Allowance for doubtful debts					(9,264)
Finance costs					(25)
Share of results of associates					1,790
Profit before taxation					48,714
Taxation					(5,718)
Profit for the year					42,996

INCOME STATEMENT
For the year ended 31 December 2004

	Solutions	IT outsourcing	IT consulting and training services	Sale of standalone software and hardware products	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	240,820	34,286	6,298	12,492	293,896
Segment result	66,479	4,496	105	6,106	77,186
Unallocated other operating income					802
Unallocated corporate expenses					(34,547)
Amortisation of intangible assets					(702)
Allowance for doubtful debts					(3,768)
Amortisation of goodwill					(977)
Finance costs					(104)
Share of result of an associate					1,143
Release of negative goodwill of an associate					19
Profit before taxation					39,052
Taxation					(3,841)
Profit for the year					35,211

No business segment information for the assets, liabilities, capital additions, depreciation and amortisation 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.

Geographical segments

No geographical segment information of the Group is shown as the operating businesses of the Group are substantially carried out in the PRC and the Group's assets and liabilities are substantially located in the PRC.

7. FINANCE COSTS

	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*
Interest on borrowings wholly repayable within five years:			
Bank loans	–	3	25
Other borrowings	–	22	79
	–	25	104

8. TAXATION

	2006	2005	2004
	RMB'000	*RMB'000* (restated)	*RMB'000*
The charge comprises:			
Hong Kong Profits Tax	19	–	–
PRC Enterprise Income Tax	11,098	5,115	3,030
Deferred tax *(note 27)*	764	603	811
Tax charge attributable to the Company and its subsidiaries	11,881	5,718	3,841

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the year.

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2005 and 2004 as the Group had no assessable profits in Hong Kong for the years.

The statutory rate of PRC Enterprise Income Tax is 33%.

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

Pursuant to an approval document issued by the State 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 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.

Pursuant to an approved document issued by the Hunan Science and Technology Bureau dated 13 June 2006, 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, 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 States 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 Recourses"), 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 three year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2004.

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

The tax charge for the years can be reconciled to (loss)/profit before taxation as follows:

	2006	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*
(Loss)/profit before taxation	(51,972)	48,714	39,052
Tax at PRC Enterprise Income Tax rate of 33%	(17,151)	16,076	12,887
Tax effect of share of net results of associates	(821)	(592)	(412)
Tax effect attributable to tax exemptions and concessions granted to PRC subsidiaries	(19,609)	(15,718)	(11,976)
Tax effect of expenses not deductible for tax purpose	49,268	3,974	2,736
Tax effect of income not taxable for tax purpose	(947)	(7)	(7)
Tax effect of utilisation of tax losses previously not recognised	(612)	–	(37)
Tax effect of tax losses not recognised	1,240	261	–
Effect of different tax rate of subsidiaries	513	1,405	864
Others	–	319	(214)
Tax charge for the year	11,881	5,718	3,841

9. (LOSS)/PROFIT FOR THE YEAR

	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*
(Loss)/profit for the year has been arrived at after charging:			
Directors' remuneration *(note 10)*	3,636	2,489	1,903
Other staff costs	89,956	53,901	29,048
Retirement benefit costs	6,856	3,182	969
Share option expenses	2,907	2,322	2,219
Total staff costs	103,355	61,894	34,139
Less: Staff costs capitalised as development costs	(9,053)	(5,424)	–
	94,302	56,470	34,139
Share option expenses			
– granted to employees of an associate	31	150	116
– granted to customers	224	465	414
	255	615	530
Allowance for inventories	138	1,181	653
Research and development cost expenses	4,153	8,890	–
Auditors' remuneration			
– current year	2,288	1,518	795
– underprovision in prior year	–	–	138
	2,288	1,518	933
Cost of inventories recognised as an expense	55,880	195,608	190,624
Depreciation of property, plant and equipment	6,496	3,646	2,370
Minimum lease payments in respect of land and buildings	8,997	4,605	2,640
Share of taxation of associates (included in share of results of associates)	189	283	76
and after crediting:			
Gain on fair value changes on held-for trading investment	150	–	–
Interest income	3,676	548	442
Government grants	4,422	–	–
Gain on disposal of property, plant and equipment	2	–	–
Net foreign exchange gains	410	–	–
Tax incentive subsidiaries	394	3,441	142

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

Details of emoluments to the directors of the Company for the year ended 31 December 2006 are as follows:

	Executive director							Non-executive director						Independent non-executive director				
	Chen Yuhong	Peng Jiang	Duncan Chiu	Cui Hui	Tang Min	Wang Hui	Tang Zhenming	Duncan Chiu	Cui Hui	Tang Min	David Chiu	Liu Zheng	Timothy Chen Yung Cheng	He Ning	Zeng Zhijie	Au Yeung Shiu Kau Peter	Leung Wing Yin Patrick	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fees for																		
Executive directors	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executive directors	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Independent non-executive director	–	–	–	–	–	–	–	–	–	–	–	–	–	105	105	15	–	225
Other emoluments for executive director																		
Salaries and other benefits	772	99	–	–	–	629	413	116	116	116	–	–	–	–	–	–	–	2,261
Share option expenses	356	99	–	–	–	278	208	28	14	–	–	–	–	–	–	–	–	983
Retirement benefits costs	26	5	–	–	–	26	18	–	–	–	–	–	–	–	–	–	–	75
	1,154	203	–	–	–	933	639	144	130	116	–	–	–	105	105	15	–	3,544
Other emoluments for Non-executive directors	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other emoluments for independent Non-executive directors	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	92	92
	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	92	92
Total directors' remuneration	1,154	203	–	–	–	933	639	144	130	116	–	–	–	105	105	15	92	3,636

Details of emoluments to the directors of the Company for the year ended 31 December 2005 are as follows:

	Executive director							Non-executive director			Independent non-executive director			
	Chen Yuhong	**Peng Jiang**	**Duncan Chiu**	**Cui Hui**	**Tang Min**	**Wang Hui**	**Tang Zhenming**	**David Chiu**	**Chen Qiwei**	**Liu Zheng**	**He Ning**	**Zeng Zhijie**	**Au Yeung Shiu Kau Peter**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fees for:														
Executive directors	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executive directors	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Independent non-executive directors	–	–	–	–	–	–	–	–	–	–	64	64	64	192
Other emoluments for executive directors:														
Salaries and other benefits	495	405	120	120	120	47	35	–	–	–	–	–	–	1,342
Share option expense	352	214	62	–	–	31	21	–	–	–	–	–	–	680
Retirement benefit costs	14	14	–	–	–	2	1	–	–	–	–	–	–	31
Discretionary bonus *(note)*	–	–	–	–	–	–	–	–	–	–	–	244	–	244
	861	633	182	120	120	80	57	–	–	–	64	308	64	2,489
Other emoluments for non-executive directors	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other emoluments for independent non-executive directors	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total directors' remuneration	861	633	182	120	120	80	57	–	–	–	64	308	64	2,489

Note: After a review by the board of directors ("BOD") on 7 October 2005, the BOD resolved to pay a special bonus of RMB244,000 to Mr. Zeng Zhijie in recognition of his duties, responsibilities and satisfactory performance.

Details of emoluments to the directors of the Company for the year ended 31 December 2004 are as follows:

	Executive director					Non-executive director			Independent non-executive director			
	Chen Yuhong	**Peng Jiang**	**Duncan Chiu**	**Cui Hui**	**Tang Min**	**David Chiu**	**Chen Qiwei**	**Liu Zheng**	**He Ning**	**Zeng Zhijie**	**Au Yeung Shiu Kau Peter**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fees for:												
Executive directors	–	–	–	–	–	–	–	–	–	–	–	–
Non-executive directors	–	–	–	–	–	–	–	–	–	–	–	–
Independent non-executive directors	–	–	–	–	–	–	–	–	64	64	16	144
Other emoluments for executive directors:												
Salaries and other benefits	488	412	120	120	30	–	–	–	–	–	–	1,170
Share option expense	325	199	55	–	–	–	–	–	–	–	–	579
Retirement benefit costs	5	5	–	–	–	–	–	–	–	–	–	10
	818	616	175	120	30	–	–	–	64	64	16	1,903
Other emoluments for non-executive directors	–	–	–	–	–	–	–	–	–	–	–	–
Other emoluments for independent non-executive directors	–	–	–	–	–	–	–	–	–	–	–	–
Total directors' remuneration	818	616	175	120	30	–	–	–	64	64	16	1,903

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2005: three, 2004: three) were directors of the Company whose emoluments were included above. One of the three highest paid directors was promoted from an employee to a director during the year. The emoluments of the remaining three (2005: two, 2004: three) highest paid individuals, (2005: including the employee's emoluments of the director before his promotion) were as follows:

	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other benefits	2,193	1,420	1,133
Share option expenses	261	364	357
Retirement benefit costs	50	40	24
Discretionary bonus	189	143	–
	2,693	1,967	1,514

Their emoluments were within the following bands:

	No. of employees		
	2006	2005	2004
HK$ nil to HK$1,000,000 (equivalent to RMB1,000,000)	3	4	5
HK$1,000,001 to HK$1,500,000 (equivalent to RMB1,000,001 to RMB1,500,000)	2	1	–
	5	5	5

During the years, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group, or as compensation for loss of office.

None of the directors waived any emoluments during the years.

11. DIVIDEND

	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*
Dividend recognised as distribution during the year:			
Final paid in respect of prior year – HK2.5 cents (2005: HK1 cent, 2004: HK1 cent) per share, equivalent to RMB2.6 cents (2005: RMB1.06 cents, 2004: RMB1.06 cents) per share	18,309	7,394	6,784

A final dividend of HK$0.001 (equivalent to RMB0.001) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

12. (LOSS)/EARNINGS PER SHARE

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

	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*
(Loss)/earnings for the purposes of calculating basic and diluted (loss)/earnings per share	(66,593)	39,656	32,205

	Number of shares		
	2006	2005	2004
Weighted average number of ordinary shares for The purpose of calculating basic (loss)/earnings per share	747,120,005	713,455,342	661,267,123
Effect of dilutive potential ordinary shares issuable under the Company's share option scheme	N/A	17,278,640	2,338,860
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	N/A	730,733,982	663,605,983

The diluted loss per share for the year ended 31 December 2006 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.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
COST				
At 1 January 2004	2,754	6,189	2,565	11,508
Additions	869	4,035	482	5,386
Acquired on acquisition of a subsidiary	–	146	–	146
Written off	–	(90)	–	(90)
At 31 December 2004	3,623	10,280	3,047	16,950
Exchange adjustments	(3)	(2)	–	(5)
Additions	963	6,929	3,529	11,421
Acquired on acquisition of subsidiaries	635	3,198	–	3,833
Written off	–	(21)	–	(21)
At 31 December 2005	5,218	20,384	6,576	32,178
Exchange adjustments	(7)	(4)	–	(11)
Additions	1,720	20,122	2,172	24,014
Acquired on acquisition of subsidiaries	–	1,491	149	1,640
Disposals	(3)	–	(145)	(148)
At 31 December 2006	6,928	41,993	8,752	57,673
ACCUMULATED DEPRECIATION				
At 1 January 2004	947	1,824	217	2,988
Provided for the year	590	1,535	245	2,370
Eliminated on written off	–	(90)	–	(90)
At 31 December 2004	1,537	3,269	462	5,268
Exchange adjustments	(2)	(1)	–	(3)
Provided for the year	843	2,454	349	3,646
Eliminated on written off	–	(21)	–	(21)
At 31 December 2005	2,378	5,701	811	8,890
Exchange realignment	(4)	(1)	–	(5)
Provided for the year	943	4,860	693	6,496
Eliminated on disposals	–	–	(34)	(34)
At 31 December 2006	3,317	10,560	1,470	15,347
NET BOOK VALUES				
At 31 December 2006	3,611	31,433	7,282	42,326
At 31 December 2005	2,840	14,683	5,765	23,288
At 31 December 2004	2,086	7,011	2,585	11,682

14. INTANGIBLE ASSETS

	Development costs *RMB'000*	Technical knowhow *RMB'000*	Software *RMB'000*	Contract based customer-related intangible *RMB'000*	Technical expertise *RMB'000*	Total *RMB'000*
COST						
At 1 January 2004	3,738	–	–	–	–	3,738
Additions	5,890	6,222	–	–	–	12,112
At 31 December 2004	9,628	6,222	–	–	–	15,850
Additions	5,424	500	120	–	–	6,044
At 31 December 2005	15,052	6,722	120	–	–	21,894
Acquired on acquisitions *(note 32)*	–	–	–	19,704	11,080	30,784
Additions	9,410	–	–	–	–	9,410
At 31 December 2006	24,462	6,722	120	19,704	11,080	62,088
AMORTISATION/ IMPAIRMENT						
At 1 January 2004	239	–	–	–	–	239
Provided for the year	378	324	–	–	–	702
At 31 December 2004	617	324	–	–	–	941
Provided for the year	2,272	678	–	–	–	2,950
At 31 December 2005	2,889	1,002	–	–	–	3,891
Impairment loss recognised for the year	–	–	–	–	1,087	1,087
Provided for the year	4,322	672	29	1,970	1,223	8,216
At 31 December 2006	7,211	1,674	29	1,970	2,310	13,194
CARRYING VALUES						
At 31 December 2006	17,251	5,048	91	17,734	8,770	48,894
At 31 December 2005	12,163	5,720	120	–	–	18,003
At 31 December 2004	9,011	5,898	–	–	–	14,909

Development costs are internally generated. All of the Group's technical knowhow software, contract based customer-related intangible technical expertise were acquired from third parties.

The above intangible assets have definite useful lives and are amortised on a straight-line basis over the following periods:

Development costs and software	3-5 years
Technical knowhow	10 years
Contract-based customer-related intangible	5 years
Technical expertise	5 years

15. GOODWILL

	RMB'000
COST	
At 1 January 2004	–
Arising on acquisition of a subsidiary	897
Arising on acquisition of additional interest of a subsidiary	27,306
At 31 December 2004	28,203
Elimination of accumulated amortisation upon the application of HKFRS 3	(977)
At 1 January 2005	27,226
Arising on acquisition of subsidiaries	51,942
At 31 December 2005	79,168
Arising on acquisition of subsidiaries *(note 31(a) and (b))*	32,951
Arising on acquisition of additional interests in a subsidiary	29,026
Impairment loss recognised for the year	(988)
At 31 December 2006	140,157

Impairment testing on goodwill

As explained in note 6, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, the carrying amount of goodwill (net of impairment loss) as at 31 December 2006 has been allocated as follows:

	2006	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*
IT outsourcing			
– Cyber Resources	31,963	–	–
– Chinasoft Resources Beijing	80,968	51,942	–
	112,931	51,942	–
IT consulting and training services	830	830	–
Chinasoft Beijing *(note)*	26,396	26,396	–
	140,157	79,168	–

Note: The carrying amount of goodwill of RMB26,396,000 was resulted from the acquisition of additional interest of Chinasoft Beijing in 2004. The goodwill contributes to the cash flows of multiple business segments which cannot be allocated on a non-arbitrary basis to individual business segments.

During the year ended 31 December 2006, the Group recognised an impairment loss of RMB988,000 in relation to goodwill arising on acquisition of Chinasoft Resource (International) Limited. Chinasoft Resource (International) Limited is engaged in the business of provision of IT outsourcing services. As the management of the Group would take up the net liabilities of RMB988,000 incurred by the sole former shareholder on the date of acquisition of Chinasoft Resource (International) Limited, full impairment on the carrying amount of goodwill was made. Save as the aforesaid, management of the Group determines that there are no impairments of any of its CGUs containing goodwill.

The basis of the recoverable amounts of the above CGUs and the methodology used for the years are summarised below:

IT outsourcing

The recoverable amount of this CGU is fair value less costs to sell and has been determined based on the valuation at 31 December 2006 prepared by independent professional valuers. The valuation is based on the management's 2006 financial information and a weighted average of market value of invested capital overearnings before taxation of 14 and that over earnings of 17 based on comparable companies in the relevant industry. Management believes that any reasonably possible change in any of these assumptions will not cause the aggregate carrying amount of the CGU to exceed its aggregate recoverable amount.

IT consulting and training services

The recoverable amount of this CGU is fair value less costs to sell and has been determined based on the valuation at 31 December 2006 prepared by independent professional valuers. The valuation is based on the management's 2006 financial information and a weighted average of market value of invested capital over earnings before taxation of 14 and that over earnings of 17 based on comparable companies in the relevant industry. Management believes that any reasonably possible change in any of these assumptions will not cause the aggregate carrying amount of the CGU to exceed its aggregate recoverable amount.

Chinasoft Beijing

The recoverable amount of this CGU is fair value less costs to sell and has been determined based on the valuation at 31 December 2006 prepared by independent professional valuers. The valuation is based on the management's 2006 financial information and a weighted average of market value of invested capital over earnings before taxation of 14 and that over earnings of 17 based on comparable companies in the relevant industry. Management believes that any reasonably possible change in any of these assumptions will not cause the aggregate carrying amount of the CGU to exceed its aggregate recoverable amount of the recoverable amounts of the above CGUs and the methodology used to determine them are the same and are summarised below:

16. INTERESTS IN ASSOCIATES

	2006	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*
			(restated)
Unlisted cost of investments in associates	6,500	8,069	1,466
Share of post-acquisition profits, net of dividend received	1,952	234	173
Release of negative goodwill of an associate	–	–	19
	8,452	8,303	1,658

Particulars of the Group's associates at 31 December 2006 are as follows:

Name of associate	Form of business structure	Place of establishment	Principal place of operation	Proportion of registered capital held by the Group	Nature of business
武漢中軟國際信息技術有限公司 Wuhan Chinasoft International Information Technology Limited ("Chinasoft Wuhan")	Equity joint venture enterprise	PRC	PRC	46%	Provision of solutions and information technology consulting services
北京中煙信息技術有限公司 China National Tobacco Information Company Limited ("China Tobacco")	Equity joint venture enterprise	PRC	PRC	20%	Maintenance of a policy making system for the production, operation and management of the tobacco industry

Included in the unlisted cost of investments in associates is goodwill of RMB3,052,000 arising on acquisition of China Tobacco in 2005.

17. TRADEMARK USE RIGHT

	RMB'000
COST	
Additions and at 31 December 2006	1,887
AMORTISATION	
Provided for the year and balance at 31 December 2006	148
CARRYING VALUE	
At 31 December 2006	1,739
Analysis for reporting purposes as:	
Non-current assets	1,550
Current assets	189
	1,739

The trademark use right is amortised on a straight-line basis over 10 years.

18. INVENTORIES

	2006 *RMB'000*	**2005** *RMB'000*	**2004** *RMB'000*
Computer hardware, equipment and software products	34,107	22,670	34,485

19. TRADE AND OTHER RECEIVABLES

	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	208,273	142,593	120,204
Advances to suppliers	6,929	2,362	5,659
Deposits, prepayments and other receivables	18,761	37,158	38,092
	233,963	182,113	163,955

The credit terms of the Group range from 30 to 90 days. An aged analysis of trade receivables is as follows:

	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	124,536	83,047	65,317
Between 91-180 days	16,504	12,740	17,073
Between 181-365 days	33,966	24,503	20,480
Between 1-2 years	27,362	11,333	16,108
Over 2 years	5,905	10,970	1,226
	208,273	142,593	120,204

20. AMOUNT DUE FROM AN ASSOCIATE

At the balance sheet date, the trade receivable is aged between 181 and 265 days.

