中軟國際

2009 Annual Report

CHINASOFT INTERNATIONAL LIMITED
中軟國際有限公司*
(Incorporated in the Cayman Islands with Limited Liability)
(Stock Code:0354)

* for identification purpose only

Contents

Corporate Information

REGISTERED OFFICE

Century Yard, Cricket Square, Hutchins Drive
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George Town
Grand Cayman
Cayman Islands
British West Indies

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COMPANY SECRETARY

Mr. Fok Ming Fuk, William, *MBA, FCCA, CPA*
CHARTERED ACCOUNTANT, FTIHK

COMPLIANCE OFFICER

Dr. Chen Yuhong

QUALIFIED ACCOUNTANT

Mr. Fok Ming Fuk, William, *MBA, FCCA, CPA*
CHARTERED ACCOUNTANT, FTIHK

AUDIT COMMITTEE

Mr. Xu Zeshan
Mr. Zeng Zhijie
Dr. Leung Wing Yin Patrick

AUTHORISED REPRESENTATIVES

Dr. Chen Yuhong
Mr. Fok Ming Fuk, William, *MBA, FCCA, CPA*
CHARTERED ACCOUNTANT, FTIHK

INTERNATIONAL AUDITORS

Deloitte Touche Tohmatsu

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HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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PRINCIPAL BANKERS

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Haidian sub-branch
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STOCK CODE

354

Financial Summary

RESULTS

	For the year ended 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	382,275	355,236	811,552	983,372	**1,104,602**
Profit (loss) before taxation	48,714	(51,972)	131,448	80,979	**(107,077)**
Taxation	(5,718)	(11,881)	(8,908)	(9,254)	**(13,480)**
Profit (loss) for the year	42,996	(63,853)	122,540	71,725	**(120,557)**
Attributable to:					
Equity holders of the Company	39,656	(66,593)	115,445	63,335	**(126,743)**
Minority interests	3,340	2,740	7,095	8,390	**6,186**
	42,996	(63,853)	122,540	71,725	**(120,557)**
Dividend	7,394	18,309	797	4,406	**–**

ASSETS AND LIABILITIES

	As at 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	438,765	661,221	1,362,272	1,405,047	**1,468,512**
Total liabilities	(129,730)	(427,566)	(587,584)	(534,935)	**(691,498)**
	309,035	233,655	774,688	870,112	**777,014**

Milestones 2009

January

- Awarded "2008 Top-tier Domestic Software Enterprise"
- Won the tender of a project on equipment merchandising and installation and construction for the classification center of Railroad Transport Lane 1 in a key city in Southern China

February

- Designated as one of the "World's Top 100 Global Outsourcing Professionals in 2009" by the International Association of Outsourcing Professionals (IAOP)
- Forged the strategic alliance with 北京達特公司, a tobacco company, under which both parties will carry out a whole-dimension strategic cooperation in the fields of automation and informatisation in the tobacco industry
- Won the tender for a project on Citizen Card system reform in a provincial capital city in southern China

March

- Awarded an enterprise AAA credit rating by the China Software Industry Association
- Received the award of "2008 China Services Outsourcing Enterprises Top 10 Best Practice Ranking"
- Gained the approval of the Department of Higher Education, and will jointly establish practical training centers with the Office of National Pilot Software Engineering Schools
- Completed the ERP connection project with "China Tobacco" in a southern province, and gained high recognition from clients.
- Successively won two tenders for projects on the establishment of multi-pass system for two key cities in Western China
- Railway Transport automatic fare selling and collection system R&D Testing center was put into operation in Shanghai and Chongqing

April

- Awarded the tender for MES project with Central Tobacco Industry Company in a province in Eastern China
- Signed the contract with the Auditing Administration in a province in Eastern China with regard to e-Audit Project (Phase 2) intranet audit system building project.
- Launched the tobacco production base MES project in a major provincial capital city in Southern China

Milestones 2009

May

- Signed contract with the Ministry of Finance as the supplier of accounting information quality examination software
- Sponsored students from the Hong Kong Polytechnic University to join the IT training organised by ETC in Xiamen
- Signed a R&D agreement on the offset machine management information system with a note printing limited in a municipality
- The "Small Enterprise Credit Loan" software passed the IBM SOA certification test

June

- Elected one of "2009 China's Top 10 Services Outsourcing Leading Enterprises"
- Received the 2009 award for promoting Employment for University Students in Software Industry

July

- Won the tender for the project on cigarette production and operation decision making and management system and the macro adjustment information support system for the tobacco industry
- The sub-ticketing system for individual tickets and the logistics sub-system were launched and commenced operation simultaneously in a major financial city in China
- The prototype research fund-supported project for the ticketing system of World Expo passed expert inspection

August

- Elected one of 2009 China's Top 100 education institutions
- Became the first Microsoft Premier Vendor in China and the seventh in the World

Milestones 2009

September

- The Group acquired a business from Beijing Challenger Science and Technology Co., Ltd., strengthening our competitiveness in the tobacco industry
- Shenzhen Jinhuaye Software Ltd. joined Chinasoft International, and became its major force in serving the telecommunication industry
- Signed contract of providing system maintenance and technique services for headquarters' credit card with one of the big four banks in China
- Embarked on a credit card system new product implementation project in a famous financial city in China
- Awarded the tenders for e-Audit Phase 2 application development and integration project for year 2009

October

- Two members of the Group awarded the honors of "China Service Outsourcing Talents Training Center (Beijing) Service Outsourcing Talents Training Institute" as well as "China Service Outsourcing Talents Training Center (Beijing) Service Outsourcing Talents Practical Training Base" jointly granted by Beijing Commerce Committee and Beijing Education Committee
- Cooperated with MHL Company to provide non-voice customer service for the call centers of a world-renowned Japanese enterprise, which was promptly activated and gained success

November

- Received the "Glory 60 years – China IT Industry Users' Satisfaction Gold Award"
- Beijing Guangyuqimin Information Technology Limited joined Chinasoft International, and our informatisation service ability for agriculture was strengthened
- Won the tender for the project on application software development for China Meteorological Administration's new weather radar information sharing platform project
- Signed a contract on "multi-pass" resolution for public transportation system with a country in Latin America

Milestones 2009

December

- Dr. Chen Yuhong won the honor of "Elite in the Golden Decade" of both China IT Fortune Annual Conference and China Information Supervisor Annual Conference
- Consecutively awarded "China IT Innovative Enterprise Prize" for two years
- Elected Deloitte's 09 High Technology and China Top 50 High Growth
- The ETC of Chinasoft received the National Teaching Achievement First Prize
- State Tobacco Monopoly Administration's "carton–level tobacco track and trace system and purchase order information collecting system" project passed inspection
- Initiated Supervision Project of National Social Security Fund for promotion nationwide
- Became one of the top 3 software outsourcing suppliers for a leading worldwide telecommunication solution provider
- The ETC of Chinasoft established successively practical training centers in Beijing, Changsha, Dalian, Wuxi, Chongqing, Xiamen before it continued investing and constructing practical training centers in Tianjin, Nanjing, Nanchang and Chengdu, etc.