21. TRADE RECEIVABLES FROM RELATED COMPANIES/AMOUNT DUE FROM A RELATED COMPANY

At the balance sheet date, the trade receivables are aged within 90 days. The amounts due from a related company as at 31 December 2005 and 31 December 2004 were unsecured, non-interest bearing and repayable on demand.

22. HELD-FOR-TRADING INVESTMENT

	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*
Equity securities listed in Hong Kong, at quoted market price	501	–	–

23. PLEDGED DEPOSITS/BANK BALANCES

Pledged deposits

The amount represents deposits pledged to two banks as guarantees for short-term trade facilities granted to the Group and are therefore classified as current assets.

The deposits carry interest at the prevailing market interest rate at 0.72% per annum. The pledged deposits will be released upon the settlement of relevant trade facilities.

Bank balances

The amounts comprise short-term bank deposits carry at the prevailing market interest rates which range from 2.25% to 2.80% per annum with an original maturity of three months or less.

24. TRADE AND OTHER PAYABLES

	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	64,579	80,438	78,136
Deposits received from customers	2,593	906	16,684
Other payables and accrued charges	40,498	16,926	5,501
	107,670	98,270	100,321

An aged analysis of trade payables is as follows:

	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	17,715	28,978	59,486
Between 91-180 days	7,193	11,167	9,876
Between 181-365 days	14,443	15,931	5,783
Between 1-2 years	13,453	24,280	2,991
Over 2 years	11,775	82	–
	64,579	80,438	78,136

25. TRADE PAYABLE TO A RELATED COMPANY/AMOUNT(S) DUE TO A SHAREHOLDER/ RELATED COMPANIES

At the balance sheet date, the trade payable is aged within 90 days. The amount due to a shareholder and amounts due to related companies are unsecured, non-interest bearing and repayable on demand.

26. BILLS PAYABLE

An aged analysis of bills payable is as follows:

	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*
Within 90 days	22,771	14,420	28,414
Between 91-180 days	1,481	12,361	–
	24,252	26,781	28,414

27. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Group in respect of development costs and movement thereon during the three years:

	Development costs
	RMB'000
At 1 January 2004	410
Charge to the consolidated income statement	811
At 1 January 2005	1,221
Charge to the consolidated income statement	603
At 1 January 2006	1,824
Charge to the consolidated income statement	764
At 31 December 2006	2,588

At the balance sheet date, the Group had unused tax losses available for offset against future profits of approximately RMB5,697,000 (2005: RMB1,766,000, 2004: RMB274,000) which may be carried forward indefinitely except losses of approximately RMB1,674,000 (2005: RMB1,856,000, 2004: RMB nil) which will expire in 2011. No deferred tax asset has been recognised in respect of such deductible temporary difference due to the unpredictability of future profit streams.

28. REDEEMABLE CONVERTIBLE PREFERRED SHARES

	Number of shares	**Nominal amount**
		HK$'000
Redeemable convertible preferred shares of HK$0.50 each:		
Authorised		
Increase in authorised preferred share capital and balance at 31 December 2005 and 2006	625,000,000	31,250
Issued and fully paid		
Issued during the year and balance at 31 December 2006	194,500,000	9,725

At the extraordinary general meeting of the Company held on 28 December 2005, ordinary and special resolutions approving the following were passed and the following took effect:

(i) the Re-stated Memorandum and Articles of the Company (the "M&A") was adopted and replaced the then M&A of the Company;

(ii) the authorised share capital of the Company was increased from HK$75,000,000 divided into 1,500,000,000 ordinary shares of HK$0.05 each to HK$106,250,000 divided into 1,500,000,000 ordinary shares of HK$0.05 each and 625,000,000 redeemable convertible preferred shares (the "Series A Preferred Shares") of HK$0.05 each, with the respective rights and privileges, and subject to the restrictions, set forth in the Re-stated M&A;

(iii) the issue by the Company of the Series A Preferred Shares pursuant to the terms of the Subscription Agreement, the Investors' Rights Agreement and the relevant provision in the Re-stated M&A and the grant of anti-dilution rights to the holders of the Series A Preferred Shares stated in the Re-stated M&A.

On 6 January 2006, the Company announced the completion of the first subscription of a total of 194,500,000 Series A Preferred Shares of the Company by Microsoft Corporation ("Microsoft") and International Finance Corporation ("IFC"). Under the first subscription arrangement, 97,250,000 Series A Preferred Shares with a par value of HK$0.05 each were allotted and issued at a price of HK$0.8 each to each of Microsoft and IFC, raising a total of approximately RMB162,240,000 (equivalent to US$19,999,990) for the Company. Details of the issue of Series A Preferred Shares and first subscription were set out in a circular dated 2 December 2005 issued by the Company.

The Series A Preferred Shares are denominated in Hong Kong dollars. Holders of the Series A Preferred Shares shall be entitled to a fixed cumulative dividend of 5.5% per annum of the principal amount of the Series A Preferred Shares to be first payable on a quarterly basis following the expiry of a six-month period after 6 January 2006. They entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue and up to the maturity date on the sixth anniversary of 6 January 2006 and without payment of any additional consideration, at the initial conversion rate of 1:1, subject to adjustment in respect of anti-dilution protections from time to time as provided in the M&A.

If the Company fails to complete the baseline amount of US$2,000,000 (equivalent to RMB15,560,000) as set forth in the commercial agreement dated 26 September 2005 entered into between Microsoft and the Company prior to the first anniversary of 6 January 2006, upon receipt of a written notice by Microsoft, the Company shall redeem in cash such number of the Series A Preferred Shares then held by Microsoft plus the accrued and unpaid dividends thereon at any time with an aggregate amount of up to US$5,000,000 (equivalent to RMB38,900,000). If all the Series A Preferred Shares then held by Microsoft are redeemed by the Company, IFC shall have a right, to require the Company, to redeem the Series A Preferred Shares held by it in an aggregate amount of not more than US$5,000,000 (equivalent to RMB38,900,000). All accrued and unpaid dividends payable on the Series A Preferred Shares held by IFC shall also be payable by the Company at that time.

If the Series A Preferred Shares have not been converted or redeemed, they will be mandatorily redeemed by the Company on the sixth anniversary of 6 January 2006.

All the detailed terms and conditions, including the above, are set out, inter alia, in the circular dated 2 December 2005 issued by the Company.

The Group incurred expenses of RMB10,764,000 for the issuance of the Series A Preferred Shares. Such expenses have been recognised in the consolidated income statement for the year.

The Series A Preferred Shares contain the financial liability and embedded derivatives and the entire instrument is designated as financial liability at fair value through profit or loss on initial recognition.

At the date of issue and balance sheet date, the fair value of the financial liability of the Series A Preferred Shares was estimated by using market interest rates of 10.04% and 9.79% respectively. The fair value of the embedded derivatives is calculated using the binomial option pricing model. The inputs into the model were as follows:

Share price	HK$0.92-HK$1.73
Exercise price	HK$0.8
Time to maturity	5-6 years
Risk free rate	3.69%-4.00%
Share price volatility	36.52%-52.09%

Share price volatility was estimated by the average annualised standard deviations of the continuously compounded rates of return on the Company's share prices.

The movement of the fair value of the Series A Preferred Shares for the year is set out as below:

	RMB$'000
Carrying amount at 6 January 2006	161,824
Loss arising on changes of fair value	110,558
As at 31 December 2006	272,382

Included in the loss arising on changes of fair value, there is an interest expense of RMB 3,902,000 determined using the effective interest method. As at 31 December 2006, interest payable to preferred shareholders of RMB3,902,000 was included in trade and other payables in the consolidated balance sheet.

29. SHARE CAPITAL

Ordinary shares of HK$0.05 each:	**Number of shares**	**Nominal amount** *HK$'000*
Authorised		
At 1 January 2004, and 31 December 2004, 2005 and 2006	1,500,000,000	75,000

	Notes	**Number of shares**	**Amount** *HK$*	**Amount shown in the financial statements** *RMB'000*
Issued and fully paid				
At 1 January 2004	*(a)*	640,000,000	32,000,000	33,920
Issue of new shares		57,500,000	2,875,000	3,048
At 31 December 2004		697,500,000	34,875,000	36,968
Issue of new shares	*(b)*	34,872,453	1,743,623	1,848
At 31 December 2005		732,372,453	36,618,623	38,816
Issue of new shares	*(c)*	26,445,023	1,322,251	1,368
At 31 December 2006		758,817,476	37,940,874	40,184

Notes:

(a) Pursuant to an ordinary resolution passed by the shareholders of the Company on 3 August 2004, 57,500,000 new shares of the Company of HK$0.05 each were allotted and issued as fully paid at par to China National Computer Software & Technology Service Corporation (Hong Kong) Limited ("CS&S (HK)") as the consideration shares of HK$0.73 each for the acquisition of an additional interest of 15% of the registered capital of Chinasoft Beijing.

(b) Pursuant to an ordinary resolution passed by the shareholders of the Company on 22 June 2005, 34,872,453 new shares of the Company of HK$0.05 each were allotted and issued as fully paid to CS&S (HK) as the first portion of consideration shares of HK$1.01 each for the acquisition of 51% equity interest in the registered capital of Chinasoft Resources Beijing.

(c) Pursuant to an ordinary resolution passed by the shareholders of the Company on 22 June 2005 and after the achievement of the Performance Hurdle as described in the circular of the Company dated 6 June 2005, 23,248,302 new shares of the Company of HK$0.05 each were allotted and issued as fully paid to CS&S (HK) as the second portion of consideration shares of HK$1.01 each for the acquisition of 51% equity interest in the registered capital of Chinasoft Resources Beijing during the year.

Pursuant to a resolution passed by the directors of the Company on 4 July 2006, 3,196,721 new shares of the Company of HK$0.05 each were allotted and issued as fully paid to Beijing Opportune Technology Development Company Ltd. ("Opportune Technology") as the consideration shares of HK$1.09 each for the acquisition of the Mobile and Embedded Division of Opportune Technology.

All the shares which were issued by the Company during the year rank pari passu with each other in all respects.

30. RESERVES

Share premium

In accordance with the Companies Law of the Cayman Islands, the share premium account is distributable to the equity shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

Pursuant to an ordinary resolution passed by the directors of the Company on 30 March 2006, dividend for 2006 in the amount of RMB18,309,000 was paid and distributed out of the share premium account.

General reserve fund and enterprise expansion fund

As stipulated by the relevant laws and regulations in the PRC, Chinasoft Beijing, Chinasoft Guangzhou, Chinasoft Hangzhou, Chinasoft Kunming, Chinasoft Hunan, Cyber Resources, Chinasoft Resources Beijing and Chinasoft Resources Shanghai (the "Chinasoft subsidiaries") are required to provide for the general reserve fund and the statutory enterprise expansion fund. Appropriations to such reserve funds are made out of net profit after taxation as reported in the statutory financial statements of the Chinasoft subsidiaries prepared in accordance with accounting principles generally accepted in the PRC and the amount and allocation basis are decided by its board of directors annually. The general reserve fund can be used to make up prior year losses of the Chinasoft subsidiaries, if any, and can be applied in conversion into capital by means of capitalisation issue. The statutory enterprise expansion fund is used for expanding the capital base of the Chinasoft subsidiaries by means of capitalisation issue.

Statutory surplus reserve fund and statutory public welfare fund

As stipulated by the relevant laws and regulations in the PRC, 廈門中軟海晟信息技術有限公司 and Chinasoft Resources Shenzhen is required to provide for the statutory surplus reserve fund and the statutory public welfare fund. Appropriations to such funds are made out of 5% to 10% of the net profit after taxation as reported in the statutory financial statements of 廈門中軟海晟信息技術有限公司 and Chinasoft Resources Shenzhen prepared in accordance with accounting principles generally accepted in the PRC. The statutory surplus reserve fund can be used to make up prior year losses, to expand production operations or to increase registered capital of 廈門中軟海晟信息技術有限公司 and Chinasoft Resources Shenzhen. The statutory public welfare fund can be used for employees' collective welfare benefits.

Pursuant to a notice issued by the Ministry of Finance regarding the change of accounting treatment of profit appropriation of statutory public welfare fund after the implementation of PRC Company Law, no statutory public welfare fund will be accrued from 2006 onwards. The remaining balance of statutory public welfare fund was transferred to statutory surplus reserve fund.

31. ACQUISITION OF SUBSIDIARIES

(a) In July 2006, the Group acquired an additional 50% equity interest in the registered capital of Cyber Resources for a cash consideration of RMB36,605,000. Cyber Resources is engaged in the business of provision of IT outsourcing services. It was previously an associate of the Group in which the Group had a 26% equity interest. At the acquisition date, the carrying amount of the interest in an associate amounted to RMB2,371,000. Acquisition of the subsidiary was accounted for by the purchase method.

The fair values of the identifiable assets and liabilities of the subsidiary acquired during the year have no significant differences from their respective carrying amounts. The net assets acquired in the transaction, representing the acquiree's carrying amount and fair value, and the goodwill arising, are as follows:

	2006
	RMB'000
Net assets acquired:	
Property, plant and equipment	1,626
Inventories	1,629
Trade and other receivables	7,367
Amount due form a related company	911
Bank balances and cash	1,901
Trade and other payables	(4,008)
Taxation payable	(198)
	9,228
Minority interests	(2,215)
Goodwill on acquisition	31,963
Total consideration	38,976
Satisfied by:	
Cash	33,894
Consideration payable	2,711
Reclassification of interest in an associate	2,371
	38,976
Net cash outflow arising an acquisition:	
Cash consideration paid	33,894
Bank balances and cash acquired	(1,901)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(31,993)

(b) In August 2006, the Group acquired the entire interest in the issued share capital of Chinasoft Resource (International) Limited for a cash consideration of HK$1 (equivalent to RMB1). Chinasoft Resource (International) Limited is engaged in the business of provision of IT outsourcing services. Acquisition of the subsidiary was accounted for by the purchase method.

The fair values of the identifiable assets and liabilities of the subsidiary acquired during the year have no significant differences from their respective carrying amounts. The net liabilities assumed in the transaction, representing the acquiree's carrying amount and fair value, and the goodwill arising, are as follows:

	2006
	RMB'000
Net liabilities assumed:	
Property, plant and equipment	14
Trade receivables	662
Bank balances and cash	4,182
Amounts due to related companies	(5,846)
	(988)
Goodwill on acquisition	988
Total consideration	–
Inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	4,182

The goodwill arising on the acquisition of Cyber Resources is attributable to the anticipated profitability of the provision of the Group's services in the IT outsourcing market and the anticipated future operating synergies from the combination. The goodwill arising on the acquisition of Chinasoft Resource (International) Limited was fully impaired at the date of acquisition.

Cyber Resources and Chinasoft Resource (International) Limited contributed RMB24,690,000 and RMB2,520,000 respectively to the Group's turnover and profit of RMB7,306,000 and loss of RMB261,000 respectively to the Group's loss for the year between the date of acquisition and the balance sheet date.

If the acquisitions had been completed on 1 January 2006, total Group turnover for the year would have been RMB375,705,000, and loss for the year would have been RMB62,677,000. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

(c) In July 2005, the Group acquired 51% equity interest in the register capital of Chinasoft Resources Beijing for a consideration of the issuance of a total of 58,120,755 ordinary shares of the Company from CS&S (HK), a shareholder of the Company. Chinasoft Resources Beijing has two subsidiaries, namely Chinasoft Resources Shenzhen and Chinasoft Resources Shanghai. Acquisition of the subsidiaries was accounted for by the purchase method.

(d) Pursuant to an agreement entered into between CS&S (HK) and Chinasoft (HK), a subsidiary of the Group on 28 April 2005, Chinasoft (HK) acquired 51% equity interest in the registered capital of Chinasoft Resources Beijing from CS&S (HK). The consideration is to be satisfied by the issuance of new shares of the Company (see note 30).

During the year ended 31 December 2004, pursuant to an agreement entered into between CS&S (HK) and Chinasoft (HK), a subsidiary of the Company, on 24 June 2004, Chinasoft (HK) acquired an additional 15% of the registered capital of Chinasoft Beijing from CS&S (HK). The total consideration of the acquisition of RMB44,494,000 was satisfied by the allotment and issue of 57,500.000 new shares of the Company of HK$0.05 each to CS&S (HK), and goodwill arising on the acquisition amounted to RMB27,306,000.

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year had no significant differences from their respective carrying amounts. The net assets acquired in the transaction, representing the acquiree's carrying amount and fair value, and the goodwill arising, were as follows:

	2005
	RMB'000
Net assets acquired:	
Property, plant and equipment	3,833
Inventories	1,479
Trade and other receivables	9,540
Bank balances and cash	15,214
Trade and other payables	(9,562)
	20,504
Minority interests	(10,692)
Goodwill on acquisition	51,942
Total consideration	61,754
Satisfied by:	
Shares issued and to be issued *(note)*	61,754
Inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	15,214

Note: The consideration for the acquisition of Chinasoft Resources Beijing was satisfied by the issuance of 34,872,453 ordinary shares of the Company with nominal value per share of HK$0.05 each during the year (the "first portion of consideration shares") and the remaining 23,248,302 ordinary shares (the "second portion of consideration shares") will be issued in the year ending 31 December 2006 subject to the achievement of the Performance Hurdle as described in the circular of the Company dated 6 June 2005. The directors are of the opinion that the Performance Hurdle will be achieved. The fair value of the first and second portion of consideration shares, determined using the published price available at the date of the acquisition at HK$1.01, amounted to RMB37,334,000 (equivalent to HK$35,221,000) and RMB24,420,000 (equivalent to HK$23,481,000) respectively. The amount of the second portion of consideration shares of RMB24,420,000 was presented as issuable shares in the consolidated statement of changes in equity.

The goodwill arising on the acquisition of Chinasoft Resources Beijing is attributable to the anticipated profitability of the distribution of the Group's products in the IT outsourcing market and the anticipated future operating synergies from the combination.

Chinasoft Resources Beijing contributed RMB30,680,000 to the Group's turnover and RMB6,997,000 to the Group's profit for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, total Group turnover for the period would have been RMB420,800,000, and profit for the year would have been RMB44,374,000. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

32. ACQUISITION OF CONTRACT-BASED CUSTOMER-RELATED INTANGIBLE AND TECHNICAL EXPERTISE

(a) In May 2006, the Group acquired the technical expertise of Powerise International Software Co., Ltd. And Powerise Japan Co., Ltd., representing employees with experience in enterprise resource planning system and in the Japanese market, for a cash consideration of US$1,000,000 (equivalent to RMB7,800,000). The acquisition of the technical expertise enhances the Group's advantageous position in Microsoft business and rapid expansion into the Japanese market. Acquisition of the technical expertise was accounted for as an intangible asset (see note 14) and represented the cash consideration of US$1,000,000 (equivalent to RMB7,800,000). The outflow of cash and cash equivalents in respect of the acquisition of technical expertise was US$900,000 (equivalent to RMB7,020,000) and the remaining US$100,000 (equivalent to RMB780,000) was included in consideration payable on acquisition of a subsidiary and technical expertise at the balance sheet date.