Managing Director's Report

The year 2009 was the second year after the listing of the Group being transferred from the Growth Enterprise Market (GEM) to the Main Board of Hong Kong Stock Exchange. It is also a year that the Group keeps going steadily towards globalisation and towards becoming an all-around IT service provider.

In 2009, the haze of the global economic recession began to clear away and the economy revitalising policies from the China Government were yielding increasingly significant results, enabling China to regain rapid economic development. During the reporting period, the Group's various major businesses operated steadily and its ability for business development integration was further enhanced; excellent effects were achieved in the enterprise management information construction with the knowledge management, delivery management, and human resources management becoming full-blown.

IN 2009, CONSTRUCTING THE "INTEGRATED PLATFORM OF INTELLI-ED IN CHINA"IN RESPECT OF POINT-TO-POINT IT SERVICE

During the reporting period, the Group was mainly to accommodate the State's series of economy revitalising measures, and to cater to the development and the new direction of the software industry in China. We are committed to building up a wide variety of service catalogue, enabling our service capability to directly and systemically correspond to our customers' demand, i.e., to form a service application interaction and supplement to maximise the usage rate of our service capability, the coverage within the industry; and continue building the "Integrated Platform of Intelli-ed in China"in respect of point-to-point IT service.

During the reporting period, the overall revenue of the Group reached RMB1.1 billion, representing an increase of 12% compared to that of the previous year, in which the revenue from service amounted to RMB921 million, representing an increase of 24% compared to that of the previous year. The Group furthered its efforts to actively develop in the traditional advantaged industries to maintain and consolidate its position. We continued providing quality services to our clients in various industries such as tobacco, audit, finance and banking, public transport. The Group achieved comparatively outstanding results in new industries, new clients and new services. We also made remarkable breakthroughs in financial, social security, manufacturing industry and meteorological industries.

During the reporting period, the Group also gained marvelous results in building its human resources supplying chain. New excellence training centers (ETC) were inaugurated in succession in Tianjin, Chengdu, Nanjing, and Nanchang. The awarding ceremony for the Education Department Software's practical training centers was also successfully held in Chongqing in May, and the branch office in Chengdu was successfully established. Now the number of the Groups' ETC has amounted to ten. Surrounding the software outsourcing cities, our main strategy in the reporting period was a deployment with ETC bound with COE, and our principle was to realise delivery of services for our business. In 2010, university graduates in twenty software outsourcing cities will still be increasing. The tremendous employment pressure coupled with the real economy recovery next year will create an opportunity for ETC business to shift from supporting oriented to marketisation oriented.

Managing Director's Report

During the reporting period, both corporate natural growth and acquisition & merger (M&A) advanced at the same time. The unfavorable factors from the external economy were just giving the golden opportunity for the enterprises to acquire high quality assets, strengthen customer service ability, and develop new industries. The Group has never stopped it steps to merge and acquire by making use of its capital given that it has accurately estimated the risks, precisely identified the acquisition targets, and made better use of corporate capital resources. During the reporting period, the Group conducted three acquisitions, which were all serving the Group's macro-strategy of achieving multi-industry and multi-client bases. The macro-strategy mainly has two significances, one is keeping and further raising our position in those advantaged industries, then enlarging our distance from competitors, with the expectation of becoming an all-round service entity and an aim of consolidating our edged status in the industry; another one is developing new industries, reinforcing the service capability in the disadvantaged industries, thus increasing the coverage across different industries and client bases. After the successful acquisitions, the workforce of the Group increased to 7,759 people, representing an increase of 61% compared to that of last year

The Group accommodated the adjustment trend in the external environment while it adjusted itself with the wider environment. With its reinforced strategic coordination ability, the Group has been able to provide point-to-point services that from now on it will further the construction of its coordination system, endeavor to provide quality point-to-point services to the clients and continue building the "Integrated Platform of Intelli-ed in China".

IN 2010, BUILDING A COMPREHENSIVE SOFTWARE AND INFORMATION TECHNOLOGY SERVICE PROVIDING ENTERPRISE THAT IS ROOTED IN CHINA AND SERVES THE WORLD

In the following year, the Group will keep on steadily consolidating it business bases, ambitiously develop in new business fields, and increase its client capacity as well as deeply discover clients' demand. The Groups will also enrich the content of its services, implement efficient integration and redeployment of its service capability, and mass capital power using the open capital platforms, precisely devise the M&A plans in order to keep the Group's commercial service capability upgrading.

It has been the internalised development strategy upheld by the Group to act according to domestic market situation, serve partners globally, emphasise interaction at home and abroad and realise business integration. In the coming year, the Group will further macro-deployment of its commercial resources to systematically integrate and develop the commercial experience in different district market and business spheres for reuse. We will make breakthroughs by paying intensive and meticulous attention to business details, identify and sort common characteristics in the international market with our intensive service experience and advanced technological strength. We will explore the overseas market with our intensified service capability and our ample reserve of talents.

Year 2009 represents the first decade since the incorporation of Chinasoft International. During this decade, China's economy has been developing rapidly and its comprehensive national power enhanced significantly as evidenced by a progressive increase in social wealth year by year. This decade represents also the golden decade for the development of China's software industry development, and Chinasoft International, as a member of the national software industry, grows together with the industry in the decade that is full of opportunities and challenges as well as rapid development. I hereby express my sincere gratitude to shareholders and customers for their support and help in the course of the growth of Chinasoft International.

Managing Director's Report

The overall objective of the Group's is to grow with China, to transform Chinasoft International, the company commonly owned by us that we worked for with our heart and soul, to a comprehensive software and information technology service providing enterprise that is rooted in China and serves the World, and to become a world-class leading enterprise backed with the booming markets in Great China and the ample talent resources there.

For now, I want to thank our shareholders again for your recognition and understanding. Chinasoft International people are a team instinct with passion for its undertakings. We have common commitments, common missions, and we will fight untiringly for them. Let's generate value, share wealth and grow together. Let's compose history, witness history together. I believe that our prospects will be more and more promising. We will be loyal to our commitments, loyal to our objectives forever that we will never be ungrateful to the expectations of this epoch to be shouldered by us!

Dr. Chen Yuhong
Managing Director

Beijing, China
9 April 2010

Management Discussion and Analysis

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2009, the Company recorded a turnover of RMB1,104,602,000 (2008: RMB983,372,000), representing an increase of 12% as compared to the same period last year, of which revenue from development and services amounted to RMB920,917,000 (2008: RMB742,302,000), representing an increase of 24% as compared to the same period last year.

Regarding the business itself, turnover from i) solutions for government and manufacturing entities, ii) solutions for financial institutions, iii) IT outsourcing and iv) training four of our major businesses, accounted for 28%, 28%, 41% and 3% of the Group's overall revenue respectively (2008: approximately 37%, 26%, 35% and 2%), of which revenue from development and services accounted for 24%, 22%, 49% and 5% of the overall revenue from development and services respectively (2008: approximately 29%, 22%, 46% and 3%).

Gross Profit

For the year ended 31 December 2009, the Company achieved a gross profit of RMB336,978,000, representing an increase of 23% as compared to 2008. The Group's gross profit margin amounted to approximately 30.5% (2008: 27.9%), representing an increase of 2.6% as compared to the same period last year.

Since the Group unified the cost accrued policies, and adjusted internal audit policies such as interval confirmation of cost inputs in advance for large solution projects in 2009, the current costs proved to be increased. If excluding these two effects, the Group's gross profit in 2009 could be increased to at least RMB349 million, up 27.4% year on year as compared to the same audit measurement of 2008; and the gross profit margin of the revenue from development and service could reach 37.9%.

These changes of audit measurements can be proved from items in the balance sheets: the ratio of technology remaining quotas to the revenue from development and service decreased from 3.9% in 2008 to 3.5% in 2009, which was also lower than 3.6% in 2007. Besides, wages payables and accrued expenses also increased from RMB44.8 million in 2008 to RMB76.4 million in 2009.

EBITDA

For the year ended 31 December 2009, the Company achieved an EBITDA of approximately RMB69,828,000, representing a decrease of 16% as compared to 2008. The Group's EBITDA amounted to approximately 6.3% (2008: 8.5%), representing a decrease of 2.2% as compared to the same period last year.

Since 2005, the rapid development of capital market and financial instruments has brought a series of changes to Hong Kong Financial Reporting Standards (HKFRS), and these changes have given rise to more and more non-business and non-cash loss to financial statements of companies, for instance, the option evaluation cost attributable to the grant of option evaluation loss attributable to convertible preference shares, the consequential exchange gain and loss effects. All these affect in a way that the net profit in financial statements for prior periods cannot directly reflect the actual profitability of the Group's business operation. Professional investors may be wise enough to recognise that non-business factors did not cause the Group's business operation and cash flow adverse effects. Nevertheless, it is easy for the people in market to have confusion of our company's net profit. Therefore, we are to conduct a concrete analysis of EBITDA and business contributing profit as below.

Management Discussion and Analysis

Based on the carrying amount of EBITDA, if excluding the effect of provisions for bad and doubtful debts, cost of option and exchange gain and loss with total amount of RMB47 million in 2009 (2008: RMB21 million), and as mentioned before, the direct cost effect of RMB12 million as a result of the Group's tighten financial policies, business contribution profit of 2009 would be RMB129 million (2008: RMB105 million), up 22.8% year on year. The business contribution profit margin in 2009 was 14.0%, representing a slight decrease as compared to the 14.1% in 2008. This is mainly due to the fact that the ratio of the Group's sales and distribution cost, administrative and management cost and research and development cost to the revenue from development and service in 2009 increased by 1.2% as compared to 2008 (the ratios in 2009 and 2008 are 26.0% and 24.8% respectively). Specifically, firstly, the Group has increased its investments in its products' research and development. Secondly, the Group has strengthened building sales teams, thus increasing the expenses for market development and products promotion, etc. Thirdly, the Group has strengthened the investment in human resources, increasing its investment in different aspects such as training employees. And fourthly, the Group's rental expenses increased due to the changes in the real estate market in China.

In spite of the above mentioned tighten financial policies, the increase in marketing and administrative expenses and the increase in allowance provisions for doubtful debts, the Group's management still considers that the Group is in healthy development, which can be reflected from the following data:

(1) The net amount receivable in 2009 was RMB255 million, an obvious decrease as compared with the RMB335 million in 2008; in 2009, the proportion of receivables aged over six months was 20.4%, which represents also an obvious improvement as compared with 39.0% in 2008 (2007: 37.3%).

(2) The turnover of the receivables in 2009 was 3.6, which represents an obvious improvement as compared with 2.7 in 2008 (2007: 2.7).

(3) At the end of year 2009, the bank balances and cash and net cash flow generated from operating activities amounted to RMB297 million and RMB86 million respectively (2008: RMB266 million and RMB92 million respectively). As such, we can review the overall financial positions of the seven years since our listing in 2003: Net cash flow deficit of operating activities has never occurred to the Group, accumulated net cash flow from operating activities was RMB393 million, accumulated net cash flow from investing activities was RMB377 million and accumulated net cash flow from financing activities was RMB261 million.

Expenses

The ratio of selling and distribution costs to turnover was 6.4%, representing an increase of 1.6% as compared with 4.8% in 2008. The selling and distribution costs increased by 50% as compared to 2008. This was mainly attributable to the fact that the Group has strengthened building sales teams, thus increasing the expenses for market development and products promotion, etc.