(b) In July 2006, the Group acquired the Mobile and Embedded Division from Opportune Technology. The acquired assets comprised of the contract-based customer relationship with Microsoft and employees with strong expertise in the outsourcing operation of Microsoft. As one of the Group's major strategic clients, Microsoft's outsourcing business has always been an important area for development by the Group. With the acquisition, the Group is rapidly enlarging its market share in Microsoft business.

The total consideration of the acquisition is US$3,000,000 (equivalent to RMB23,400,000), comprising a cash consideration of US$500,000 (equivalent to RMB3,900,000) and the issuance of consideration shares which amount to a maximum of US$2,500,000 (equivalent to RMB19,500,000). During the year, the Company has issued 3,196,721 ordinary shares with nominal value per share of HK$0.05 each (the "first portion of consideration shares") for the acquisition and the remaining ordinary shares (the "second portion of consideration shares") will be issued after 1 July 2007 subject to the achievement of the revenue and the entering into a master contract with Microsoft as described in the announcement of the Company dated 4 July 2006. The directors are of the opinion that the revenue will be achieved. The fair value of the first and second portion of consideration shares, determined using the published price available at the date of the acquisition at HK$1.09, amounted to RMB3,484,000 (equivalent to HK$3,484,000) and RMB15,600,000 (equivalent to HK$15,600,000) respectively. The amount of the second portion of consideration shares of RMB15,600,000 was presented as deferred consideration in the consolidated balance sheet.

Acquisition of the contract-based customer-related intangible and technical expertise was accounted for as intangible assets (see note 14) and represented the total consideration of RMB22,984,000. The outflow of cash and cash equivalents in respect of the acquisition was US$500,000 (equivalent to RMB3,900,000).

33. MAJOR NON-CASH TRANSACTIONS

Pursuant to an ordinary resolution passed and after the achievement of the Performance Hurdle, the issuance of the second portion of consideration shares of the Company for the acquisition of 51% equity interest in the registered capital of Chinasoft Resources Beijing by Chinasoft (HK), a subsidiary of the Group from CS&S (HK) was effected (see note 29(b)).

Pursuant to a resolution passed by the directors of the Company, Chinasoft (HK) acquired the Mobile and Embedded Division of Opportune Technology. Part of the consideration was satisfied by the issuance of new shares of the Company (see note 32(b)).

During the year ended 31 December 2005, pursuant to an agreement entered into between CS&S (HK) and Chinasoft (HK), a subsidiary of the Group on 28 April 2005, Chinasoft (HK) acquired 51% equity interest in the registered capital of Chinasoft Resources Beijing from CS&S (HK). The consideration is to be satisfied by the issuance of new shares of the Company.

34. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*
Within one year	13,512	2,170	1,930
In the second to fifth year inclusive	15,554	5,105	189
	29,066	7,275	2,119

Operating lease payments represent rentals payable by the Group for certain office properties. Certain lease agreements for offices properties were replaced by new agreements entered into during the year. Leases are negotiated for lease terms ranging from a half year to three years (2005: a half year to six years) for the Group and rentals are normally fixed during the lease period.

35. CAPITAL COMMITMENT

	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of software	1,196	–	–

36. SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 2 June 2003 by the then shareholders for the purpose of providing incentives and rewards to the people and the parties working for the interest of the Group. Under the Share Option Scheme, the board of directors may grant options to eligible participants including the directors, full-time and part-time employees of the Company or any of its subsidiaries or associates, and suppliers and customers of the Company or any of its subsidiaries or associates to subscribe for shares in the Company in accordance with the terms of the Share Option Scheme. An offer for the grant of options must be accepted within 30 days from the date of offer, and a consideration of HK$1.00 is payable by each of the participants on acceptance of the grant of options. The Share Option Scheme will remain valid for a period of ten years commencing on 2 June 2003. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of not more than ten years after the date on which an offer of the grant of an option is accepted. The subscription price for shares under the Share Option Scheme will be a price determined by the board of directors and notified to each grantee and will be no less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer and; (iii) the nominal value of a share.

The Company may grant options under the Share Option Scheme and any other share option schemes of the Company entitling the grantees to exercise up to an aggregate of 10% of the total number of shares in issue immediately upon the listing of the shares on the Stock Exchange and subject to renewal with shareholders' approval. However, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in any one year exceeding the higher of 0.1% of the Company's shares in issue and with a value in excess of HK$5,000,000 must be approved by the Company's shareholders.

The movements of the share options granted to the directors and employees of the Group during the year ended 31 December 2006 are as follows:

					Number of share options			
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2006	Granted during the year	Reclassification during the year	Outstanding at 31.12.2006
Directors:								
Dr. Chen Yuhong	13.8.2003	HK$0.58	13.8.2003-12.8.2004	13.8.2004-12.8.2013	300,000	–	–	300,000
			13.8.2003-12.8.2005	13.8.2005-12.8.2013	300,000	–	–	300,000
			13.8.2003-12.8.2006	13.8.2006-12.8.2013	300,000	–	–	300,000
			13.8.2003-12.8.2007	13.8.2007-12.8.2013	300,000	–	–	300,000
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	1,250,000	–	–	1,250,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	1,250,000	–	–	1,250,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	1,250,000	–	–	1,250,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	1,250,000	–	–	1,250,000
	30.3.2006	HK$0.97	Nil	30.3.2006-29.3.2016	–	300,000	–	300,000
			30.3.2006-29.3.2007	30.3.2007-29.3.2016	–	300,000	–	300,000
			30.3.2006-29.3.2008	30.3.2008-29.3.2016	–	300,000	–	300,000
			30.3.2006-29.3.2009	30.3.2009-29.3.2016	–	300,000	–	300,000
Mr. Peng Jiang	13.8.2003	HK$0.58	13.8.2003-12.8.2004	13.8.2004-12.8.2013	200,000	–	(200,000)	–
			13.8.2003-12.8.2005	13.8.2005-12.8.2013	200,000	–	(200,000)	–
			13.8.2003-12.8.2006	13.8.2006-12.8.2013	200,000	–	(200,000)	–
			13.8.2003-12.8.2007	13.8.2007-12.8.2013	200,000	–	(200,000)	–
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	750,000	–	(750,000)	–
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	750,000	–	(750,000)	–
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	750,000	–	(750,000)	–
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	750,000	–	(750,000)	–
Mr. Duncan Chiu	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	250,000	–	–	250,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	250,000	–	–	250,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	250,000	–	–	250,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	250,000	–	–	250,000
Dr. Cui Hui	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	125,000	–	–	125,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	125,000	–	–	125,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	125,000	–	–	125,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	125,000	–	–	125,000
Mr. Wang Hui	13.8.2003	HK$0.58	13.8.2003-12.8.2004	13.8.2004-12.8.2013	250,000	–	–	250,000
			13.8.2003-12.8.2005	13.8.2005-12.8.2013	250,000	–	–	250,000
			13.8.2003-12.8.2006	13.8.2006-12.8.2013	250,000	–	–	250,000
			13.8.2003-12.8.2007	13.8.2007-12.8.2013	250,000	–	–	250,000
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	875,000	–	–	875,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	875,000	–	–	875,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	875,000	–	–	875,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	875,000	–	–	875,000
	30.3.2006	HK$0.97	Nil	30.3.2006-29.3.2016	–	250,000	–	250,000
			30.3.2006-29.3.2007	30.3.2007-29.3.2016	–	250,000	–	250,000
			30.3.2006-29.3.2008	30.3.2008-29.3.2016	–	250,000	–	250,000
			30.3.2006-29.3.2009	30.3.2009-29.3.2016	–	250,000	–	250,000

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2006	Granted during the year	Reclassification during the year	Outstanding at 31.12.2006
Dr. Tang Zhenming	13.8.2003	HK$0.58	13.8.2003-12.8.2004	13.8.2004-12.8.2013	80,000	–	–	80,000
			13.8.2003-12.8.2005	13.8.2005-12.8.2013	80,000	–	–	80,000
			13.8.2003-12.8.2006	13.8.2006-12.8.2013	80,000	–	–	80,000
			13.8.2003-12.8.2007	13.8.2007-12.8.2013	80,000	–	–	80,000
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	650,000	–	–	650,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	650,000	–	–	650,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	650,000	–	–	650,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	650,000	–	–	650,000
	30.3.2006	HK$0.97	Nil	30.3.2006-29.3.2016	–	200,000	–	200,000
			30.3.2006-29.3.2007	30.3.2007-29.3.2016	–	200,000	–	200,000
			30.3.2006-29.3.2008	30.3.2008-29.3.2016	–	200,000	–	200,000
			30.3.2006-29.3.2009	30.3.2009-29.3.2016	–	200,000	–	200,000
					18,920,000	3,000,000	(3,800,000)	18,120,000
Other employees	13.8.2003	HK$0.58	13.8.2003-12.8.2004	13.8.2004-12.8.2013	1,697,500	–	200,000	1,897,500
			13.8.2003-12.8.2005	13.8.2005-12.8.2013	1,697,500	–	200,000	1,897,500
			13.8.2003-12.8.2006	13.8.2006-12.8.2013	1,697,500	–	200,000	1,897,500
			13.8.2003-12.8.2007	13.8.2007-12.8.2013	1,697,500	–	200,000	1,897,500
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	7,275,000	–	750,000	8,025,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	7,275,000	–	750,000	8,025,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	7,275,000	–	750,000	8,025,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	7,275,000	–	750,000	8,025,000
	30.3.2006	HK$0.97	Nil	30.3.2006-29.3.2016	–	3,100,000	–	3,100,000
			30.3.2006-29.3.2007	30.3.2007-29.3.2016	–	3,100,000	–	3,100,000
			30.3.2006-29.3.2008	30.3.2008-29.3.2016	–	3,100,000	–	3,100,000
			30.3.2006-29.3.2009	30.3.2009-29.3.2016	–	3,100,000	–	3,100,000
Customers	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	2,000,000	–	–	2,000,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	2,000,000	–	–	2,000,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	2,000,000	–	–	2,000,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	2,000,000	–	–	2,000,000
					62,810,000	15,400,000	–	78,210,000
Exercisable at the end of the year								50,957,500

The movements of the share options granted to the directors and employees of the Group during the year ended 31 December 2005 are as follows:

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2006	Lapsed during the year	Outstanding at 31.12.2006
Directors:							
Dr. Chen Yuhong	13.8.2003	HK$0.58	13.8.2003-12.8.2004	13.8.2004-12.8.2013	300,000	–	300,000
			13.8.2003-12.8.2005	13.8.2005-12.8.2013	300,000	–	300,000
			13.8.2003-12.8.2006	13.8.2006-12.8.2013	300,000	–	300,000
			13.8.2003-12.8.2007	13.8.2007-12.8.2013	300,000	–	300,000
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	1,250,000	–	1,250,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	1,250,000	–	1,250,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	1,250,000	–	1,250,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	1,250,000	–	1,250,000
Mr. Peng Jiang	13.8.2003	HK$0.58	13.8.2003-12.8.2004	13.8.2004-12.8.2013	200,000	–	200,000
			13.8.2003-12.8.2005	13.8.2005-12.8.2013	200,000	–	200,000
			13.8.2003-12.8.2006	13.8.2006-12.8.2013	200,000	–	200,000
			13.8.2003-12.8.2007	13.8.2007-12.8.2013	200,000	–	200,000
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	750,000	–	750,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	750,000	–	750,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	750,000	–	750,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	750,000	–	750,000
Mr. Duncan Chiu	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	250,000	–	250,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	250,000	–	250,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	250,000	–	250,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	250,000	–	250,000
Dr. Cui Hui	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	125,000	–	125,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	125,000	–	125,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	125,000	–	125,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	125,000	–	125,000
Mr. Wang Hui	13.8.2003	HK$0.58	13.8.2003-12.8.2004	13.8.2004-12.8.2013	250,000	–	250,000
			13.8.2003-12.8.2005	13.8.2005-12.8.2013	250,000	–	250,000
			13.8.2003-12.8.2006	13.8.2006-12.8.2013	250,000	–	250,000
			13.8.2003-12.8.2007	13.8.2007-12.8.2013	250,000	–	250,000
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	875,000	–	875,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	875,000	–	875,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	875,000	–	875,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	875,000	–	875,000
Dr. Tang Zhenming	13.8.2003	HK$0.58	13.8.2003-12.8.2004	13.8.2004-12.8.2013	80,000	–	80,000
			13.8.2003-12.8.2005	13.8.2005-12.8.2013	80,000	–	80,000
			13.8.2003-12.8.2006	13.8.2006-12.8.2013	80,000	–	80,000
			13.8.2003-12.8.2007	13.8.2007-12.8.2013	80,000	–	80,000
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	650,000	–	650,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	650,000	–	650,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	650,000	–	650,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	650,000	–	650,000
					18,920,000	–	18,920,000

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2006	Lapsed during the year	Outstanding at 31.12.2006
Other employees	13.8.2003	HK$0.58	13.8.2003-12.8.2004	13.8.2004-12.8.2013	1,830,000	(132,500)	1,697,500
			13.8.2003-12.8.2005	13.8.2005-12.8.2013	1,830,000	(132,500)	1,697,500
			13.8.2003-12.8.2006	13.8.2006-12.8.2013	1,830,000	(132,500)	1,697,500
			13.8.2003-12.8.2007	13.8.2007-12.8.2013	1,830,000	(132,500)	1,697,500
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	7,275,000	–	7,275,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	7,275,000	–	7,275,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	7,275,000	–	7,275,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	7,275,000	–	7,275,000
Customers	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	2,000,000	–	2,000,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	2,000,000	–	2,000,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	2,000,000	–	2,000,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	2,000,000	–	2,000,000
					63,340,000	(530,000)	62,810,000
Exercisable at the end of the year							31,405,000

A summary of the movements of share options granted during the year ended 31 December 2004 is as follows:

Type of participant	Number of share options: Outstanding at 1 January 2004	Granted during the year	Lapsed during the year	Outstanding at 31 December 2004
Directors				
Dr. Chen Yuhong	1,200,000	5,000,000	–	6,200,000
Mr. Cui Hui	–	500,000	–	500,000
Mr. Duncan Chiu	–	1,000,000	–	1,000,000
Mr. Peng Jiang	800,000	3,000,000	–	3,800,000
	2,000,000	9,500,000	–	11,500,000
EMPLOYEES	8,890,000	43,200,000	(250,000)	51,840,000
	10,890,000	52,700,000	(250,000)	63,340,000

No share options have been exercised or cancelled during the years.

The estimated fair value of the options granted on 30 March 2006 ranged from HK$0.34 to HK$0.41 and were calculated using the Binomial model. The inputs into the model were as follows:

Share price on grant date	HK$0.97
Exercise price	HK$0.97
Expected volatility	41.55%
Time to maturity	10 years
Risk-free rate	4.53%
Expected dividend yield	1.3%

Expected volatility was determined by using the historical volatility of the Company's share price over a period of 260 days.

The Group recognised a total expense of RMB4,145,000 for the year ended 31 December 2006 (2005: RMB3,617,000, 2004: RMB3,328,000) in relation to share options granted by the Company.

37. RETIREMENT BENEFIT SCHEMES

As stipulated by the rules and regulations in the PRC, the Group contributes to state-sponsored retirement plans for its employees in the PRC. The Group is required to contribute a certain percentage of the basic salaries of its employees to the retirement plans, and has no further obligation for the actual payment of the previous or post retirement benefits. The relevant state-sponsored retirement plans are responsible for the entire present obligation to retired employees.

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a Mandatory Provident Fund ("MPF") scheme ("MPF Scheme") for all qualifying Hong Kong employees. The assets of the scheme are held separately from those of the Group and under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group in respect of the MPF Scheme is to make the required contributions under the scheme.

During the year, the total cost of retirement benefit contributions charged to the income statement of RMB6,931,000 (2005: RMB3,214,000, 2004: RMB980,000) represents contributions to the schemes made by the Group at rates specified in the rules of the respective schemes. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

38. RELATED PARTY TRANSACTIONS

(i) During the year, the Group had the following transactions with the following companies:

	Notes	**2006** *RMB'000*	**2005** *RMB'000*	**2004** *RMB'000*
Provision of software and installation services for a management system software development and technology project				
– a customer of CNSS	*(a) & (b)*	–	1,374	–
– 鄭州中軟信息技術有限公司 (Zhengzhou Chinasoft Information Technology Co., Ltd ("Chinasoft Zhengzhou"))	*(c)*	10	–	–
– Chinasoft Wuhan	*(d)*	1,768	–	–
Provision of technical development services				
– CNSS	*(a), (b) & (vii)*	1,711	–	–
– CS&S (HK)	*(e)(vii)*	320	–	–
Provision of IT outsourcing services				
– Microsoft	*(f)(ix)*	4,775	–	–
– Microsoft (China) Co., Ltd.	*(f)(ix)*	49,707	–	–
Subcontracting costs				
– Chinasoft Zhengzhou	*(c)(vii)*	190	243	–
– Chinasoft Wuhan	*(d)*	800	–	–
– 山東中軟信息技術有限公司 (Shandong Chinasoft Information Technology Co., Ltd. ("Shangdong Chinasoft"))	*(c)*	97	96	–
– CNSS	*(a) & (b)*	–	88	–
Rental expenses				
– CNSS	*(a) & (b)*	4,364	2,889	–
– 中國計算機軟件與技術服務總公司 China National Computer Software & Technology Service Corporation ("CS&S)	*(g)*	–	118	1,264

Notes:

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

(b) Mr. Cui Hui, a director of the Company, is also a director of CNSS.

(c) Chinasoft Zhengzhou and Shandong Chinasoft were subsidiaries of CNSS.

(d) Chinasoft Wuhan is an associate of the Group.

(e) CS&S (HK) is a shareholder of the Company.

(f) Microsoft was a holder of the Series A Preferred Shares of the Company. Microsoft (China) Co., Ltd. is a subsidiary of Microsoft.

(g) CS&S was a holding company of a shareholder of the Company from 19 August 2004 to 30 September 2004 and a minority shareholder of a subsidiary of the Company from 1 January 2004 to 18 August 2004. During the year ended 31 December 2004, CNSS acquired CS&S and took over its assets and liabilities pursuant to an acquisition agreement dated 18 August 2004 and CS&S was subsequently de-registered under the laws of the PRC on 25 April 2005.

(ii) Pursuant to a trademark license agreement ("Trademark Licence Agreement") entered into between CS&S and the Company on 20 December 2003, CS&S granted to the Company an exclusive right to use a trademark of 中軟總公司計算機培訓中心 as defined on the Trademark Licence Agreement for a period of 25 years pending registration of such trademark with the Trademark Bureau of the PRC for a consideration of RMB2,000,000. Such amount, which is refundable on unsuccessful registration, has been paid to CS&S and was included in the amount due from a related company at 31 December 2005. During the year, CNSS obtained the trademark registration certificate from the Trademark Bureau. The effective period of the registration is from 21 March 2006 to 20 March 2016. Accordingly, the amount due from a related company of RMB2,000,000 was reclassified as trademark use right in the consolidated balance sheet in 2006.