Management Discussion and Analysis

The ratio of administrative expenses (excluding depreciation and amortisation) to turnover increased by 1.9% to 15.8%, representing an increase of 27% as compared with 13.9% in the same period last year. The increase was mainly due to first, the Group has strengthened the investment in human resources, increasing its investment in different aspects such as training employees; second, the rental expenses increased due to the changes in the real estate market in China.

The Group's research and development cost was 1.8% of its turnover, increased by 0.2 percentage points as compared to 1.6% in 2008, representing an increase of 24% as compared with the same period last year.

Expenses for depreciation amounted to approximately RMB23,495,000 (2008: RMB17,733,000), representing a 32% increase over the year of 2008. The expenses for depreciation basically came along with the growth in the revenue from services. The increased depreciation expenses was mainly attributable to our need of purchasing the corresponding fixed assets during the year to cope with the growth in the Group's businesses and our personnel.

The amortisation of the intangible assets and trademark usage right amounted to RMB23,612,000 (2008: RMB21,418,000), representing an increase of 10% over the year of 2008. It is mainly attributable to the growth in the amortisation of the intangible assets incurred from new mergers and acquisitions.

Business Review

In year 2009, the Group continued consolidating the competitive positions of all its businesses in the existing industries while also attached great importance to expanding into new industries and markets. During the reporting period, along with the revitalising policies for the information industries in respect of the national political strategies, the Group's overall operations picked up and the result indications also had a breakthrough as compared to the same period of last year. During the reporting period, the Group's overall revenue for its businesses reached RMB1,104,602,000, representing an increase of 12% as compared with the same period of last year; revenue from services reached RMB920,917,000, representing an increase of 24% as compared with the same period of last year; revenue from products reached RMB183,685,000, representing a decrease of 24% as compared to the same period of last year.

During the reporting period, the Group achieved pleasant results in all its operating segments after a year of in-depth deployment. With the support of the "Human Resources Supply Chain" forged by ETC (Excellence Training Center) training business, the Group's principal businesses gained steady growth. On one hand, the solution business continued its steady and healthy development. In the segment of solutions for government and manufacturing entities and solutions for financial institutions, the Group continued exploring vertical industries, and further expanded into IT outsourcing services for domestic and overseas clients in this industry and other similar industries based on the extensive business experience and technology and skills that our solution business accumulated through conducting the business in dominant industries; on the other hand, we kept exploring and innovating in the segment of IT outsourcing business. We assisted multinational companies in expanding into the solution business in China using the experience we had in domestic industries. Through introducing advanced industrial management experience worldwide and the technology solution, the Group could also deeply explore the business needs of domestic industrial clients and help them expand their solution businesses. Aided by the Group's powerful integration ability, we could ensure the rapid development of the enterprises by mergers and acquisitions coupled with organic growth in business and building point-to-point service ability gradually, which, in return, transformed Chinasoft International to a professional software services company that can provide diversified services for different large-scale projects in various industries.

Management Discussion and Analysis

As at the end of 2009, the Group employed a total of 7,759 staff members through organic growth itself and mergers and acquisitions, representing an increase of 2,943 as compared to the corresponding period of last year, up 61% year on year. The number of IT outsourcing business personnel increased by 2,291, up 87% year on year, while the solution business personnel increased by 503, with a rise of 26% year on year.

While the Group was developing rapidly, we adopted various measures to enhance the level of knowledge management, submission management and human resources management to further refine our management and build a sound foundation for the strategic development in future. During the reporting period, the Group has engaged consultancy companies to diagnose and reorganise our human resources management.

During the reporting period, the Group's corporate culture was raised to a strategic level that we expanded substantially into the building of our corporate culture. We firmly took "Creating, Sharing, Growing together" as our spiritual and cultural tie to maintain a win-win relation among us, shareholders, staff and the management, and to proactively interact with the external environment of the community, making it the spiritual motivation in corporate development.

Solutions for government and manufacturing entities

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

During the reporting period, the business lines from solutions for government and manufacturing entities recorded a revenue of RMB308,569,000, representing a decrease of 14% as compared to the same period of last year, of which revenue from services amounted to RMB225,117,000, representing an increase of 4% as compared to the same period of last year and revenue from sale of third party software and hardware products amounted to RMB83,452,000, representing a decrease of 42% as compared to the same period of last year. The two accounted for 73% and 27% of revenue for the year respectively.

During the reporting period, with the business and technical advantages accumulated over the years in "e-" projects of State's informatisation and various supervisory business domains, the Group continued providing high-quality solutions and IT services for clients.

During the reporting period, the Group won the tenders for e-Audit Phase 2 application development and integration project for year 2009, which mainly comprises eight system development, integration, and deployment tasks such as audit exchange center, nationwide unified organisation project management systems, audit management system application optimisation and nationalisation, site audit implementation system expansion optimisation and restructuring, Multi-industry Intranet Audit platform and system construction, audit data center, safety center three-core application. The Group signed a contract on e-Audit Project (Phase 2) intranet audit system construction project with the Audit Administration in a province in Eastern China. The success of the project will help auditors explore deeper vertically in audit work and promote further in multi-industries horizontally. In addition, the Group signed a contract with the Ministry of Finance as the supplier of accounting information quality examination software and also initiated the Supervision Project of National Social Security Fund for promotion nationwide.

Management Discussion and Analysis

During the reporting period, the Group won the tender for the project on cigarette production and operation decision making and management system and the macro adjustment information support system for the tobacco industry; and our project on State Tobacco Monopoly Administration's "carton–level tobacco track and trace system and purchase order information collecting system" passed inspection. Besides, the Group was warded the tender for MES project with Central Tobacco Industry Company in a province in Eastern China and our MES project of the tobacco production base in a major provincial capital city in Southern China was successfully launched. The Group's tender for the ERP connection project with "China Tobacco" in a coastal city in southeast China was successfully completed. Moreover, the Group achieved a breakthrough on MES project in another industry other than the tobacco industry that the Group signed a cooperation agreement with a note printing company limited in a municipality.

The Group has for a number of times undertaken e-Government resolutions for Ministry of Agriculture, Ministry of Human Resources and Social Security, State Auditing Administration, State General Administration of Quality Supervision, Inspection and Quarantine, State Food and Drug Administration and the like in respect of food and drug regulation and state-owned enterprise regulation. Meanwhile, the Group is able to provide comprehensive services ranging from management consultancy, business consultation, software development, project implementation to day-to-day system operation maintenance for large and medium sized manufacturers that our business scope covers ERP, MES, industrial and commercial logistics, industrial and commercial marketing, commercial network set up, data center, office automation, enterprise application integration etc. The Group has successfully provided quality services to various industries, including the tobacco, high technology, consumer goods, and food industries.