(iii) Pursuant to an agreement entered into between CS&S (HK), a subsidiary of CNSS, and Chinasoft (HK) on 28 April 2005, Chinasoft (HK) acquired 51% equity interest in the registered capital of Chinasoft Resources Beijing from CS&S (HK). The consideration of the acquisition was satisfied by the allotment and issue of 58,120,755 new shares of the Company of HK$0.05 each to CS&S (HK). The acquisition was completed on 18 July 2005. The acquisition constituted a connected transaction of the Company under the GEM Listing Rules as CS&S (HK) is a connected person (as defined under the GEM Listing Rules) of the Company. The independent non-executive directors of the Company considered that the terms of the acquisition were fair and reasonable and in the interest of the Company and its shareholders as a whole, and the acquisition was approved by the independent shareholders at an extraordinary general meeting on 22 June 2005.

(iv) Pursuant to an agreement entered into between CS&S (HK), a subsidiary of CNSS, and Chinasoft (HK) on 15 November 2005, Chinasoft (HK) conditionally agreed to acquire the remaining 49% equity interest in the registered capital of Chinasoft Resources Beijing from CS&S (HK). The consideration of the acquisition would be satisfied by cash in a maximum aggregate amount of RMB43,556,000 (equivalent to HK$41,881,000) subject to satisfaction of certain conditions. The acquisition was completed during the year. The acquisition constituted a connected transaction of the Company under the GEM Listing Rules as CS&S (HK) is a connected person (as defined under the GEM Listing Rules) of the Company. The independent non-executive directors of the Company considered that the terms of the acquisition were fair and reasonable and in the interest of the Company and its shareholders as a whole, and the acquisition was approved by the independent shareholders at an extraordinary general meeting on 28 December 2005.

(v) Pursuant to a rental agreement entered into between Chinasoft Beijing and CNSS on 1 June 2005, Chinasoft Beijing prepaid a rent of RMB866,000 to CNSS for the lease of office premises for a term commencing from 1 April 2006 to 31 March 2007. At 31 December 2005, the prepaid lease payments were analysed for reporting purposes as a non-current asset of RMB216,000 and current asset of RMB650,000 which was included in trade and other receivables in the consolidated balance sheet. The prepaid lease payments were expensed during the year.

(vi) Pursuant to an agreement entered into between 北京中軟賽博中文信息技術有限責任公司 (Beijing Chinasoft Cyber-Chinese Information Technology Company Ltd.) ("Beijing Cyber-Chinese"), an associate of CNSS, and Chinasoft Beijing on 1 December 2005, Chinasoft Beijing advanced a loan of RMB1,450,000 to Beijing Cyber-Chinese for a term of 6 months from 1 December 2005 to 31 May 2006. The loan was unsecured, non-interest bearing and fully repaid by Beijing Cyber-Chinese in March 2006.

(vii) During the year, Chinasoft Guangzhou and Chinasoft Resource (International) Limited provided technical development services of RMB1,711,000 and RMB320,000 to CNSS and CS&S (HK) respectively. At 31 December 2006, the amount of RMB1,711,000 was included in trade receivables from related companies in the consolidated balance sheet.

(viii) During the year, Chinasoft Zhengzhou, a subsidiary of CNSS, provided subcontracting service of RMB190,000 (2005: RMB243,000) to Chinasoft Beijing. At 31 December 2006, the amount of RMB190,000 (2005: RMB68,000) was included in trade payable to a related company (2005: trade and other payables) in the consolidated balance sheet.

(ix) In September 2005, the Company entered into a Commercial Agreement with Microsoft for a period of three years. Pursuant to the Commercial Agreement, the Company and Microsoft agreed to drive revenue associated with delivering software solutions using certain Microsoft software products and to assist the Company in growing its IT service business in the PRC. The transactions under the Commercial Agreement constitute non-exempt continuing connected transactions for the Company under the GEM Listing Rules as Microsoft is a connected person (as defined under the GEM Listing Rules) of the Company after subscription of the Series A Preferred Shares on 6 January 2006. The independent non-executive directors of the Company considered that the continuing connected transactions contemplated thereunder were entered into in the ordinary and usual course of the Group and on normal commercial terms, and the terms of the Commercial Agreement were fair and reasonable and in the interest of the Company and the shareholders as a whole. The above were approved by the independent shareholders at an extraordinary general meeting held by the Company on 28 December 2005.

(x) During the year, the Company entered into a Global Master Services Agreement ("the GMS Agreement") with Microsoft for a term of five years to provide a framework of the agreed general terms and conditions for the provision of the IT outsourcing services by subsidiaries of the Group. Each project to be undertaken by subsidiaries of the Group for Microsoft under the GMS Agreement would be subject to specific terms on the amount of fee, particulars of the project and expected timetable. The entering into the GMS Agreement, and the projects undertaken by subsidiaries of the Group thereunder, will constitute non-exempt continuing connected transactions for the Company under the GEM Listing Rules as Microsoft is a connected person (as defined under the GEM Listing Rules) of the Company. The independent non-executive directors of the Company considered that the GMS Agreement and the transactions contemplated thereunder were entered into in the ordinary and usual course of the Group and on normal commercial terms, and the terms of the GMS Agreement and the annual caps for the transactions contemplated under the GMS Agreement for each of six financial years ended 31 December 2011 were fair and reasonable and in the interest of the Company and the shareholders as a whole. The above were approved by the independent shareholders at an extraordinary general meeting held by the Company on 27 October 2006. At 31 December 2006, an amount of RMB 9,381,000 was included in trade receivables from related companies in the consolidated balance sheet in respect of provision of IT outsourcing services to Microsoft and Microsoft (China) Co., Ltd.

(xi) In August 2006, Chinasoft Resources Beijing acquired the entire interest in the issued share capital of Chinasoft Resources (International) Limited from Ms. Yan Junjue, a director of Chinasoft Resources Beijing, Chinasoft Resources Shanghai, Chinasoft Resources Shenzhen and Chinasoft Resource (International) Limited for a cash consideration of HK$1.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*
Short-term employee benefits	5,085	3,448	3,143
Share option expenses	1,244	1,257	1,141
	6,329	4,705	4,284

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends

39. POST BALANCE SHEET EVENTS

On 2 January 2007, the Company entered into a conditional sale and purchase agreement and a supplementary agreement with Hinge Global Resource Inc. ("HGR") and its shareholders for the acquisition of an aggregate of 7,249,419 HGR Shares, representing approximately 96.71% of the then HGR shares. HGR and its subsidiaries are principally engaged in the IT outsourcing business. The consideration of the acquisition will be satisfied by way of cash and a maximum of 482,625,000 consideration shares in the aggregate amount of not exceeding US$55,000,000 million (equivalent to approximately RMB429,000,000). The acquisition constitutes a major transaction under the GEM Listing Rules for the Company and is subject to the approval of the independent shareholders.

Details of the above are set out in the announcement dated 5 January 2007 issued by the Company. The acquisition has yet to be completed at the date of approval of the consolidated financial statements.

The following is the text of an accountants' report on Hinge Global Resource Inc. and its subsidiaries received from BKR Lew & Barr Limited, Certified Public Accountants, the reporting accountants, for inclusion in this circular.

劉白 **BKR Lew & Barr Ltd**
Certified Public Accountants

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The Directors
Chinasoft International Limited
Units 4607-8, 46th Floor
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Dear Sirs,

We set out below our report on the financial information regarding Hinge Global Resource Inc. ("HGR") and its subsidiaries (hereinafter collectively referred to as "HGR Group") for the period from 28 June 2005 (date of incorporation of HGR) to 31 December 2005 and the year ended 31 December 2006 (hereinafter collectively referred to as the "Relevant Periods"), prepared for inclusion in the circular of Chinasoft International Limited (the "Company") dated 13 June 2007 (the "Circular") in connection with the acquisition of the 96.71% of issued share capital of HGR by the Company.

HGR was incorporated in the Cayman Islands with limited liability on 28 June 2005. The principal activity of HGR is investment holding. As at the date of this report, HGR has the following subsidiaries and particulars of these subsidiaries are as follows:

Name of company	Country of incorporation/ establishment	Issued and fully paid-up share capital	Total percentage of holding		Nature of business
			Direct	Indirect	
Shanghai Huateng Software Systems Co., Ltd	The People's Republic of China ("PRC")	USD8,000,000	88.78%	–	Development and provision of IT system
Dalian Xinhua Infotech Co., Ltd	PRC	USD250,000	100%	–	Development and provision of IT system
Dalian Digitall Technology Co., Ltd ("DDT") *(Note)*	PRC	JPY25,000,000	60%	–	Development and provision of IT system
株式會社東京信華	Japan	JPY10,000,000	100%	–	Development and provision of IT system
Hinge Xinhua Information & Technology (Dalian) Co., Ltd	PRC	USD150,000	100%	–	Dormant
DoubleBridge Technologies Inc.	The United States of America ("USA")	USD2,204,400	100%	–	Development and provision of IT system
北京道達技術有限公司	PRC	USD1,300,000	–	100%	Development and provision of IT system
DoubleBridge Technologies Hong Kong Ltd	Hong Kong	HKD1,000,000	–	99.9999%	Dormant

Note: The financial results of DDT is accounted for on a 100% basis in the consolidated financial statements of HGR. No minority interest is recognised in the accounts as HGR is entitled to 100% of share in profit or to be accountable for 100% of loss of DDT according to the Articles of Association of DDT.

For the purpose of this report, the directors of HGR have prepared the consolidated financial statements of HGR for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (collectively referred to as the "HKFRS Financial Statements"). The financial information as set out in Section A and B below (the "Financial Information") have been prepared from the HKFRS Financial Statements, on the basis set out in Note 2 of Section A below, after making such adjustments as are appropriate. The directors of HGR who approved the issuance of the Financial Information are responsible for the preparation of the Financial Information which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently, the directors of HGR are responsible for the contents of the Circular in which this report is included. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion solely to you as a body. In forming our opinion, we believe that our work provides on the Financial Information for the Relevant Periods, in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 " Prospectuses and the Reporting Accountant" issued by the HKICPA.

In our opinion, the Financial Information, for the purpose of this report, is prepared on the basis as set out in Note 2 of Section A below, gives a true and fair view of HGR Group's state of affairs as at 31 December 2005 and 31 December 2006 and each of the consolidated results and cash flows of HGR Group for each of the period and the year then ended.

A. FINANCIAL STATEMENTS OF HGR GROUP FOR THE PERIOD FROM 28 JUNE 2005 (DATE OF INCORPORATION) TO 31 DECEMBER 2005 AND FOR THE YEAR ENDED 31 DECEMBER 2006

Consolidated Income Statement

	Note	Period from 28/6/2005 (date of incorporation) to 31/12/2005 *RMB'000*	Year ended 31/12/2006 *RMB'000*
TURNOVER	*3*	47,637	283,601
COST OF SALES		(38,371)	(210,114)
GROSS PROFIT		9,266	73,487
OTHER REVENUES	*3*	371	3,562
OPERATING EXPENSES		(9,562)	(53,012)
PROFIT FROM OPERATIONS	*4*	75	24,037
NON-OPERATING EXPENSES	*5*	(576)	(63)
FINANCE COSTS	*6*	(20)	(1,778)
(LOSS)/PROFIT BEFORE TAXATION		(521)	22,196
TAXATION	*8*	(42)	(239)
(LOSS)/PROFIT BEFORE MINORITY INTERESTS		(563)	21,957
MINORITY INTERESTS		(104)	(471)
(LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS FOR THE PERIOD/ YEAR		(667)	21,486
Attributable to:			
Equity holders of HGR		(667)	21,486
Minority interests		104	471
		(563)	21,957

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheet

	Note	2005 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Deferred tax assets	8	677	677
Property, plant and equipment	9	17,951	18,252
Other investments	10	468	170
Intangible assets	11	2,759	2,315
Goodwill	12	–	4,623
		21,855	26,037
CURRENT ASSETS			
Inventories	13	3,274	–
Contracts in progress	13	53,953	51,875
Accounts receivable		38,081	32,707
Advances to suppliers		41,292	18,180
Other receivables		9,297	4,416
Deposits and prepayments		2,795	2,639
Amounts due from shareholders	14	3,831	2,215
Amounts due from related companies	14	15,930	39,637
Cash and cash equivalents	15	29,144	69,149
		197,597	220,818
CURRENT LIABILITIES			
Accounts payable		1,457	1,642
Accrued expenses		37,952	48,341
Receipts in advance		85,532	26,250
Bank loans	16	–	40,000
Amounts due to related companies	17	2,751	13,227
Convertible loan	18	4,842	–
Government grants	19	1,481	–
Amount due to a shareholder	20	36,316	35,465
Other tax payable		–	4,214
Other payables		16,112	21,928
		186,443	191,067
NET CURRENT ASSETS		11,154	29,751
NET ASSETS		33,009	55,788
CAPITAL AND RESERVES			
Share capital	21	30,981	31,995
Reserves	22	(742)	20,552
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF HGR		30,239	52,547
MINORITY INTERESTS		2,770	3,241
TOTAL EQUITY		33,009	55,788

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of HGR						
	Share capital	Translation reserve	Capital redemption reserve	(Accumulated losses)/ retained profits	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
PERIOD ENDED 31 DECEMBER 2005							
Issue of 1 subscriber share and additional common shares	61	–	–	–	61	–	61
Repurchase of common shares	(12)	–	–	–	(12)	–	(12)
Issue of common shares for acquisition of business deal	1,465	–	–	–	1,465	–	1,465
Issue of common shares for acquisition of subsidiaries	29,467	–	–	–	29,467	–	29,467
Acquisition of subsidiaries	–	–	–	–	–	2,666	2,666
Loss for the period	–	–		(667)	(667)	104	(563)
Translation adjustment	–	(75)	–	–	(75)	–	(75)
At 31 December 2005	30,981	(75)	–	(667)	30,239	2,770	33,009
YEAR ENDED 31 DECEMBER 2006							
At 1 January 2006	30,981	(75)	–	(667)	30,239	2,770	33,009
Issue of common shares for acquisition of subsidiaries	2,531	–	–	–	2,531	–	2,531
Repurchase of common shares	(1,519)	–	35	90	(1,394)	–	(1,394)
Exercise of warrants	2	–	–	–	2	–	2
Profit for the year	–	–	–	21,486	21,486	471	21,957
Translation adjustment	–	(317)	–	–	(317)	–	(317)
At 31 December 2006	31,995	(392)	35	20,909	52,547	3,241	55,788

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

	Period from 28/6/2005 (date of incorporation) to 31/12/2005	**Year ended 31/12/2006**
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
(Loss)/profit before taxation	(521)	22,196
Adjustments for:		
Depreciation	1,210	4,486
Amortisation of intangible assets	154	444
Loss on disposal of property, plant and equipment	353	165
Impairment loss on other investments recognised/(write back)	223	(2)
Gain on disposal of other investments	–	(100)
Provision for loss on contracts in progress written back	–	(2,202)
Provision for doubtful debts	987	2,589
Interest income	(86)	(2,176)
Interest expenses	20	1,778
Cash flows before movements in working capital	2,340	27,178
(Increase)/decrease in accounts receivable	(2,128)	9,408
(Increase)/decrease in other receivables	(3,128)	4,997
(Increase)/decrease in deposits and prepayments	(1,414)	242
(Increase)/decrease in advances to suppliers	(17,391)	23,112
Decrease in amounts due from shareholders	2,829	1,616
Increase in amounts due from/(to) related companies	(13,179)	(13,231)
(Increase)/decrease in inventories and contracts in progress	(1,552)	7,554
Decrease in accounts payable	(309)	(5,681)
Increase in accrued expenses	7,965	7,350
Increase/(decrease) in receipts in advance	33,462	(59,466)
Increase/(decrease) in amount due to a shareholder	3,630	(851)
Increase in other tax payable	–	1,308
(Decrease)/increase in other payables	(9,825)	3,863
Cash generated from operations	1,300	7,399
Interest paid	(20)	(1,778)
Income taxes paid	(54)	(239)
NET CASH FROM OPERATING ACTIVITIES	1,226	5,382

	Note	Period from 28/6/2005 (date of incorporation) to 31/12/2005 RMB'000	Year ended 31/12/2006 RMB'000
INVESTING ACTIVITIES			
Interest received		86	2,176
Purchase of property, plant and equipment		(7,123)	(4,569)
Proceeds from disposal of property, plant and equipment		–	13
Cash inflows from acquisition of subsidiaries	23	28,658	4,678
Proceeds from disposal of other investments		–	400
NET CASH FROM INVESTING ACTIVITIES		21,621	2,698
FINANCING ACTIVITIES			
Increase/(decrease) in government grants		1,481	(1,481)
Proceeds from exercise of warrants		–	2
Repurchase of common shares		–	(1,394)
New bank loans borrowed		–	40,000
Net proceeds from issue and repurchase of common shares		49	–
Issue/(repayment) of convertible loan		4,842	(4,842)
NET CASH FROM FINANCING ACTIVITIES		6,372	32,285
NET INCREASE IN CASH AND CASH EQUIVALENTS		29,219	40,365
EFFECT ON EXCHANGE DIFFERENCES		(75)	(360)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR		–	29,144
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR		29,144	69,149
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		20,131	58,488
Restricted cash at bank		9,013	10,661
		29,144	69,149

The accompanying notes form an integral part of these financial statements.

1. GENERAL INFORMATION

HGR was incorporated in the Cayman Islands on 28 June 2005.

The principal activity of HGR is investment holding. The principal activities of its subsidiaries are development and provision of solutions, and provision of information technology ("IT") system.

Details of the subsidiaries at 31 December 2006 are as follows:

Name of company	Country of incorporation/ establishment	Issued and fully paid-up share capital	Total percentage of holding		Nature of business
			Direct	Indirect	
Shanghai Huateng Software Systems Co., Ltd	The People's Republic of China ("PRC")	USD8,000,000	88.78%	–	Development and provision of IT system
Dalian Xinhua Infotech Co., Ltd	PRC	USD250,000	100%	–	Development and provision of IT system
Dalian Digitall Technology Co., Ltd ("DDT") *(Note)*	PRC	JPY25,000,000	60%	–	Development and provision of IT system
株式會社東京信華	Japan	JPY10,000,000	100%	–	Development and provision of IT system
Hinge Xinhua Information & Technology (Dalian) Co., Ltd	PRC	USD150,000	100%	–	Dormant
DoubleBridge Technologies Inc.	The United States of America ("USA")	USD2,204,400	100%	–	Development and provision of IT system
北京道達技術有限公司	PRC	USD1,300,000	–	100%	Development and provision of IT system
DoubleBridge Technologies Hong Kong Ltd	Hong Kong	HKD1,000,000	–	99.9999%	Dormant

Note: The financial results of DDT is accounted for on a 100% basis in the consolidated financial statements of HGR. No minority interest is recognised in the accounts as HGR is entitled to 100% of share in profit or to be accountable for 100% of loss of DDT according to the Articles of Association of DDT.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the period/year presented unless otherwise stated.

(a) Basis of preparation of financial statements

The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial instruments and in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (collectively the "HKFRSs"), and accounting principles generally accepted in Hong Kong.

The financial statements are presented in Renminbi ("RMB"), the currency in which the majority of HGR Group's transactions are denominated.