Solutions for financial institutions

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

During the reporting period, the main business line operated by the Group in solutions for financial institutions recorded a revenue of RMB305,757,000, representing an increase of 18% as compared to the same period of last year, of which revenue from services amounted to RMB205,524,000, representing a 27% increase as compared to the same period of last year. Revenue from sale of products amounted to RMB100,233,000, representing a 2% increase as compared to the same period of last year.

During the reporting period, in respect of the solutions for financial institutions segment, the Group's financial and banking project order collecting front–end module was still taking the lead in China's banking market, debit card expanded its application from domestic banks into two new overseas banks; e-draft system accounted for the largest market share (won tenders for more than 20 financial institutes while six in smooth operation) and e-draft system and individual loan system successfully entered main stream banks; the implementation ability of VisionPlus (based on IBM Mainframe's credit card core system) was still leading that of the counterparts in China; credit card external management system kept still extending its market share with 10 strong clients; the business with foreign-funded banks went against the financial crisis to prosper, with contracts signed up 10% year on year and as many as 25 clients.

Management Discussion and Analysis

During the reporting period, for the public service segment, the World Expo ticketing system undertaken by the Group was all successfully launched; the fare selling and collection system for Railroad Transport Lane 7 and 11 of a major domestic financial city was completed successfully, in the same year, we secured contracts of 'One ticket all transit' ('一票換乘') fare classification system from three major cities in China; Shanghai Metro and the World Expo mobile ticketing payment projects were wholly undertook by the Group and they were successfully put into operation; the "Urban Bus Multi-pass" project promotion and application was extended to six more cities with 20 clients in total. We has gone beyond China for the first time to sign contract with a Latin American country; we signed various contracts related to social security and citizen card, including successfully implementing citizen card projects in two provincial cities in Southern China and gaining the tender for the social security (card) phase 2 in a province in Southern China. Furthermore, we signed contracts with China Telecom on projects such as number of knowledgeable e-commerce platform and China Unified Payment Platform.

During the reporting period, the Group has proactively explored new businesses, that seize the market opportunity in m-payment, and developed and commenced the applications in m-ticket to the World Expo, m-commerce platform, and m-payment of Shanghai Metro.

IT Outsourcing

IT outsourcing business in the Group includes Hi-tech MNC IT services and information processing and engineering design IT services.

During the reporting period, the revenue amounted to RMB455,538,000, representing an increase of 32% as compared to the same period in 2008.

The Group's Hi-tech MNC IT services catered to clients from multinational and technological companies whose headquarters were in Europe and America. The major services provided by the Group to such customers were comprehensive, which include application development, corporate application integration, business intelligence and data exploration, package software service, independent testing service, software localisation and globalisation, software product engineering service, legacy system transplantation, technical support and maintenance, embedded software service, as well as telecommunication operating and value-added services and the like.

As one of the leading IT outsourcing services providers in China, the Group's IT outsourcing services business has expanded into various domains such as transportation, financial, consumer packaged goods, telecommunication, pharmaceutical and high technology industries. Besides "traditional" IT outsourcing services, the Group, leveraging on its leading position in China market, was able to assist overseas clients to have a quick understanding of China market and in identify new business opportunities. Meanwhile, the Group was able to, by virtue of its wide network of submission centers, capitalise on global resources and its leading proprietary technical strength to help clients cope with constantly and rapidly changing business challenges. During the reporting period, the outsourcing business of the telecommunication industry realised rapid development, ranking the top three among the eight big suppliers to a worldwide leading domestic telecommunication solution provider.

During the reporting period, the Group was praised by the industry's analysts as "Top 6 China Software Outsourcing Institute" and "one of the six major participants" in China's Software Outsourcing Industry. Thanks to our business deployment incorporating talent training, the Group possesses strong capacity for undertaking large-scale projects and extensive submission business, and we were able to keep innovating and exploring in the outsourcing services and has made some breakthrough.

Management Discussion and Analysis

During the reporting period, the Group was awarded the honor of being the seventh Primer Vendor for Microsoft in the globe by Microsoft Corporate in the US and is the only one software outsourcing enterprise in China to receive such honor so far. During the reporting period, through the acquisition of Shenzhen Jinhuaye Software Ltd. ("Shenzhen Jinhuaye"), the Group embarked on the outsourcing business of a worldwide leading domestic telecommunication solution provider. By virtue of its brand advantage, resources advantage and capital advantage, and Shenzhen Jinhuaye's submission ability and client basis, the Group's business achieved rapid development and became the top three among the eight big suppliers to the telecommunication solution provider. Furthermore, during the reporting period, the Group has made new breakthrough in the outsourcing segment of telecommunication, banking and SAP consulting with five more powerful clients secured, which has provided more room for the Company's diversified and all-round development.

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

The Group has provided quality services to a number of industries such as construction, communication, medicine, machinery, shipping and bridge building, logistics, and printing in Japan over the years. During the reporting period, the Group continued to enrich service scope and enlarge client base with its experience of more than ten years in data processing and engineering outsourcing.

During the reporting period, the Group had added the steel frame design service based on its existing bridge designs; and added steel frame residence design service and residence appearance effects drawing business based on its existing wooden residence designs to extend the business scope in the construction industry, thus raising the business revenue.

During the reporting period, the Group undertook non-voice service business for the call centers of a renowned Japanese enterprise for the first time. By doing so, the company had historic breakthrough in the call center service domain and this business also promoted the Group to enter the domain of medium-high end BPO business. Apart from the original business mode, the Group also adopted two other business modes. One is talent-dispatch and management-dispatch to develop BPO business; the other is to give play to its experience strength to dispatch training teachers to assist technical secondary schools in writing CAD teaching materials.

During the reporting period, the Group successfully secured by negotiation the recruitment data analysis business from VALWAY121, the largest recruitment advertisement and distribution company in Japan, which has laid a foundation for the Group's business growth in 2010. This business will generate a revenue of tens of million. The Group also secured business from a big greeting card company, thereby gained further breakthrough in the greeting card business and increased its market share in this domain. Besides, the Group also secured business from 大手通信公司 in Japan, enhancing its popularity in the communication industry.

Management Discussion and Analysis

Training

CS&S Computer Tech. Training Centre (中軟總公司計算機培訓中心), a member of the Group, has up to now trained over 500,000 IT professionals of various specialties. It is the first training institute that passed ISO9001 certification in China as well as a famous brand of "medium-high end IT technology training" in the industry. It also functions as Authorised Microsoft Certified Partner for Learning Solutions(CPLS), Authorised Sun Education Center (ASEC) for Java, Authorised Training Center for IBM Software Department and Authorised Prometric International Certification and Examination Center. Moreover, it also provides internal training for stall of Chinasoft International.

Along with the rapid development of Chinasoft International's certain major businesses, especially the software outsourcing business, the Group established Chinasoft International software talent training base (talent training base) and Chinasoft International Excellence Training Centers in 2005, and devised "five real (5R)" practical training curriculum for staff-to-be university students, namely, real corporate environment, real project manager, real project cases, real work pressure, real job opportunities. The Group combines Chinasoft International's project experience and the management advantage to build a practical training mode that takes real projects as the teaching basis and resembles entirely the environment of a multinational software enterprise.

During the reporting period, the Group's Excellence Training Centers ("ETC") adopted a development strategy closely related to COE to deliver services for its businesses. Subsequent to establishing successively practical training centers in Beijing, Changsha, Dalian, Wuxi, Chongqing, Xiamen, Chinasoft International's ETC has also invested and constructed practical training centers in Tianjin, Nanjing, Nanchang and Chengdu, etc. So far, the Group's ETC training bases has increased to ten.

During the reporting period, the Group fulfilled its corporate social responsibilities by making donations for education initiatives. It sponsored students from The Hong Kong Polytechnic University to join the info-tech summer camp organised by the ETC of Chinasoft International in Xiamen. The Group's ETC continued perfecting its business quality. During the reporting period, Chinasoft International was rated by the Department of Higher Education of the Ministry of Education as "the practical training center for university students specialising in software engineering", under which the learning hours completed by students during their participation in ETC practical trainings can be counted as credits, in such way can the Group promote a deeper cooperation with educational institutes. In addition, ETC received the National Teaching Achievement First Prize, which keeps abreast with the three National Scientific and Technological Achievement prizes.

Capital operation

Acquisition of Shenzhen Jinhuaye

Developing telecommunication business and strengthening business portfolio

Shenzhen Jinhuaye is an information technology supplier engaged in research and production of computer telephony integration system platform. It is one of the major information and technology service suppliers for the businesses and the software production line of Huawei Technology Co., Ltd. (華為技術有限公司).

Management Discussion and Analysis

Acquisition of a business from Beijing Challenger Science and Technology Co., Ltd. ("Tobacco Business")

Acquired Tobacco Business is a professional division that pioneered to provide information services for the tobacco industry. It has developed, designed and implemented a wide range of information management systems for the tobacco industry, including trade system, certificate system, specialised vendor system and supervision system. Its major clients include State departments and enterprises, Tobacco Monopoly Administrations (Companies) of 17 provinces and management departments of some cigarette enterprises.

Acquisition of Beijing Guangyuqimin Information Technology Limited ("Guangyuqimin")

Enhancing service ability for the agricultural industry
Guangyuqimin's major business involves software development, hardware purchase, system integration and consultancy, etc. It has occupied a certain market share in various domains such as office automation construction and multi-level website construction, and accumulated extensive experience in the industry. It has also had a team of professional technology personnel with very high level of knowledge and possessed a number of intellectual property products such as "廣域齊民速劍2005系統軟件".

Awards Received

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

- Designated as one of the "World's Top 100 Global Outsourcing Professionals in 2009" by the International Association of Outsourcing Professionals (IAOP)

- Ranked the sixth in "2008 China Services Outsourcing Enterprises Top 50 Best Practice Ranking"

- Received the award for promoting Employment for University Students in Software Industry

- Obtained the approval of the Department of Higher Education to set up practical training centers with the Office of National Pilot Software Engineering Schools

- Three member enterprises assigned an enterprise credit rating by the China Software Industry Association

- The "Small Enterprise Loan" software passed IBM SOA certification

- Elected as one of "2009 China's Top 10 Services Outsourcing Leading Enterprises"

- Designated as Vice Group Leader Unit of the Professional Group of Information System Construction under the Standard Work Tem of Information Technology Services

- Awarded "China Service Outsourcing Growth Enterprise"

- Elected as one of 2009 China's Top 100 Education Institutions

- ETC acclaimed as "2009 Most Influential Computer Technology Training Institute"

Management Discussion and Analysis

- Dr. Chen Yuhong won the honor of "Person of Merits for Promoting China Software Industry Development"
- Elected as Deloitte's 09 High Technology and China Top 50 High Growth
- Chinasoft International's ETC awarded National Teaching Achievement First Prize
- Our application software product "One ticket all transit" fare classification settlement received "Gold Ants Award", the highest award of State Golden Card Project engineering subsequent to our award-winning "multi-pass" urban public transportation system in 2008.

Future Prospect

In the following year, the Group will keep on steadily consolidating it business bases, ambitiously develop in new business fields, and increase its client capacity as well as deeply discover clients' demand. The Groups will also enrich the content of its services; implement efficient integration and redeployment of its service capability, and mass capital power using the open capital platforms, precisely devise the M&A plans in order to keep the Group's commercial service capability upgrading.

It has been the internationalized development strategy upheld by the Group to act according to domestic market situation, serve partners globally, emphasise interaction at home and abroad and realise business integration. In the coming year, the Group will further macro-deployment of its commercial resources to systematically integrate and develop the commercial experience in different district market and business spheres for reuse. We will make breakthroughs by paying intensive and meticulous attention to business details, identify and sort common characteristics in the international market with our intensive service experience and advanced technological strength. We will explore the overseas market with our intensified service capability and our ample reserve of talents.

The business foundation for corporate market position lies in specialised business coverage, enriched service content, large-scale product and service submission ability; the enforcement foundation for corporate market position lies in stable and efficient core working team, while the political foundation for corporate market position lies in an ever innovation corporate culture. In accordance with the principle of maximising the interest of shareholders, the Group will seize opportunities, optimise processes, and make integrated use of the listing platform to realise a favorable comprehensive setting for the Group's business.