(b) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by HGR Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over HGR Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, HGR Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(c) Subsidiaries

Subsidiaries are entities (including special purpose entities) over which HGR Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether HGR Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to HGR Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by HGR Group.

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to HGR Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial year in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

– Computer equipment	5 years
– Furniture and fixtures	5 years
– Leasehold improvement	3-5 years
– Computer software	10 years
– Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(e) Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of HGR Group's share of the net identifiable assets of the acquired subsidiaries, jointly controlled entities at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Patents are shown at historical cost. Patents have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful lives of ten years.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

(f) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of HGR Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits which are restricted as to use until completion of applicable contracts in progress.

(g) Foreign currency translation

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in RMB, which is the functional currency of HGR, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of HGR Group's foreign operations (including comparatives) are expressed in RMB using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising therefrom, if any, are classified as equity and transferred to HGR Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustment arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing date.

(h) Taxation

Income tax expense represents the sum of the current tax and deferred tax. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, and associates, except where the timing of the reversal of the temporary difference is controlled by HGR Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method and includes all cost of purchase and other costs incurred in bringing the inventories to their present condition. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs to completion and the estimated costs necessary to make the sale.

(j) System development contracts

When a system development contract has not been duly executed and concluded, contract costs are capitalised as contracts in progress in the year in which they are incurred. Provision is made for foreseeable losses as soon as they are anticipated by the directors of HGR.

When a system development contract is signed off by client and the contract sum of the system development contract can be estimated reliably, capitalised contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, on the same basis as the contract revenue recognised. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with clients.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract cost incurred to date plus recognised profit less recognised loss exceed progress billings, the surplus is included in contracts in progress. Where progress billing exceeds contract cost incurred to date plus recognised profit less recognised loss, the surplus is shown as receipts in advance. Amounts received before the related work is performed are included in the balance sheet as a liability, as accounts payable. Amounts billed for work performed but not yet paid by the clients are included in the balance sheet under accounts receivable.

(k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(l) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(m) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

(n) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or vice versa. Parties are also considered to be related if they are subject to common control or common significant influence.

Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of HGR Group where those parties are individuals and post-employment benefit plans which are for the benefit of employees of HGR Group or any entity that is a related party of HGR Group.

(o) Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

When the outcome of a contract work can be reliably estimated, revenue from fixed price contract work is recognised on the basis of percentage of completion method, measured by reference to the value of work carried out during the period/year as compared to total estimated revenue. Variations in contract work, claims and incentive payments are also included to the extent that they have been agreed with the customers.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

(p) Employee benefits

The employees of the PRC subsidiaries participate in defined contribution retirement plans managed by the local government authority whereby the subsidiaries are required to contribute to the schemes at fixed rates of the employees' salary costs. HGR Group's contributions to these plans are charged to the income statement when incurred. The subsidiaries have no obligation for the payment of retirement and other post-employment benefits of staff other than the contributions described above.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when HGR Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Investments

Financial assets and financial liabilities are recognised on HGR Group's balance sheet when HGR Group becomes a party to the contractual provisions of the instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, prepayments, deposits and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the assets' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss and held-to-maturity investments. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of HGR Group after deducting all of its liabilities. HGR Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accruals, bank borrowings and obligations under finance lease are subsequently measured at amortised cost, using the effective interest rate method.

(s) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(t) Critical accounting judgments and key sources of estimation uncertainty

The preparation of these financial statements in conformity with HKFRSs requires the directors of HGR to make estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Depreciation

HGR Group's carrying values of property, plant and equipment as at 31 December 2005 and 2006 were RMB17,951,000 and RMB18,252,000 respectively. HGR Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values. The estimated useful lives of the property, plant and equipment reflect HGR directors' estimate of the periods that HGR Group intends to derive future economic benefits from the use of HGR Group's property, plant and equipment.

Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of HGR Group is based on the evaluation of collectability and aging analysis of trade and other receivables and on HGR directors' judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of HGR Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

System development contracts

HGR Group's profit or loss arising from system development contracts is determined by reference to the latest available budgets of individual construction contracts prepared by HGR Group based on HGR directors' best estimates and judgments. Provision is made for foreseeable losses as soon as they are anticipated by the directors of HGR.

Allowances for inventories

The directors of HGR review an aging analysis at each balance sheet date, and make allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The directors of HGR estimate the net realisable value for such finished goods and contracts in progress based primarily on the latest invoice prices and current market conditions. HGR Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation required HGR Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the preset value. As at 31 December 2006, the carrying amount of goodwill was RMB4,623,000.

The directors of HGR are of the view that there is no impairment on the goodwill for the year.

3. TURNOVER AND REVENUES

Revenues recognised during the period/year are as follows:

	Period from 28/6/2005 (date of incorporation) to 31/12/2005 *RMB'000*	Year ended 31/12/2006 *RMB'000*
Turnover		
Amount of contract work recognised	47,637	283,601
Other revenues		
Sundry income	62	240
Exchange gain	223	1,146
Bank interest income	86	620
Other interest income	–	1,556
	371	3,562
Total revenues	48,008	287,163

Segment Information

The directors of HGR report the business segments as HGR Group's primary segment information.

a. Business segments

Consolidated income statement for the period from 28 June 2005 (date of incorporation) to 31 December 2005:

	Solutions *RMB'000*	Subcontracting *RMB'000*	Consolidated *RMB'000*
Turnover	38,179	9,458	47,637
Segment results	7,683	1,583	9,266
Other revenues			371
Unallocated corporate expenses			(9,562)
Profit from operations			75
Non-operating expenses			(576)
Finance costs			(20)
Loss before taxation			(521)
Taxation			(42)
Loss before minority interests			(563)

Consolidated income statement for the year ended 31 December 2006:

	Solutions	Subcontracting	Consolidated
	RMB'000	*RMB'000*	*RMB'000*
Turnover	200,441	83,160	283,601
Segment results	33,520	39,967	73,487
Other revenues			3,562
Unallocated corporate expenses			(53,012)
Profit from operations			24,037
Non-operating expenses			(63)
Finance costs			(1,778)
Profit before taxation			22,196
Taxation			(239)
Profit before minority interests			21,957

b. Geographical segments

The following tables provide an analysis of HGR Group's sales by location of markets:

Consolidated income statement for the period from 28 June 2005 (date of incorporation) to 31 December 2005:

	PRC	Japan	Consolidated
	RMB'000	*RMB'000*	*RMB'000*
Turnover	38,179	9,458	47,637
Segment results	7,683	1,583	9,266
Other revenues			371
Unallocated corporate expenses			(9,562)
Profit from operations			75
Non-operating expenses			(576)
Finance costs			(20)
Loss before taxation			(521)
Taxation			(42)
Loss before minority interests			(563)

Consolidated income statement for the year ended 31 December 2006:

	PRC	Japan	USA	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	197,753	43,481	42,367	283,601
Segment results	33,096	22,022	18,369	73,487
Other revenues				3,562
Unallocated corporate expenses				(53,012)
Profit from operations				24,037
Non-operating expenses				(63)
Finance costs				(1,778)
Profit before taxation				22,196
Taxation				(239)
Profit before minority interests				21,957

4. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging/(crediting):

	Period from 28/6/2005 (date of incorporation) to 31/12/2005	Year ended 31/12/2006
	RMB'000	*RMB'000*
Staff cost (excluding directors' remuneration) *(see note 7)*	5,780	75,562
Depreciation	1,210	4,486
Amortisation of intangible assets	154	444
Operating lease payments	1,769	7,274
Provision for doubtful debts	987	2,589
Provision for loss on contracts in progress written back	–	(2,202)

5. NON-OPERATING EXPENSES

Non-operating (expenses)/income recognised during the period/year comprise principally provisions relating to the individual operating subsidiaries as follow:

	Period from 28/6/2005 (date of incorporation) to 31/12/2005	Year ended 31/12/2006
	RMB'000	*RMB'000*
Gain on disposal of other investments	–	100
Impairment loss on other investments (recognised)/write back	(223)	2
Loss on disposal of property, plant and equipment	(353)	(165)
	(576)	(63)

6. FINANCE COSTS

	Period from 28/6/2005 (date of incorporation) to 31/12/2005	Year ended 31/12/2006
	RMB'000	*RMB'000*
Bank charges and loan interest	20	1,778

7. DIRECTORS' REMUNERATION

The aggregate amount of remuneration paid to the directors of HGR Group are as follows:

	Period from 28/6/2005 (date of incorporation) to 31/12/2005	Year ended 31/12/2006
	RMB'000	*RMB'000*
Directors' remunerations		
– Fees	–	–
– Other remuneration	–	–
	–	–

8. TAXATION

(a) Taxation in the consolidated income statement represents:

	Period from 28/6/2005 (date of incorporation) to 31/12/2005 *RMB'000*	Year ended 31/12/2006 *RMB'000*
PRC Enterprise Income tax	54	106
The US Federal and State Income taxes	–	133
	54	239
Deferred tax credited	(12)	–
	42	239

Reconciliation between total tax expenses and accounting (loss)/profit before taxation of HGR Group at the applicable tax rates is as follows:

	Period from 28/6/2005 (date of incorporation) to 31/12/2005 *RMB'000*	Year ended 31/12/2006 *RMB'000*
(Loss)/profit before taxation	(521)	22,196
Tax calculated at the applicable tax rates	(336)	4,071
Tax effect of non-deductible expenses	257	(1)
Tax effect of non-taxable income	–	105
Tax effect attributable to tax exemptions and concessions granted to the PRC subsidiaries	–	(1,771)
Losses not recognised as deferred tax assets due to concerns as to their recoverability	472	(2,165)
Utilisation of previously unrecognised tax losses	(351)	–
Tax expenses	42	239

Taxation has been provided at the applicable rates on the estimated assessable profits arising in the subsidiaries of HGR Group during the period/year.

(b) Deferred tax assets in the consolidated balance sheet represents:

	2005	**2006**
	RMB'000	*RMB'000*
At the beginning of the period/year	–	677
Transfer from subsidiaries	665	–
Deferred tax credited to the income statement	12	–
At the end of the period/year	677	677

9. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment	**Furniture and fixtures**	**Leasehold improvement**	**Computer software**	**Motor vehicles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'00*
COST						
Transfer from subsidiaries	18,468	739	8,871	2,619	1,465	32,162
Additions	2,927	39	4,057	100	–	7,123
Disposals	(3,240)	(276)	–	–	–	(3,516)
At 31/12/2005	18,155	502	12,928	2,719	1,465	35,769
Additions	3,918	32	356	263	–	4,569
Transfer from subsidiaries	2,754	651	359	–	20	3,784
Assets written off	(2,226)	(411)	(346)	–	–	(2,983)
Exchange difference	(54)	(12)	(1)	–	(1)	(68)
At 31/12/2006	22,547	762	13,296	2,982	1,484	41,071
ACCUMULATED DEPRECIATION						
Transfer from subsidiaries	10,382	564	7,782	502	541	19,771
Charge for the period	617	10	458	65	60	1,210
Written back on disposals	(2,915)	(248)	–	–	–	(3,163)
At 31/12/2005	8,084	326	8,240	567	601	17,818
Transfer from subsidiaries	2,714	354	293	–	14	3,375
Charge for the year	2,772	105	1,125	292	192	4,486
Written back on disposals	(2,068)	(391)	(346)	–	–	(2,805)
Exchange difference	(49)	(6)	1	–	(1)	(55)
At 31/12/2006	11,453	388	9,313	859	806	22,819
NET BOOK VALUE						
At 31/12/2006	11,094	374	3,983	2,123	678	18,252
At 31/12/2005	10,071	176	4,688	2,152	864	17,951

10. OTHER INVESTMENTS

	2005	2006
	RMB'000	*RMB'000*
Investments in unquoted shares, at cost	1,000	600
Impairment loss	(532)	(430)
	468	170

Particulars of the unquoted investment at 31 December 2006 are as follow whereas 5% interest in 明達科(大連)科技培訓有限公司, established in the PRC and with nominal value of RMB400,000 of issued share capital, was disposed of during the year:

Name of company	Country of establishment	Class of shares held	Nominal value of issued share capital	Percentage holding
上海意達電子商務有限公司	PRC	Capital contribution	RMB600,000 (2005: RMB600,000)	15% (2005: 15%)

11. INTANGIBLE ASSETS

	Land occupancy right	Patents	Other intangible assets *(Note)*	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
AT COST				
Transfer from subsidiaries	5,430	2,000	–	7,430
Additions	–	–	1,465	1,465
At 31/12/2005	5,430	2,000	1,465	8,895
Disposal	(5,430)	–	–	(5,430)
At 31/12/2006	–	2,000	1,465	3,465
ACCUMULATED AMORTISATION				
Transfer from subsidiaries	5,082	900	–	5,982
Amortisation for the period	104	50	–	154
At 31/12/2005	5,186	950	–	6,136
Amortisation for the year	244	200	–	444
Written back on disposal	(5,430)	–	–	(5,430)
At 31/12/2006	–	1,150	–	1,150
NET CARRYING AMOUNT				
At 31/12/2006	–	850	1,465	2,315
At 31/12/2005	244	1,050	1,465	2,759

Note: Other intangible assets are capitalised costs in the acquisition of a business. The directors of HGR are of the view that there is no impairment on the intangible assets.

12. GOODWILL

	2005	2006
	RMB'000	*RMB'000*
Arising on acquisition of subsidiaries	–	4,623

The goodwill arose from the acquisition by subsidiaries during the year. The directors of HGR are of the view that there is no impairment on the goodwill.

13. INVENTORIES AND CONTRACTS IN PROGRESS

	2005	2006
	RMB'000	*RMB'000*
Inventories		
Finished goods	3,274	–

	2005	2006
	RMB'000	*RMB'000*
Contracts in progress		
Cost incurred to date	117,076	206,347
Recognised profit	81,737	74,202
	198,813	280,549
Less: Progress billing	(139,288)	(225,304)
	59,525	55,245
Less: Provision for loss	(5,572)	(3,370)
	53,953	51,875

14. AMOUNTS DUE FROM SHAREHOLDERS AND RELATED COMPANIES

The amounts due from related companies included loans to Shanghai Hinge Software Co., Ltd ("SHS") totalling RMB35 million which are unsecured and bearing interest at the rate of approximately 6.38% per annum. The amounts are repayable in the amount of RMB10,000,000 and RMB25,000,000 on 14 January 2007 and 14 April 2007 respectively. Subsequent to the year end, the repayment of these amounts have been extended to 13 July 2007.

15. CASH AND CASH EQUIVALENTS

	2005	2006
	RMB'000	*RMB'000*
Cash and bank balances	29,144	69,149

At 31 December 2005 and 2006, HGR Group's cash and bank balances included a sum of restricted cash at bank amounting to RMB9,013,000 and RMB10,661,000 respectively which was pledged for the letters of guarantee issued in favour to customers.

16. BANK LOANS

The bank loans are secured by the property of a related company and guarantees provided by two related companies. The loans carry interest at 5.58% per annum and are repayable in equivalents of RMB20,000,000 each on 14 January 2007 and 14 April 2007 respectively. Subsequent to the year end, the repayment of the bank loan due on 14 January 2007 has been extended to 19 October 2007 and the bank loan due on 14 April 2007 has been extended to 13 July 2007, and the bank loan interest rates have been revised to 6.12% and 6.57% per annum respectively.

According to an agreement between HGR and a related company, SHS, the bank loans in the amount of RMB35 million were obtained from a bank for the advances to SHS. All bank loan interest charged in respect of the loans were borne by SHS. It is expected that HGR will repay the bank loans in full to the bank when the advances to SHS are repaid by SHS.

17. AMOUNTS DUE TO RELATED COMPANIES

The amounts due are unsecured, non-interest bearing and have no fixed repayment terms.

18. CONVERTIBLE LOAN

	2005	**2006**
	RMB'000	*RMB'000*
Convertible loan	4,842	–

On 20 October 2005, HGR entered into a convertible loan agreement with Viador Inc., a company in which both the directors Mr. Ricky Lei and Mr. Stan Wang are interested. The loan amount was denominated in US dollars and carried the face value of US$600,000 (equivalent to RMB4,842,000 at 31 December 2005), with a maturity date of 31 March 2006 for US$300,000 and 30 June 2006 for the remaining balance. The loan carried interest at 4.82% per annum and was unsecured.

HGR entered into a business cooperation agreement to provide IT subcontracting services to Viador Inc. in return for fee income which is determined according to the manpower provided by HGR in the IT subcontracting services.

An amount of US$300,000 (RMB2,372,000) was repaid to Viador Inc. on 23 March 2006. The remaining balance (including loan interests) of RMB2,404,000 was settled against with the business cooperation fees receivable due from Viador Inc.

19. GOVERNMENT GRANTS

	2005	**2006**
	RMB'000	*RMB'000*
Government grants	1,481	–

Grants from a local government were recognised at their fair value where there was a reasonable assurance that the grants would be received and HGR Group would comply with conditions attached to the grants. The amount shown on the balance sheet at 31 December 2005 represented the deferred portion of the grants.

20. AMOUNT DUE TO A SHAREHOLDER

The amount due is unsecured, non-interest bearing and repayable within one year.

21. SHARE CAPITAL

	No. of shares
Authorised:	
30,000,000 common shares of no par value upon incorporation	30,000,000

	No. of shares	*US$'000*	*Equivalent to RMB'000*
Issued and fully paid:			
Issue of 1 subscriber share and additional common shares of no par value	7,500,000	8	61
Repurchase of common shares of no par value	(1,500,000)	(2)	(12)
Issue of new common shares	4,999,478	3,823	30,932
At 31 December 2005	10,999,478	3,829	30,981
Issue of new common shares	875,413	314	2,531
Repurchase of common shares of no par value	(4,596,229)	(188)	(1,519)
Exercise of warrants	225,206	1	2
At 31 December 2006	7,503,868	3,956	31,995

On 7 July 2005, 1 subscriber share of no par value and additional 7,499,999 common shares of no par value were issued at US$0.001 each.

On 8 July 2005, the authorised share capital of HGR was increased from US$50,000 divided into 30,000,000 common shares with no par value to US$50,000,000 divided into 30,000,000 common shares with no par value.

On 25 August 2005, warrants that would be exercisable for total 450,411 of common shares of HGR were issued. As at 31 December 2005, no warrant was exercised.

On 10 September 2005, 1,500,000 common shares of no par value were repurchased from the shareholder, Pine Flower River Inc ("PFRI"), at US$0.001 each. A vesting and call option agreement was entered into between HGR and PFRI on the same date in which PFRI agreed that the common shares owned by PFRI would be subject to specific vesting and call terms. As at 31 December 2005, there were 5,214,678 common shares under this vesting and call option agreement remained to be vested.

On 15 September 2005, 2,948,511 common shares of no par value were issued in exchange for the 88.78% shareholding in Shanghai Huateng Software Systems, Co. Ltd.

On 25 September 2005, 1,533,418 common shares of no par value were issued in exchange for the 100% shareholding in Dalian Xinhua Infotech Co., Ltd and 株式會社東京信華 and 60% shareholding in Dalian Digital Technology Co., Ltd.

On 1 November 2005, 517,549 common shares of no par value were issued to two shareholders and a third party as the consideration for acquiring a business venture with Viador Inc.

On 26 January 2006, 875,413 common shares of no par value were issued in exchange for 100% shareholding in DoubleBridge Technologies Inc. and its subsidiaries.

On 20 August 2006, 4,388,826 common shares of no par value were repurchased from a shareholder, PFRI, at US$0.001 each. As at 31 December 2006, there were 571,346 common shares under the vesting and call option agreement of 2005 remained to be vested.

On 20 August 2006, 207,403 common shares of no par value were repurchased from a shareholder, Easy Win Technology Limited, at a consideration of RMB1,359,000.

HGR in the year 2005 issued 450,411 warrants that would be exercisable for the purchase of 450,411 common shares of HGR. On 18 October 2006, 225,206 warrants were exercised by Genius Investments Company Limited to purchase 225,206 common shares of no par value at US$0.001 each. The remaining 225,205 warrants were exercised subsequent to the year end date. On 31 January 2007, 225,205 warrants were exercised by Genius Investments Company Limited to purchase 225,205 common shares of no par value at US$0.001 each. There is no warrant outstanding for the share capital of HGR as at the date of this report.

22. RESERVES

	Translation Reserve	**Capital Redemption Reserve**	**(Accumulated Losses)/ Retained Profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loss for the period	–	–	(667)	(667)
Translation adjustment	(75)	–	–	(75)
At 31 December 2005	(75)	–	(667)	(742)
Repurchase of common shares	–	35	90	125
Profit for the year	–	–	21,486	21,486
Translation adjustment	(317)	–	–	(317)
At 31 December 2006	(392)	35	20,909	20,552

23. ACQUISITION OF SUBSIDIARIES

In September 2005, HGR acquired four subsidiaries into HGR Group. HGR first acquired 88.78% equity interest in Shanghai Huateng Software Systems Co., Ltd. ("Huateng") for the consideration of the issuance of 2,948,511 common shares of HGR. HGR then acquired 100% equity interest in Dalian Xinhua Infotech Co. Ltd., and 株式會社東京信華 and 60% equity interest in Dalian Digitall Technology Co. Ltd. ("DDT") (collectively the "Dalian subsidiaries") for the consideration of the issuance of 1,533,418 common shares of HGR. The financial results of DDT is accounted for on a 100% basis in the consolidated financial statements of HGR. No minority interest is recognised in the accounts as HGR is entitled to 100% share in profit or to be accountable for 100% of loss of DDT according to the Articles of Association of DDT. The acquisitions of the subsidiaries were accounted for by the purchase method.

On 26 January 2006, HGR Group acquired 100% equity interest in DoubleBridge Technologies Inc. for the consideration of the issuance of 875,413 common shares of HGR. DoubleBridge Technologies Inc. has two subsidiaries, namely DoubleBridge Technologies Hong Kong Ltd and 北京道達技術有限公司. The acquisition of the subsidiaries was accounted for by the purchase method.

The fair value of the identifiable assets and liabilities of the subsidiaries acquired during the period/year have no significant differences from their respective carrying amounts. The net assets acquired in the transactions, representing the acquirees' carrying amounts and fair value, and the goodwill arising, are as follows:

	Acquirees' carrying amounts and at fair value	
	2005	**2006**
	RMB'000	*RMB'000*
Net assets acquired:		
Property, plant and equipment	12,391	356
Intangible assets	1,448	–
Deferred tax assets	665	–
Other investments	691	–
Accounts receivable	36,940	6,623
Deposits and prepayments	25,282	86
Other receivables	6,169	116
Amounts due from shareholders	6,660	–
Inventories	2,001	–
Contracts in progress	53,674	–
Cash and cash equivalents	28,658	4,678
Amount due to a related party	(12,765)	–
Amount due to a shareholder	(32,686)	–
Accounts payable	(1,766)	(5,866)
Accrued expenses	(29,987)	(3,039)
Tax payable	–	(2,906)
Other payables	(11,540)	(1,953)
Receipts in advance	(52,070)	(184)
	33,765	(2,089)
Minority interests	(2,666)	–
Exchange difference	–	(3)
Goodwill on acquisition	–	4,623
Total consideration	31,099	2,531
Satisfied by:		
Common shares issued	29,467	2,531
Amount due to a related company	1,632	–
	31,099	2,531

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the subsidiaries is as follows:

	2005	**2006**
	RMB'000	*RMB'000*
Cash and bank balances acquired	28,658	4,678

Note: For the period from 28 June 2005 (date of incorporation) to 31 December 2005:

The consideration for the acquisition of Huateng was satisfied by the issuance of 2,948,511 common shares of no par value in total during the period. The fair value of the consideration shares, determined with reference to the fair value of net assets value of Huateng at the date of acquisition, was RMB21,100,000.

The consideration for the acquisition of Dalian subsidiaries was satisfied by the issuance of 1,533,418 common shares of no par value in total during the period. The fair value of the consideration shares, determined with reference to the fair value of net assets value of the Dalian subsidiaries at the date of acquisition, was RMB8,367,000.

The amount of RMB1,632,000 due to a related company was in relation to the acquisition of Dalian subsidiaries and was fully repaid in 2006.

The above amounts of the consideration shares were presented in share capital in the consolidated statement of changes in equity.

Huateng and Dalian subsidiaries contributed RMB38,179,000 and RMB9,458,000 to HGR Group's turnover and RMB819,000 and (RMB1,485,000) to HGR's profit/(loss) for the period between the dates of the acquisition and 31 December 2005 respectively.

For the year ended 31 December 2006:

The consideration for the acquisition of DoubleBridge Technologies Inc. was satisfied by the issuance of 875,413 common shares of no par value of HGR during the year. The fair value of the consideration shares, determined using the fair value of net assets value per share of HGR Group at the date of the acquisition at RMB2.89, amounted to RMB2,531,000. The amount of the consideration shares was presented in share capital in the consolidated statement of changes in equity.

The goodwill arising on the acquisition of DoubleBridge Technologies Inc. is attributable to the anticipated profitability from the IT outsourcing market and the anticipated future operating synergies within HGR Group.

DoubleBridge Technologies Inc. contributed RMB35,603,000 to HGR Group's turnover and RMB7,604,000 to HGR Group's profit for the period between the date of the acquisition and 31 December 2006.

24. OPERATING LEASE COMMITMENTS

At the balance sheet date, HGR Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2005	**2006**
	RMB'000	*RMB'000*
Not later than one year	4,514	4,860
In the second to fifth year inclusive	7,059	6,544
	11,573	11,404

25. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, HGR Group had the following material transactions with its related parties during the period/year:

For the period from 28 June 2005 (date of incorporation) to 31 December 2005:

(a) 517,549 common shares issued to Scube System Limited and Genius Investments Company Limited, shareholders of HGR, to acquire a business venture with Viador, Inc. at the respective considerations of RMB1,102,000 and RMB525,000.

The directors of HGR, Mr. Ricky Lei and Mr. Stan Wang, both have beneficial interest in Viador Inc.

(b) Management fee amounting to RMB1,043,000 was paid to Shanghai Hinge Software Co., Ltd, a related company of HGR for obtaining financial, IT and administrative services.

(c) Rental payment amounting to RMB495,000 was paid to Shanghai Hinge Software Co., Ltd.

For the year ended 31 December 2006:

(a) Rental payment amounting to RMB980,000 was paid to Shanghai Hinge Software Co., Ltd, during the year.

(b) Convertible loan interest totalling RMB32,000 was paid to Viador Inc., a related company.

(c) Fee income totalling RMB6,754,000 was received from Viador Inc. in connection with the business cooperation for providing IT subcontracting services by HGR to Viador Inc.

(d) Reimbursement of expenses totalling RMB2,713,000 was paid to a related company in connection with the IT subcontracting services provided to Viador Inc.

26. FINANCIAL INSTRUMENTS

Financial risk factors

The main risks arising from HGR Group's financial instruments are interest rate risk, liquidity risk, market risk and credit risk. The directors of HGR analyse and formulate measures to manage HGR Group's exposure to these risks. The directors of HGR review and agree policies for managing each of these risks and they are summarised as follows:

(a) Interest rate risk

HGR Group's exposure to the risk of changes in market interest rates relates primarily to HGR Group's long term debt obligations at floating rate.

(b) Liquidity risk

HGR Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The carrying amounts of other current assets and liabilities approximate to their fair value.

(c) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

(d) Credit risk

HGR Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise credit risk, HGR Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, HGR Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of HGR Group consider that the credit risk is significantly reduced.

HGR Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparts are banks with high credit-ratings assigned by international credit-rating agencies.

27. CONTINGENT LIABILITIES

As 31 December 2006, HGR Group had no contingent liabilities.

28. SUBSEQUENT EVENT

No significant subsequent event took place subsequent to 31 December 2006.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for HGR Group in respect of any period subsequent to 31 December 2006.

Yours faithfully,
BKR Lew & Barr Limited
Certified Public Accountants
So Kwok Keung Keith
Director
Practising Certificate No. P1724
13 June 2007

MANAGEMENT DISCUSSION AND ANALYSIS OF HGR

FROM 28 JUNE 2005 (DATE OF INCORPORATION OF HGR) TO 31 DECEMBER 2005

Financial review

During the period, revenue of the HGR Group was mainly attributable to the contract work recognised on software application development and integration service to financial institutions in the PRC. The balance of the revenue was mainly attributable to software development outsourcing service to the Japanese market. The net loss of approximately RMB0.67 million was mainly due to (i) the operating results only accounted for less than four months of 2005 of the four subsidiaries acquired by HGR in September 2005, namely Shanghai Huateng, Dalian Xinhua, Dalian Digitall and Tokyo Xinhua; and (ii) the relatively high development cost incurred by Dalian Xinhua for building up its outsourcing services in desktop publishing business and CAD business in the last quarter of 2005.

Business Review

Liquidity and Financial Resources

As at 31 December 2005, the HGR Group had a total interest-bearing borrowing in the form of convertible loan of face value US$600,000 (equivalent to approximately RMB 4.84 million as at 31 December 2005). The whole amount of the convertible loan has been fully settled.

As at 31 December 2005 the HGR Group had a total non-interest bearing borrowings of approximately RMB39.07 million of which approximately RMB36.32 million was repayable within one year from 31 December 2005 and the remaining approximately RMB2.75 million has no fixed repayment term.

The gearing ratio of the HGR Group as at 31 December 2005 was 0.20 which was calculated by dividing the total of the interest-bearing convertible loan and the non-interest bearing borrowings by the total assets.

Capital Structure

For the period from 28 June 2005 (date of incorporation of HGR) to 31 December 2005, the HGR Group has met its working capital and other capital requirements principally from share capital and shareholder's loan.

Investment Held

As at 31 December 2005, the HGR Group held 15% interest in 上海意達電子商務有限公司 which is principally engaged in provision of internet trading value added commercial services, and 5% interest in 明達科(大連)科技培訓有限公司 which specializes in the provision of technical training for manufacturing industry professionals. The investments in 上海意達電子商務有限公司 and 明達科(大連)科技培訓有限公司 has carrying values of approximately RMB0.17 million and RMB0.30 million respectively as at 31 December 2005.

Acquisition of Subsidiaries

On 15 September 2005, HGR acquired 88.78% equity interest in Shanghai Huateng for a consideration of RMB21.10 million and was satisfied by way of issuance of 2,948,511 common shares of no par value.

On 25 September 2005, HGR acquired 100% equity interest in Dalian Xinhua and Tokyo Xinhua and 60% interest in Dalian Digitall for an aggregate consideration of RMB 8.37 million and was satisfied by way issuance of an aggregate of 1,533,418 common shares of no par value and cash of approximately RMB1.63 million.

Contracts on hand

The outstanding contract (but not yet recognised) amount of the HGR Group as at 31 December 2005 was approximately RMB165 million.

Charges on Assets

As at 31 December 2005, the HGR Group has pledged deposits in bank of approximately RMB9.01 million for letters of guarantee issued in favour to customers.

Information on Employees

As at 31 December 2005, the HGR Group employed approximately 1,019 employees who were based in the PRC and Japan.

In addition to salaries, the employees in PRC participated in defined contribution retirement plans organised by local government.

Exposure to Fluctuations in Exchange Rates

The financial statement of the HGR Group is expressed in RMB and the reporting currency of certain of its operating subsidiaries are expressed in Japanese Yen. During the period, the HGR Group recorded an exchange gain of approximately RMB0.22 million. The financial effects of the exposure to fluctuations in exchanges rates is considered minimal.

FOR THE YEAR ENDED 31 DECEMBER 2006

Financial review

The revenue of the HGR Group increased from approximately RMB47.64 million to approximately RMB283.60 million was mainly due to (i) contribution of a full year operations from the four subsidiaries acquired by HGR in last quarter of 2005, namely Shanghai Huateng, Dalian Xinhua, Dalian Digitall and Tokyo Xinhua; and (ii) further acquisitions of DoubleBridge and its subsidiaries in January 2006.

The gross profit ratio of the HGR Group has increased from approximately 19.45% for year 2005 to approximately 25.91% for year 2006. The improvement in the overall gross profit ratio was mainly due to the gross profit ratio for the Japanese market has returned to a normal level, coupled with the US market through DoubleBridge and its subsidiaries, namely DoubleBridge Hong Kong and Beijing Daoda, acquired by HGR in January 2006, which also generated a relatively high gross profit ratio.

The results attributable to shareholders was increased substantially from a loss of RMB0.67 million to a profit of approximately RMB21.49 million. This increase was also mainly resulted from full year operations from subsidiaries acquired in 2005 and additional merger and acquisition activities in January 2006 as well as the enhancement of overall gross profit ratio.

Business Review

Liquidity and Financial Resources

As at 31 December 2006, the HGR Group had a total interest-bearing loan of RMB40 million, repayable within one year from 31 December 2006.

As at 31 December 2006 the HGR Group had a total non-interest bearing borrowings of approximately RMB48.69 million of which approximately RMB35.47 million was repayable within one year from 31 December 2006 and the remaining approximately RMB13.23 million has no fixed repayment term.

The gearing ratio of the HGR Group as at 31 December 2006 was 0.36 which was calculated by dividing the total of the interest-bearing loan and non-interest bearing borrowings by the total assets.

Capital Structure

For the year ended 31 December 2006, the HGR Group has met its working capital and other capital requirements principally from share capital, shareholder’s loan and short term debt.

Investment Held

During the year, the HGR Group had disposed of all its equity interest in 明達科(大連)科技培訓有限公司. The remaining 15% interest in 上海意達電子商務有限公司 has a carrying value of approximately RMB0.17 million as at 31 December 2006.

Acquisition of Subsidiaries

On 26 January 2006, HGR acquired 100% equity interest in DoubleBridge together with its two subsidiaries, namely Beijing Daoda and DoubleBridge Hong Kong, for an aggregate consideration of approximately RMB2.53 million and was satisfied by way issuance of an aggregate of 875,413 common shares of no par value.

The amount of goodwill arising from the acquisition of DoubleBridge was approximately RMB4.62 million.

Contracts on hand

The outstanding contract (but not yet recognised) amount as at 31 December 2006 was approximately RMB213 million.

Charges on Assets

As at 31 December 2006, the HGR Group has pledged deposits in bank of approximately RMB10.66 million for letters of guarantee issued in favour to customers.

Information on employees

As at 31 December 2006, the HGR Group employed approximately 1,299 employees who were based in the PRC, US and Japan.

In addition to salaries, the employees in PRC participated in defined contribution retirement plans organised by local government.

Exposure to fluctuations in exchange rates

The financial statement of the HGR Group is expressed in RMB and the reporting currency of certain of its operating subsidiaries is expressed in Japanese Yen and US$. During the period, the HGR Group recorded an exchange gain of approximately RMB1.15 million. The financial effects of the exposure to fluctuations in exchanges rates is considered minimal.

The following is the text of a report, prepared solely for the purpose of inclusion in this Circular, received from the independent reporting accountants, BKR Lew & Barr Limited. As described in the section headed "Documents available for inspection" in Appendix V, a copy of the following report is available for inspection.

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(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited pro forma financial information comprises unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 December 2006 and the accompanying note (collectively referred to as the "Pro Forma Financial Information").

For illustrative purposes only, the Pro Forma Financial Information prepared in accordance with paragraph 31 of Chapter 7 of the Listing Rules is set out below to illustrate the effect of the proposed acquisition of the interest in Hinge Global Resource Inc. and its subsidiaries ("HGR Group") by Chinasoft International Limited (the "Acquisition") on (i) the consolidated balance sheet of HGR Group as at 31 December 2006 as if the Acquisition had taken place on 31 December 2006.

The unaudited pro forma financial information is based on certain assumption, estimates, uncertainties and other currently available financial information. The Pro Forma Financial Information has been prepared for illustrative purposes only and because of its nature, may not give a true picture of the actual financial position of the Enlarged Group that would have been attained had the Acquisition actually occurred on the dates indicated herein. In addition, the Pro Forma Financial Information does not purport to predict the Enlarged Group's future financial position.

The Pro Forma Financial Information should be read in conjunction with the Accountants' Report on HGR Group as set out in Appendix II and other financial information included elsewhere in this circular.

(i) Unaudited pro forma statement of assets and liabilities of the Enlarged Group at 31 December 2006

	The Group	HGR Group	Subtotal	Pro forma adjustment 1	Pro forma adjustment 2	Pro forma adjustment 3	Pro forma adjustment 4	The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS								
Investment in subsidiaries	–	–	–	427,900	(427,900)			–
Interests in associates	8,452	–	8,452					8,452
Other investment	–	170	170					170
Deferred tax assets	–	677	677					677
Property, plant and equipment	42,326	18,252	60,578					60,578
Intangible assets	48,894	2,315	51,209					51,209
Goodwill	140,157	4,623	144,780		375,353			520,133
Trademark use right	1,550	–	1,550					1,550
Payment for acquisition of software	3,654	–	3,654					3,654
	245,033	26,037	271,070					646,423
CURRENT ASSETS								
Contracts in progress	–	51,875	51,875					51,875
Inventories	34,107	–	34,107					34,107
Trade and other receivables	233,963	55,303	289,266			2,215		291,481
Trade receivable from an associate	1,091	–	1,091					1,091
Trade receivables from related companies	11,292	–	11,292					11,292
Trademark use right	189	–	189					189
Hedge-for-trading investment	501	–	501					501
Deposits and prepayments	–	2,639	2,639					2,639
Amounts due from related companies	–	39,637	39,637					39,637
Amount due from a shareholder	–	2,215	2,215			(2,215)		–
Pledged deposits	1,474	–	1,474					1,474
Bank balances and cash	133,571	69,149	202,720	(42,790)				159,930
	416,188	220,818	637,006					594,216

	The Group	HGR Group	Subtotal	Pro forma adjustment 1	Pro forma adjustment 2	Pro forma adjustment 3	Pro forma adjustment 4	The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
CURRENT LIABILITIES								
Bank loans	–	40,000	40,000					40,000
Trade and other payables	107,670	71,911	179,581			(35,465)	(11,500)	226,546
Receipts in advance	–	26,250	26,250					26,250
Bills payable	24,252	–	24,252					24,252
Amounts due to related companies	501	13,227	13,728					13,728
Amount due to a shareholder	–	35,465	35,465			35,465		–
Dividend payable to shareholders	74	–	74					74
Deferred consideration	15,600	–	15,600					15,600
Trade payable to a related company	195	–	195					195
Consideration payable on acquisition of a subsidiary and technical expertise	3,491	–	3,491					3,491
Taxation payable	4,715	4,214	8,929					8,929
	156,498	191,067	347,565					359,065
NET CURRENT ASSETS	259,690	29,751	289,441					235,151
TOTAL ASSETS LESS CURRENT LIABILITIES	504,723	55,788	560,511					881,574
NON-CURRENT LIABILITIES								
Deferred tax liabilities	2,588	–	2,588					2,588
Redeemable convertible preferred shares	268,480	–	268,480					268,480
	271,068	–	271,068					271,068
NET ASSETS	233,655	55,788	289,443					610,506
CAPITAL AND RESERVES								
Share capital	40,184	31,995	72,179	(15,304)	31,995			55,488
Reserves	172,651	20,552	193,203	(369,806)	20,552		11,500	530,957
Equity attributable to equity holders of the parent	212,835	52,547	265,382					586,445
Minority interests	20,820	3,241	24,061					24,061
	233,655	55,788	289,443					610,506

(ii) Notes to unaudited pro forma statement of assets and liabilities

1. Assuming that the Company can acquire all HGR Shares in issue on 31 December 2006, the aggregate of the Share Purchase Price and Earn-out Payment shall not exceed US$55 million (equivalent to approximately RMB427.9 million). Settlement of the Share Purchase Price and the Earn-out Payment will be at different stages involving a cash payment and the issue and allotment of the Consideration Shares at such percentages as determined by the Company prior to the Closing Date provided that the cash portion shall be no more than 30 per cent. and less than 10 per cent. of the Total Consideration.