The overall objective of the Group's is to grow with China, to transform Chinasoft International, the company commonly owned by us that we worked for with our heart and soul, to a comprehensive software and information technology service providing enterprise that is rooted in China and serves the World, and to become a world-class leading enterprise backed with the booming markets in Greater China and the ample talent resources there.

Biographical Details of Directors and Senior Management

The following sets out the profile of the Directors and senior management of the Company:

DIRECTORS

Executive Directors

Dr. Chen Yuhong (陳宇紅), aged 47, 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 (Beijing Polytechnic University) 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. He has also been appointed a director of Chinasoft Resources. He was a manager of the research department from October 1996 to April 2000. He 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 CS&S from 1999 to March 2002. From June 1991 to October 1996, he was the deputy general manager of China Great Wall Computer Software Co., Ltd.

Dr. Tang Zhenming (唐振明), aged 47, is the senior vice president of the Company. He is responsible for the Group's human resources and administration general manager and new acquired training department. 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 Resources and Wuhan Chinasoft International. Dr. Tang gained 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 Beijing Polytechnic University (北京理工大學) in 1994.

Mr. Wang Hui (王暉), aged 37, is the senior vice president and chief technical officer of the Company. He is responsible for government liaisons and the manufacturing businesses as the chief executive officer. Mr. Wang graduated from 天津大學 (Tianjin University) in 1995. Since his joining the Company, he participates in submissions of the Company's major engineering projects. He has 12 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 57, is the Chairman of the Company. Mr. Su 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 Digitisation (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 the Chinese Association of Industrial Design (中國工業設計協會).

Biographical Details of Directors and Senior Management

Mr. Su is currently also the chairman of the board of directors of (i) China National Software and Service Company Limited (中國軟件與技術服務股份有限公司) which is a substantial shareholder of the Company; (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 Peoples' Republic of China and listed on the Shanghai Stock Exchange. Saved as disclosed above, Mr. Su did not hold any other positions in the Company's subsidiaries, nor did he hold any directorships in other listed companies for the past four years. He is also a director of China National Computer Software & Information Technology Service Corporation (Hong Kong) Limited, a subsidiary of China National Software and Service Company Limited which directly holds shares in the Company.

Dr. Cui Hui (崔輝), aged 48, 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 35, 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 also a director among the Far East Group of companies. He serves as the managing director and chief executive officer of Far East Holdings International Limited ("Far East Holdings") and also a non-executive director of Far East Hotel & Entertainment Limited.

Mr. Liu Zheng (劉征), aged 37, 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.

Dr. Zhang Yaqin (張亞勤), aged 44, was appointed on 31 December 2008. Dr. Zhang is currently the corporate vice president of Microsoft Corporation ("Microsoft") and the chairman of Microsoft China Research & Development Group, responsible for driving Microsoft's overall research and development efforts in China. He joined Microsoft in January 1999 and served as the managing director and chief scientist of Microsoft Research Asia. Dr. Zhang is also a director of Microsoft (China) Company Limited, Microsoft Mobile Technology (Shenzhen) Company Limited and Shanghai MSN Network Communications Technology Company Limited. Dr. Zhang is a Fellow of the Institute of Electrical and Electronics Engineers.

Biographical Details of Directors and Senior Management

Mr. Fang Jun (方軍), aged 48, was appointed on 20 April 2009. Mr. Fang studied accountancy in Shanghai College of Finance and Economics (subsequently renamed as Shanghai University of Finance and Economics) and graduated in 1982. He also holds a master degree in management. Mr. Fang is currently the financial controller of CNSS which is a substantial shareholder of the Company. Before joining CNSS in 2004, Mr. Fang was a financial controller of SED Electronics Group (深圳桑達電子集團有限公司) since 2003. Mr. Fang is also a non-executive director of certain companies in PRC engaged in information technology and investment. These companies are the subsidiaries of CNSS, shares of which are listed in the Shanghai Stock Exchange. Mr. Fang is a member of the Chinese Institute of Certified Public Accountants.

Independent non-executive Directors

Mr. Xu Zeshan (徐澤善), aged 61, was appointed on 8 May 2008. Mr. Xu is a senior engineer and has many years of experience in administration and corporate management. From May 1995 to March 1998, he was the deputy mayor of Zibo in Shandong Province. From March 1998 to December 2002, he was the head of the 49th Research Institute of the Ministry of Information Industry (which was renamed as China Electronics Technology Group Corporation the 49th Research Institute in March 2002). Since January 2003 to present, Mr. Xu acted as the deputy manager and then the manager of China Electronics Technology Group Corporation Industrial Park, the Chairman of the Board of Yangtse River Data Company Limited (長江數據股份有限公司), the chairman of the Board of China Information & Electronics Development Inc. Ltd. (Wuhan) and the managing director of China Electricity Investment Development Company Limited. He is specialised in the research and technological management of sensors and the related systems and was awarded the ministry level Technology Improvement second-ranked prize.

Mr. Zeng Zhijie (曾之杰), aged 42, was appointed on 21 April 2003. Mr. Jeffrey Zeng is currently Managing Partner of Kaixin Investment, a joint venture VC fund founded by China Development Bank and CITIC Capital. Jeffrey Zeng is currently chairman of China Special Article Logistics Company. Prior to joining Kaixin Investment, he served as managing director of Walden International since 2001, an established global venture capital firm, for which he was mainly responsible for venture investments in China and other Asia countries. Prior to WI, Mr. Zeng worked for CITIC Pacific Ltd. in Hong Kong and Mitsubishi Corporation in Tokyo, Japan. At present, Mr. Zeng serves as director or independent director for 6 listed companies: China Greatwall Computer Shenzhen Co., Ltd (Shenzhen Stock Exchange), Hunan Talkweb Information System Ltd (Shenzhen Stock Exchange), Chinasoft International Ltd (SEHK), Shanghai AJ Corporation (Shanghai Stock Exchange), E-House and Vimicro (Nasdaq). Other companies he serves as director: AutoNavi Software Co., Ltd, Landv Limited (Tianjin), State Microelectronics, the executive director of AAMA China branch and board member of WRSACC 2005 Committee. Mr. Zeng received his B.S. in Economics from the University of Nagasaki, Japan, and M.M. from Stanford University.