   The Share Purchase Price is equivalent to 15.5 times the 2006 Net Profit, provided that it cannot be less than US$25 million (equivalent to approximately RMB194.5 million) and more than US$50 million (equivalent to approximately RMB389 million).

   As the 2006 Net Profit is approximately US$2.91 million (equivalent to approximately RMB22.62 million), the Share Purchase is US$45.06 million (equivalent to approximately RMB350.6 million. On the basis of the maximum Total Consideration of US$55 million (equivalent to approximately RMB427.9 million) and that the Company chooses to pay a minimum amount of cash of US$5.5 million (equivalent to approximately RMB42.79 million) as part of the Total Consideration, the maximum number of the Consideration Shares to be issued and allotted at the issue price of HK$1.44 for each Consideration Share in relation to the Share Purchase Price and at the minimum possible issue price of HK$0.80 for each Consideration Share in relation in the Earn-out Payment, for settlement of the Total Consideration is expected to be 306,087,566 Ordinary Shares. Subject to a minimum price of HK$0.80 for each Consideration Share, the issue price of each Consideration Share of HK$1.44 was determined based on the lower of the average of the daily closing price of the Ordinary Shares as quoted on GEM (i) for a period of 30 trading days up to the date immediately before the date of announcement of the annual results of the Company for the financial year ending 31 December 2006 which is HK$1.90 per Ordinary Share; and (ii) for a period of 45 trading days up to 11 December 2006, being the last trading day of the Ordinary Shares on GEM prior to the issue of the Announcement, which is HK$1.44 per Ordinary Share.

   In the event that the 2007 Net Profit is no less than US$3.16 million (equivalent to approximately RMB24.58 million), the Company has agreed to pay the Earn-out Payment to the HGR Shareholders, which shall be equal to 15.5 times the 2007 Net Profit (on the basis that the 2007 Net Profit is no less than US$3.16 million) minus the Share Purchase Price, provided that the Total Consideration shall not exceed US$55 million (equivalent to approximately RMB427.9 million). If the 2007 Net Profit is less than US$3.16 million, no Earn-out Payment will be made.

Pursuant to the Sale and Purchase Agreement, at the Company's discretion, no more than 30 per cent. and no less than 10 per cent. of the Earn-out Payment shall be settled by way of cash and the remaining balance shall be satisfied by the issue and allotment of the Consideration Shares on the first Business Day falling 15 days after the date of approval of the audited consolidated accounts of HGR Group for the financial year ending 31 December 2007 by the board of directors of HGR. Subject to a minimum price of HK$0.80 for each Consideration Share, the issue price of each Consideration Share shall be determined based on the average of the daily closing price of the Ordinary Shares as quoted on GEM for a period of 30 trading days up to the date immediately before the date of approval of the annual results of HGR Group for the financial year ending 31 December 2007 by the board of directors of HGR.

Assuming that the Company chooses to pay a minimum amount of each for the Earn-out Payment. Hence, such number of the Ordinary Shares representing US$8.94 million (equivalent to approximately RMB69.55 million) shall be satisfied by the issue and allotment of the Consideration Shares and the remaining balance of US$1 million (equivalent to approximately RMB7.78 million) by way of cash.

Based on the above, the amount of the issued Ordinary Shares is approximately RMB15,304,000 whereas the premium of approximately RMB369,806,000 would be arisen.

2. Upon the elimination of share capital and reserves of HGR and investments in subsidiaries of the Company on completion of the acquisition of all HGR Shares amounting to approximately RMB31,995,000, RMB20,552,000 and RMB427,900,000 respectively, with reference to HGR's net assets value as at 31 December 2006, goodwill of RMB375,353,000 would be arisen from the acquisition.

   If the Company cannot acquire all the HGR Shares following the expiration of the Offer, the Company currently intends to exercise the compulsory purchase right under the Companies Law to acquire the remaining approximately 3.39 per cent. of the HGR Shares in issue as at the Latest Practicable Date conditional upon the Closing.

3. After the completion of the acquisition of HGR, the Company will be the shareholder of HGR. Thus, amounts due from and to shareholders of RMB2,215,000 and RMB35,465,000 respectively should be reallocated to other receivables and other payables.

4. It is expected that the Company will incur professional fee of RMB11,500,000 for the acquisition of HGR and accordingly the same amount should be accrued as other payable and charged to the expenses of the Company.

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA INFORMATION OF CHINASOFT INTERNATIONAL LIMITED

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TO THE DIRECTORS OF CHINASOFT INTERNATIONAL LIMITED
(Incorporated in the Cayman Islands with limited liability)

We report on the unaudited pro forma statement of assets and liabilities (the "Statement") of Chinasoft International Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") and Hinge Global Resource Inc. ("HGR") and its subsidiaries (together with the Group hereinafter referred to as the "Enlarged Group") which has been prepared by the directors for illustrative purposes only, to provide information about how the acquisition of 100% interest in HGR and its subsidiaries (the "Acquisition") might have affected the assets and liabilities of the Group presented, for the inclusion in Appendix III of the circular dated 13 June 2007 (the "Circular"). The basis of preparation of unaudited pro forma financial information is set out on pages 126 to 127 of the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Statement in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 31(1) of Chapter 7 of the GEM Rules, on the Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Statement beyond that owed to those to whom those report were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA.

Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Statement with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Statement has been properly complied by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Statement as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Rules.

The Statement is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 31 December 2006 or any future date.

Opinion

In our opinion:

(a) the Statement has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Statement as disclosed pursuant to the paragraph 31(1) of Chapter 7 of the GEM Rules.

BKR Lew & Barr Limited
Certified Public Accountants
So Kwok Keung Keith
Director
Practising Certificate No. P1724
13 June 2007

INDEBTEDNESS

Borrowings

At the close of business on 31st March, 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding short-term bank loan of RMB40,000,000, which was secured by the property owned by a related party and was interest bearing at 6.12% to 6.57% per annum; the amount of RMB5,258,000 due to related companies was unsecured, non-interest bearing and had no fixed terms of repayment; the amounts due to ordinary shareholders of RMB26,026,000, of which RMB26,001,000 was secured, non-interest bearing and repayable in August 2007; and the amount of RMB25,000 were unsecured, non-interest bearing and repayable on demand; and the amount of RMB270,625,000 due to holders of Series A Preferred Shares, of which RMB2,145,000 was interest payable to preferred shareholders; and the amount of RMB268,480,000 represented the fair value of the Series A Preferred Shares due to the preferred shareholders. Holders of the Series A Preferred Shares shall be entitled to a fixed cumulative dividend of 5.5% per annum of the principal amount of the Series A Preferred Shares to be payable on a quarterly basis; and be entitled to convert the Series A Preferred Shares into ordinary share of the Company at any time up to the maturity date on 5 January 2012 and without payment of any additional consideration, at the initial conversion rate of 1:1, subject to adjustment in respect of anti-dilution protections from time to time as provided in the Re-stated Memorandum and Articles of the Company.

Contingent liabilities

As at 31 March 2007, the Enlarged Group had no contingent liabilities.

Save as disclosed above and apart from intra-group liabilities and normal trade debts payable, none of the companies of the Enlarged Group had any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, term loans, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease and hire purchase commitments, guarantees or other material contingent liabilities from 31 March 2007 to the Latest Practicable Date.

Disclaimer

Save as referred to above and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have, as at 31 March 2007, any mortgages, charges, debentures or other loan capital or bank overdrafts, loans or other similar indebtedness or any material guarantees or any material contingent liabilities. Foreign currency amounts have been translated into Renmibi at the approximately exchange rate prevailing at the close of business on 31 March 2007.

WORKING CAPITAL

As at the Latest Practicable Date, the Directors are of the opinion that taking into consideration the financial resources available to the Enlarged Group, including its internally generated funds, the Enlarged Group will have sufficient working capital for its present requirements, including financing the Acquisition.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:–

(a) the information contained in this circular is accurate and complete in all material respects and not misleading;

(b) there are no matters the omission of which would make any statement in this circular misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and following the issue and allotment of the maximum number of Consideration Shares will be, as follows:–

Authorised:		*HK$*
1,500,000,000	Ordinary Shares as at the Latest Practicable Date	75,000,000.00
625,000,000	Series A Preferred Shares as at the Latest Practicable Date	31,250,000.00
2,125,000,000		106,250,000.00
Issued and to be issued as fully paid		
805,660,976	Ordinary Shares in issue as at the Latest Practicable Date	40,283,048.80
194,500,000	Series A Preferred Shares in issue as at the Latest Practicable Date	9,725,000.00
1,000,160,976	Ordinary Shares and Series A Preferred Shares in issue as at the Latest Practicable Date	50,008,048.80
306,087,566	Maximum number of the Consideration Shares to be issued and allotted *(Note)*	15,304,378.30
1,306,248,542		65,312,427.10

Note: On the basis of the maximum Total Consideration of US$55.00 million (equivalent to approximately RMB427.90 million) and that the Company chooses to pay a minimum amount of cash of US$5.5 million (equivalent to approximately RMB42.79 million) as part of the Total Consideration, the maximum number of the Consideration Shares to be issued and allotted for settlement of the Total Consideration is expected to be 306,087,566 Ordinary Shares.

All the issued existing Ordinary Shares rank *pari passu* in all respects including all rights as to dividends, voting and return of capital. The Consideration Shares will rank *pari passu* in all respects including all rights as to dividends, voting and return of capital with the Ordinary Shares in issue after the respective dates of issue and allotment of the Consideration Shares.

An application has been made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interest of the Directors in the Shares and underlying shares of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the Directors were as follows:–

(a) Long positions in the Ordinary Shares

Name of the Directors	Capacity	Nature of interest	Number of the Ordinary Shares held	Approximate percentage of the total number of the Ordinary Share in issue
CHEN Yuhong *(Note)*	Beneficial Owner	Personal	27,617,472	3.43%
CUI Hui	Beneficial Owner	Personal	20,000,000	2.48%
TANG Zhenming	Beneficial Owner	Personal	10,207,765	1.27%
WANG Hui	Beneficial Owner	Personal	7,017,838	0.87%

Note:–

On 4 May 2007, Dr. CHEN Yuhong exercised 4,650,000 share options granted to him and hence, the shareholding of CHEN Yuhong was increased by 4,650,000 Ordinary Shares.

(b) Options to subscribe for the Ordinary Shares

Name of the Director	Exercise price *(HK$)*	Number of share options outstanding as at the Latest Practicable Date	Approximate percentage of the total number of the Ordinary Share in issue	*Note*
CHEN Yuhong *(Note 1)*	0.58	300,000	0.04%	(2)
	0.65	1,250,000	0.16%	(3)
	0.97	1,200,000	0.15%	(4)
	1.78	3,800,000	0.47%	(5)
CUI Hui	0.65	500,000	0.06%	(3)
Duncan CHIU	0.65	1,000,000	0.12%	(3)
TANG Zhenming	0.58	320,000	0.04%	(2)
	0.65	2,600,000	0.32%	(3)
	0.97	800,000	0.10%	(4)
	1.78	2,000,000	0.25%	
WANG Hui	0.58	1,000,000	0.12%	(2)
	0.65	3,500,000	0.43%	(3)
	0.97	1,000,000	0.12%	(4)
	1.78	2,000,000	0.25%	
CHEN Yung Cheng Timothy	1.78	1,000,000	0.12%	(5)
ZENG Zhijie	1.78	750,000	0.09%	(5)
Total		23,020,000		

Notes:

(1) An aggregate of 900,000 share 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 the Latest Practicable Date.

(2) 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:

Exercise 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

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

Exercise 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

(4) 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:–

Exercise 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

(5) 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:–

Exercise period commencing	Ending	Number of share options exercisable
10/4/2007	9/4/2017	25% of the total number of share options granted
10/4/2008	9/4/2017	25% of the total number of share options granted
10/4/2009	9/4/2017	25% of the total number of share options granted
10/4/2010	9/4/2017	25% of the total number of share options granted

SHARE OPTION SCHEME

As at the Latest Practicable Date, share options to subscribe for an aggregate of 116,766,500 Ordinary Shares were granted to certain Directors and 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 (2), (3), (4) and (5) under "Directors' Interests" in this appendix.

Save as disclosed above and that there was an aggregate of 9,893,500 share options exercised by various employees of the Group during the period between 4 May 2007 and 21 May 2007, no option has been granted, exercised and lapsed pursuant to the Share Option Scheme from 1 January 2007 to the Latest Practicable Date.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at the Latest Practicable Date, the following persons, not being a Director or chief executive of the Company, had an interest in the Ordinary Shares 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:–

Long positions in the Ordinary Shares

Name	Type of interest	Number of the Ordinary Shares interested	Approximate percentage of the total issued Ordinary Shares in issue
CS&S(HK) *(Note 1)*	Beneficial interest	199,010,755	24.70%
Chinasoft (HK) *(Note 2)*	Interest of persons acting in concert	199,010,755	24.70%
Far East Technology International Limited (**"Far East Technology"**) *(Note 3)*	Beneficial interest	130,129,822	16.15%
ABN AMRO Holding N.V.	Beneficial interest	45,540,000	5.65%
International Finance Corporation (**"IFC"**) *(Note 4)*	Beneficial interest	97,250,000	12.07%
Microsoft Corporation (**"Microsoft"**) *(Note 4)*	Beneficial interest	97,250,000	12.07%

Notes:

1. CNSS is taken to be interested in the Ordinary Shares in which CS&S (HK) is interested. CNSS holds approximately 99.3% of the total voting rights of CS&S (HK).

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

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

4. Each of IFC and Microsoft was interested in 97,250,000 Ordinary Shares which could be issued to each of them upon the conversion of the 97,250,000 Series A Preferred Shares allotted and issued to each of them on 6 January 2006.

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (other than members of the Group) were directly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the following members of the Group (other than the Company) and the amount of each of such person's interest were as follows:–

Name of member of the Group	Name of substantial shareholder	Nature and amount of interest	Approximate percentage of shareholding
上海中軟資源技術服務有限公司 (Shanghai Chinasoft Resources Information Technology Services Limited)	上海東瑞信息諮詢服務有限公司 (Shanghai Dong Rui Information Consultation Services Co., Ltd.)	equity interest in the amount of RMB600,000	20%
中軟賽博資源軟件技術(天津)有限公司 (CS&S Cyber Resource Software Technology Ltd.)	天津泰達國際創業中心	RMB1,200,000	24%
廈門中軟海晟信息技術有限公司	福建海晟集團有限公司	RMB14,700,000	49%
上海中軟資源技術服務有限公司 (Shanghai Chinasoft Resources Information Technology Services Limited)	嚴雋鈺 (Yan Juanyu)	equity interest in the amount of RMB600,000	20%

Save as disclosed above, as at the Latest Practicable Date so far as is known to the Directors:-

(a) none of the Directors or chief executive of the Company had any interest or short position in any shares or underlying shares or interest in debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by the Directors; and

(b) there was no person known to the Directors who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was or was expected to be, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or had any options in respect of such capital.

LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and there was no litigation, arbitration or claim of material importance known by the Directors to be pending or threatened against any member of the Enlarged Group.

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with any member of the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

PARTICULARS OF DIRECTORS

Executive Directors

Dr. Chen Yuhong (陳宇紅), aged 44, is the managing director and the chief executive officer of the Company and is responsible for the overall business development of the Group. He has over 10 years experience in software development and corporate management. Dr. Chen holds a doctorate degree in optics from 北京理工大學 in 1991. Prior to joining the Group on 25 April 2000, Dr. Chen was the vice president of CS&S in 2000 and was appointed senior vice-president of CNTC (中軟網絡信息技術有限公司) in December 2003. Dr. Chen has also been appointed a director of Chinasoft Resource Corporation (北京中軟資源信息科技服務有限公司). Dr. Chen was a manager of the research department from October 1996 to April 2000. Dr. Chen was also a director of 中軟賽博資源軟件技術(天津)有限公司 (CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd.), an associate company of China National Software & Service Co., Ltd. from 1999 to March 2002. From June 1991 to October 1996, Dr. Chen was the deputy general manager of China Great Wall Computer Software Co., Ltd.

Dr. Tang Zhenming (唐振明), aged 44, is the senior vice president. Dr. Tang is responsible for the human resources of the Group and our newly acquired Training Centre. Prior to joining the Group on 25 April 2000, Dr. Tang was employed by Beijing Institute of Technology Industrial Company (北京理工大學產業總公司) as deputy general manager from May 1995 to March 2000 and by American W&P Company, Beijing Office (美國W&P公司北京辦事處) as officer from December 1993 to March 1995. Dr. Tang is also a director of Chinasoft Resource Corporation (北京中軟資源信息科技服務有限公司) and Wuhan Chinasoft International Information Technology Limited (武漢中軟國際信息技術有限公司). He holds a bachelor's degree in vehicle engineering from Tsinghua University (清華大學) in 1985 and a doctorate degree in motor electronic control from 北京理工大學 in 1994.

Mr. Wang Hui (王暉), aged 34, is the senior vice president and chief technical officer. Mr. Wang is responsible for the designing of technical solutions and consulting. Mr. Wang graduated from 天津大學 (Tianjin University) in 1995. Mr. Wang has 6 years experience in systems analysis and in the design of system infrastructure. Prior to joining the Group on 25 April 2000, Mr. Wang was a manager of China Greatwall Computer Software Co., Ltd from 1995 to 2000.

Non-executive Directors

Mr. Su Zhenming (*蘇振明*), aged 54, graduated from Tsinghau University in 1978 with a degree in Electronics Engineering and from the Electronics Department of the Managerial College (電子部管理幹部學院) in 1990 specialising in International Trade. He further completed a postgraduate professional course in Systems Engineering at Xian Electronics Technology University (西安電子科技大學) in 1992. Mr. Su is a senior engineer and had been the Head of Northeastern Electronics Technology Research Centre (東北電子技術研究所) and the Deputy General Manager of China Electronics Information Industry Group Company (中國電子信息產業集團公司). Mr. Su is currently the Vice President of the Alliance of Chinese Chamber of Information Industry and Digitization (3C) Industry (中國信息產業商會數字化(3C)產業聯盟); and a council member of the Communications Studies Branch of the Chinese Institute of Electronics (中國電子學會通信學分會) and of the Chinese Association of Industrial Design (中國工業設計協會). Mr. Su is currently also the Chairman of the board of directors of (i) CNSS; (ii) Amoi Electronics Co. Ltd. (夏新電子股份有限公司); and (iii) CEC Corecast Corporation Limited (中電廣通股份有限公司), all of which are joint stock limited companies established under the laws of the People's Republic of China and listed on the Shanghai Stock Exchange.

Dr. Cui Hui (崔輝), aged 45, is responsible for the financial management of the Group. Dr. Cui has about 20 years experience in corporate management. Dr. Cui graduated from Jilin University (吉林大學) in the PRC in 1983 with a doctorate degree in economics. Prior to joining the Group on 25 April 2000, Dr. Cui worked for CS&S as deputy department head from August 1983 to April 1992, deputy general manager from July 1999 to January 2000 and was the vice president of China National Software & Technology Service Corporation ("CS&S") in 2000. From May 1992 to December 1997, Dr. Cui was the deputy general manager and general manager of Oriental Technology (Beijing) Company Ltd (東方科技(北京)有限公司). He was the general manager of Chinasoft Tonghe Systems Integration Company Ltd (中軟同和系統集成有限公司) from January 1998 to June 1999. In December 2003, he was appointed senior vice-president of CNTC (中軟網絡信息技術有限公司) (which changed its name to that of CNSS). Dr. Cui currently holds a directorship position in CNSS.

Mr. Duncan Chiu (邱達根), aged 32, has been involved in the management of the Group since joining in January 2000. Mr. Chiu graduated with a bachelor's degree in business administration from Pepperdine University of California in 1996. Mr. Chiu currently serves as vice chairman and treasurer of The Chamber of Hong Kong Listed Companies, vice president of Innovation & Technology Association and is a committee member of All-China Youth Federation. Mr. Chiu is as a director among the Far East Group of Companies. He serves as the managing director and chief executive officer of Far East Technology International Limited ("Far East Technology") and also a non-executive director of Far East Hotel & Entertainment Limited.

Mr. Liu Zheng (劉征), aged 34, was appointed on 14 June 2002. He has been a general manager of ITG since April 2000. From 1997 to 2000, he was the general manager of DingRong Investment Management Co., Ltd (鼎榮投資管理公司). Mr. Liu worked for China Everbright Bank from 1992 to 1997. Mr. Liu has 10 years experience in the financial industry and graduated from the Finance and Banking Institute of China (中國金融學院) in 1992 with a bachelor's degree in economics.

Mr. Timothy Chen Yung Cheng (陳永正), aged 50, is the corporate vice president of Microsoft Corporation and its chief executive officer of the greater China region. Prior to joining Microsoft Corporation in September 2003, Mr. Chen was the chairman and president of Motorola Corp.'s China subsidiary. He was appointed as corp. vice president of Motorola Inc, chairman and president of Motorola (China) Electronics Ltd in September 2001. From June 2000 to September 2001, Tim was the chief executive officer of 21CN Cybernet (a listed company in Hong Kong on the Main Board of the Stock Exchange). Before joining 21CN Cybernet, since 1992, Tim held various positions in Motorola including the general manager of Motorola's Greater China Cellular Infrastructure Division. He worked in Lucent (then AT&T Bell Labs) in the US. as research and development manager and marketing manager prior to 1992. Tim holds a master's degree in business administration from University of Chicago and two master's degrees in computer science and mathematics.

Independent non-executive Directors

Mr. He Ning (何寧), aged 48, was appointed on 2 July 2002. Mr. He has been the chief executive officer of Beijing CCG Technology Co. Ltd. since September 2000. From January 1997 to August 2000, he was the vice president of the Beijing representative office of Merrill Lynch. Mr. He was the assistant officer of the China Stock Exchange Executive Council from July 1993 to December 1996. He also worked for Morgan Stanley as manager from May 1990 to June 1993. Mr. He obtained a master's degree in business administration from the University of Texas in 1984. Mr. He has over 10 years experience in investment banking, direct investment and venture business management in the PRC and the USA.

Mr. Zeng Zhijie (曾之杰), aged 39, was appointed on 21 April 2003. Mr. Zeng obtained a master's degree in business administration from Stanford University in June 2001, and is a vice president of Walden International since October 2001, a global venture capital firm with an investment focus on the communications, electronics, software & IT services, semiconductors and life sciences/healthcare industries.

Dr. Leung Wing Yin Patrick (梁永賢), aged 50, was appointed on 22 March 2006. Dr. Leung holds a doctor's degree in accounting from the University of New South Wales, Australia, and a member of Certified Public Accountants of Australia, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute. He is an Assistant Professor and a Doctor Student Supervisor at the School of Accounting and Finance of the Hong Kong Polytechnic University. Dr. Leung previously worked as a consultant in a firm of Certified Public Accountants and as a Senior Lecturer at Charles Sturt University, Australia and the City University of Hong Kong. He has over three years working experience in internal auditing and corporate finance in banks.

EXPERT

The following is the qualification of the expert who has given report, opinion or advice which is contained in this circular:–

Name	Qualification
BKR Lew & Barr Limited	Certified public accountants

As at the Latest Practicable Date:–

(a) BKR Lew & Barr Limited did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, since 31 December 2006 (being the date to which the latest published audited consolidated accounts of the Group were made up) or which were proposed to be so acquired or, disposed of by or leased to, the Company or any member of the Enlarged Group; and

(b) BKR Lew & Barr Limited did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

CONSENT

BKR Lew & Barr Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and statements and all references to its name, in the form and context in which they respectively appear.

COMPETING INTERESTS

As at the Latest Practicable Date, Dr. CUI Hui, an executive Director, was interested in approximately 1.34% of the issued share capital of CNSS and also served as a director of CNSS. Moreover, Dr. CUI Hui had been appointed as a senior vice president by CNSS since December 2003. In addition, Mr. SU Zhenming, a non-executive Director, is also the chairman of the board of directors of CNSS. Although the Directors are of the view that the principal activities of CNSS currently do not directly compete with those of the Group, the Group and CNSS are both engaged in the provision of information technology outsourcing services.

Save as disclosed above, as at the Latest Practicable Date, 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 any business which competed or might compete with the business of the Group.

NO MATERIAL ADVERSE CHANGE

Since 31 December 2006, being the date to which the latest published audited accounts of the Company have been made up, the Directors confirm that there was no material adverse change in the financial or trading position of the Group.

MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Enlarged Group within two years immediately preceding the Latest Practicable Date:–

(i) the agreement dated 28 April 2005 entered into between Chinasoft (HK) and CS&S (HK) in relation to the acquisition by Chinasoft (HK) of the 51% equity interest in Chinasoft Resources Information Technology Services Limited held by CS&S (HK), details of which are set out in the circular of the Company dated 6 June 2005;

(ii) the subscription agreement dated 26 September 2005 entered into among the Company, Beijing Chinasoft International Information Technology Limited, Chinasoft Resources Information Technology Services Limited, Microsoft Corporation and International Finance Corporation in relation to the proposed issue of the Series A Preferred Shares by the Company to Microsoft Corporation and International Finance Corporation, details of which are set out in the circular of the Company dated 2 December 2005;

(iii) the investors' rights agreement entered into among the Company, Microsoft Corporation and International Finance Corporation on 6 January 2006 which defines the rights Microsoft Corporation and International Finance Corporation have in their capacity as the holders of the Series A Preferred Shares, details of which are set out in the circular of the Company dated 2 December 2005;

(iv) the agreement dated 15 November 2005 entered into between Chinasoft (HK) and CS&S (HK) in relation to the acquisition by Chinasoft (HK) of the 49% equity interest in Chinasoft Resources Information Technology Services Limited held by CS&S (HK), details of which are set out in the circular of the Company dated 9 December 2005;

(v) the agreement dated 30 June 2006 entered into among Prochoice Technology Limited, Cyberware International Technology Limited and Chinasoft (HK) in relation to the acquisition by Chinasoft (HK) of the 50% equity interest in CS&S Cyber Resource Software Technology (Tianjin) Co., Ltd. held by Prochoice Technology Limited and Cyberware International Technology Limited, details of which are set out in the circular of the Company dated 21 July 2006;

(vi) the ordinary shares repurchase agreement dated 1 September 2005 entered into between HGR and Pine Flower River Inc. (**"PFRI"**) in relation to the repurchase by HGR of 1,500,000 shares in HGR held by PFRI for a consideration of US$0.001 per share;

(vii) the vesting and call option agreement dated 15 September 2005 entered into between HGR and PFRI pursuant to which the shares in HGR held by PFRI were agreed to be subject to vesting and call option and HGR shall have the right to purchase any or all of such shares at a price of US$0.001 per share or the original purchase price paid by PFRI, whichever is greater, upon the occurrence of any event specified therein;

(viii) the share acquisition agreement dated 15 September 2005 entered into among HGR, Shanghai Huateng, Scube Systems Limited (**"SSL"**), Genius Investments Company Limited (**"GICL"**) and Easy Win Technology Limited in relation to the acquisition by HGR of the 88.78% equity interest in Shanghai Huateng held by SSL for a consideration of 2,655,671 shares in HGR;

(ix) the acquisition and merger agreement dated 9 January 2005 entered into among SSL, Shanghai Huateng, Dalian Xinhua, Dalian Digitall, Tokyo Xinhua and YANG Fan as amended by the agreement (the **"Amendment Agreement"**) dated 25 September 2005 entered into among HGR, SSL, Shanghai Huateng, Dalian Xinhua, Dalian Digitall, Tokyo Xinhua, YANG Fan and GICL in relation to the acquisition by HGR of the equity interests in Dalian Xinhua, Dalian Digitall and Tokyo Xinhua for a consideration consisting of cash in the amount of US$2 million (of which US$1 million had already been paid by SSL as at the date of the Amendment Agreement, US$850,000 was agreed to be paid in accordance with the agreements (x) to (xii) below, and the balance was agreed to be paid upon closing of such agreement) and 1,026,256 shares in HGR. Pursuant to the Amendment Agreement, SSL agreed to pay the cash consideration in the amount of US$2 million for HGR and HGR agreed to issue 447,496 shares to SSL as compensation. The terms and conditions of such acquisition are further provided in the agreements (x) to (xii) below;

(x) the share transfer agreement dated 25 September 2005 entered into between HGR and Huashai U.S.A. Limited (**"Huashai"**) in relation to the acquisition by HGR of the entire equity interests in Dalian Xinhua held by Huashai for a consideration of US$320,000;

(xi) the share transfer agreement dated 25 September 2005 entered into between HGR and Huashai in relation to the acquisition by HGR of the 60% equity interests in Dalian Digitall held by Huashai for a consideration of US$100,000;

(xii) the share transfer agreement dated 25 September 2005 entered into between HGR and YANG Fan in relation to the acquisition by HGR of the entire equity interests in Tokyo Xinhua held by YANG Fan for a consideration of US$430,000;

(xiii) the trust agreement dated 25 September 2005 entered into between HGR and YANG Fan pursuant to which YANG Fan agreed to hold the entire equity interests in Tokyo Xinhua on trust for and on behalf of HGR. Such agreement has been terminated in accordance with the provisions therein by means of YANG Fan having transferred the entire equity interests in Tokyo Xinhua to HGR;

(xiv) the share acquisition agreement dated 20 January 2006 as amended by the first amendment to share acquisition agreement dated 27 January 2006 both entered into among HGR, DoubleBridge and the shareholders of DoubleBridge named therein in relation to the acquisition by HGR of the entire equity interests in DoubleBridge held by the shareholders of DoubleBridge named therein for a consideration of 875,413 shares in HGR;

(xv) the share pledge agreement (the **"Share Pledge Agreement"**) dated 13 April 2006 entered into among HGR, XFY Limited and YANG Fan pursuant to which XFY Limited agreed to pledge 50,000 shares in HGR held by it to HGR as a security for the full and timely performance of the obligations of YANG Fan under agreement (xii) and (xiii) above. The Share Pledge Agreement has been terminated by agreement (xvi) below;

(xvi) the share pledge termination agreement entered into among HGR, XFY Limited and YANG Fan pursuant to which HGR agreed to terminate the Share Pledge Agreement with effective from 21 October 2006 and HGR shall have no rights or benefits in relation to the shares in HGR held by XFY Limited;

(xvii) the investment and shareholders agreement dated 22 August 2006 entered into among HGR, GPC, Shanghai Alliance Investment Limited ("**Shanghai Alliance**") and the shareholders of HGR named therein as amended by the memorandum of amendments to investment and shareholders agreement approved by the extraordinary general meeting of the shareholders of HGR held on 18 October 2006 in relation to the acquisition by GPC of the 40.67% equity interest in HGR on Fully Diluted Basis (as defined therein) held by the shareholders of HGR named therein;

(xviii) the common shares repurchase agreement dated 18 October 2006 entered into between HGR and PFRI in relation to the repurchase by HGR of 4,388,826 shares in HGR held by PFRI for a consideration of US$0.001 per share;

(xix) the registration rights agreement dated 3 November 2006 entered into between HGR and GPC which provides for the registration of the shares in HGR under the United States Securities Act of 1933. This agreement shall be terminated by the parties thereto prior to Closing pursuant to the Sale and Purchase Agreement;

(xx) the agreement dated 3 November 2006 entered into among HGR, GPC, Shanghai Alliance, Shanghai Xintai New Technology Co., Ltd., Shanghai Shanggu Information Technology Consultancy Co., Ltd., Shanghai Hinge Software Co., Ltd., SSL and LEI Hong Sang pursuant to which Shanghai Alliance, Shanghai

Xintai New Technology Co., Ltd. and Shanghai Shanggu Information Technology Consultancy Co., Ltd. agreed to maintain an aggregate attributable shareholding in HGR of not less than 10% of HGR's issued share capital on fully diluted basis;

(xxi) the Sale and Purchase Agreement; and

(xxii) the Supplemental Agreement.

GENERAL INFORMATION

(a) The registered office of the Company is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies.

(b) The Company's Hong Kong branch share registrar and transfer office is Computershare Hong Kong Investor Services Limited, which is situated at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) The qualified accountant and the company secretary of the Company is Mr. FOK Ming Fuk, William, MBA, FCCA, CPA, CHARTERED ACCOUNTANT, FTIHK, MHKSI.

(d) The compliance officer of the Company is Dr. CHEN Yuhong.

(e) 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 and 5.30 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 has three members comprising all three independent non-executive Directors, namely Mr. HE Ning, Mr. ZENG Zhijie and Dr. LEUNG Wing Yin, Patrick. Particulars of the non-executive Directors are set fourth under "Particular of the Directors" above.

(f) As at the Latest Practicable Date, the Directors did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, since 31 December 2006 (being the date to which the latest published audited consolidated accounts of the Group were made up) or which were proposed to be so acquired or, disposed of by or leased to, the Company or any member of the Enlarged Group.

(g) No contracts of significance in relation to the Enlarged Group's business in which a Director had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

(h) This circular has been prepared in both English and Chinese. In the case of any discrepancy, the English text shall prevail.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at any weekday (public holiday excepted) at the Company's registered office, Units 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong from the date of this circular up to and including the date of the EGM:–

(i) the amended and re-stated memorandum and articles of association of the Company;

(ii) the material contracts referred to under "Material contracts" in this appendix;

(iii) the accountants' report on HGR, the content of which are set forth in appendix II to this circular;

(iv) the letter issued by BKR Lew & Barr Limited in connection with the pro forma financial information of the Enlarged Group, the content of which is set forth in appendix III to this circular;

(v) the written consent referred to under "Consent" section in this appendix;

(vi) the annual reports of the Company for each of the three financial years ended 31 December 2006; and

(vii) a copy of each circular issued pursuant to the requirements set out in Chapter 19 and/or 20 which has been issued since the date of the latest published audited accounts of the Company.

CHINASOFT INTERNATIONAL LIMITED
中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 8216)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Chinasoft International Limited (the "**Company**") will be held at 3:30 p.m. on 9 July 2007 at Units 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong for the purpose of considering and, if though fit, passing the following resolutions, with or without amendment, as ordinary resolutions of the Company:–

ORDINARY RESOLUTIONS

"**THAT**

(a) the share sale and purchase agreement (the "**Agreement**") dated 2 January 2007 entered into among Chinasoft International Limited ("the **Company**"), Hinge Global Resource Inc. ("**HGR**") and the shareholders of HGR named therein (the "**Selling Shareholders**"), a copy of which has been produced at the EGM and marked "**A**" and initialled by the chairman of the EGM for identification purpose and the transactions contemplated thereunder be and are hereby approved;

(b) the agreement (the "**Supplemental Agreement**") dated 2 January 2007 entered into among the Company, HGR and the shareholders of HGR named therein, a copy of which has been produced at the EGM and marked "**B**" and initialled by the chairman of the EGM for identification purpose and the transactions contemplated thereunder be and are hereby approved;

(c) the issue and allotment by the Company of a maximum number of 306,087,566 ordinary shares of HK$0.05 each in the share capital of the Company to the Selling Shareholders as part of the consideration under the Agreement be and is hereby approved; and

* *For identification purpose only*

(d) the directors of the Company be and are hereby authorised to do all such acts and things and to sign, seal, execute and deliver all such documents and to take all such steps for and on behalf of the Company as they may in their absolute discretion consider necessary or appropriate to give effect to or in connection with the Agreement, the Supplemental Agreement or all transactions contemplated thereunder."

By order of the Board
Chinasoft International Limited
Dr. CHEN Yuhong
Managing Director

Executive Directors:–
Dr. CHEN Yuhong *(Managing Director)*
Dr. TANG Zhenming
Mr. WANG Hui

Non-executive Directors:–
Mr. SU Zhenming *(Chairman)*
Dr. CUI Hui
Mr. CHEN Yung Cheng Timothy
Mr. Duncan CHIU
Mr. LIU Zheng

Independent non-executive Directors:–
Mr. HE Ning
Mr. ZENG Zhijie
Dr. LEUNG Wing Yin

Hong Kong, 13 June 2007

Notes:

(1) Any member entitled to attend and vote at the EGM shall be entitled to appoint a proxy to attend and vote at the EGM. A proxy need not be a shareholder of the Company.

(2) Where there are joint holders of any share, any one of such joint holder may vote, either in person of by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the EGM the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of all other join holders of the share. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint shareholding.

(3) A form of proxy for use at the EGM is enclosed. In order to be valid, the enclosed form of proxy completed in accordance with the instructions set out therein, together with the power of attorney or other authority (if any) under which it is signed (or a certified copy of that power or authority) must be deposited at the principal place of business of the Company in Hong Kong at Units 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong not less than 48 hours before the time appointed for holding the EGM or adjourned meeting. Completion and return of the enclosed form of proxy will not preclude members from attending and voting in person at the EGM.