Dr. Leung Wing Yin Patrick (梁永賢), aged 53, 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.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Fok Ming Fuk, William (霍銘福), aged 48, is the qualified accountant and company secretary of the Company. He has over twenty years experience in auditing and financial management. Prior to joining the Group on 17 May 2004, Mr. Fok worked as the chief financial officer of Portolan Commerce Solutions, a software developer engaged in enterprise resources planning in Germany. Mr. Fok got a master's degree in business administration from England and is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants, an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Taxation Institute of Hong Kong.

Mr. Simon Chung (鍾鎮銘), aged 48, is the chief operating officer of the Company and the chief executive officer in ITO business of Japan. He is responsible for the overall daily operation of the Group. He has 18 years experience in IT professional services covering account management, service delivery management, technical sales, quality assurance and control, project management and customer support operation in the area of public government, telecom and finance sectors. Prior to joining the Group, he was a project director of Atos Origin responsible for the management of large scale projects and service delivery for major clients in Asia Pacific from 1996 to 2005. He was an information technology officer and manager from 1991 to 1995 for the department of defense in Australia (Navy division). He was an IT database leader in the financial department of a government sector from 1989 to 1991. He holds a bachelor's degree in Computing Mathematics from the University of Wollongong in Australia.

Ms. Fanny Chan (孫秀芳), aged 51, is the senior vice president of the Company. She is responsible for the outsourcing business of Europe and US in the Group. Prior to joining the Group in April 2007, Ms. Chan worked in many global companies such as IBM, Compaq, HP and AMD. Ms. Chan's working experience ranges cover from North America to Asia pacific region with over 20 years experience in sales and marketing. Ms. Chan was working for IBM from 1985 to 1999 for the software group where she worked on many different management positions. She joined Compaq as marketing director for greater China before joining HP as marketing director for HP Services group in China. Her last position prior to joining the Company was with AMD as regional marketing director for AMD Greater China region. Fanny graduated from University of Toronto with a double degree.

Mr. Simon Zhang (張崇濱), aged 47, is the senior vice president of the Company. He is responsible for the outsourcing business of Europe and US in the Group as the chief executive officer. Prior to joining the Group in 1999, Mr. Zhang worked in Shaanxi Provincial Tourism Bureau after graduating from the Department of Economics of Northwest University in 1987. From 1992 to 1994, Mr. Zhang was employed as Chief Business Representative in U.S. Phonenix Medical Equipment Company. From 1994 to 1997, he was the Deputy General Manager and General Manager of Northwestern branch in Weijiang Plastics Co. Ltd., which was a Sino- US joint venture. From 1997 to 1999, he was the General Manager of Chongqing Three Gorges Liner Corporation (under China International Travel Service in Xi'an).

Biographical Details of Directors and Senior Management

Mr. Han Shenyao (韓申瑤), aged 54, is the senior vice president of the Company and the president and chief executive officer of Shanghai Huateng Software System Co. Ltd. (上海華騰軟件系統有限公司). He is responsible for the operation management of Shanghai Huateng Software System Co. Ltd.. Prior to joining Shanghai Huateng, from April 1984 to March 1997, Mr. Han 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, during which he served as a member of the expert group of Shanghai Information Port and Deputy Head of the expert group of the Decision making System of National Executive Heads Office. Mr. Han, as one of the first group of graduates in China-Europe International Business School (CEIBS), joined CEIBS in 1997 and had worked as an officer of the President's Office. Mr. HAN participates a number of principalships is also a member of Chinese People's Political Consultative Conference in Xuhui district of Shanghai, Vice President of Shanghai Computer institute, and Vice President of Shanghai Software Industry Association and has been elected as 2008 Shanghai Excellent Software Enterpriser.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Fok Ming Fuk, William (霍銘福), is the qualified accountant and company secretary of the Company. Please refer to the paragraph headed "Senior Management" in this section above for further details regarding his background.

COMPLIANCE OFFICER

Dr. Chen Yuhong (陳宇紅), is the compliance officer of the Company. Please refer to the paragraph headed"Directors" in this section above for further details regarding his background.

Report of the Directors

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 1 to the financial statements. During the year under review, there were no significant changes in the Group's principal activities.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 46.

The Directors do not recommend the payment of a final dividend for the year.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past five years, as extracted from the audited financial statements, is set out on page 3. This summary does not form part of the audited financial statements.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders as at 31 December 2009 are RMB421,461,000 approximately.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 27 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the Group's property, plant and equipment are set out in note 12 to the financial statements.

Report of the Directors

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

Dr. Chen Yuhong (Managing Director)
Mr. Wang Hui
Dr. Tang Zhenming

Non-executive Directors:

Mr. Su Zhenming	(resigned on 20 April 2009)
Dr. Cui Hui (Chairman)	(appointed as Chairman on 20 April 2009)
Mr. Duncan Chiu	
Mr. Timothy Chen Yung Cheng	(resigned on 2 January 2009)
Dr. Zhang Yaqin	
Mr. Fang Jun	(appointed on 20 April 2009)
Mr. Liu Zheng	

Independent non-executive Directors:

Mr. Xu Zeshan
Mr. Zeng Zhijie
Dr. Leung Wing Yin Patrick

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independent pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company considers all the independent non-executive directors are independent.

In accordance with article 87 of the Company's Articles of Association, Mr. Wang Hui, Mr. Duncan Chiu and Mr. Zeng Zhijie (who have been longest in office since their last election) will retire from office by rotation and, being eligible, offer themselves for re-election.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

Dr. Chen Yuhong, Dr. Cui Hui, Mr. Duncan Chiu have each entered into a service agreement with the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are set out below:

(i) each service contract is of two years duration commencing on 20 June 2003. The service contract shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice, such notice not to be given before the expiry of the initial term of two years;

(ii) the monthly salary for Dr. Chen Yuhong, Dr. Cui Hui and Mr. Duncan Chiu for the first year of appointment commencing on 20 June 2003 is RMB70,000, RMB10,000 and RMB10,000 respectively. Such salary is to be reviewed annually by the board of Directors. For the period from the expiry of the first year of appointment, the salary of the three executive Directors shall be determined by the board of Directors but shall not be more than 120 percent of the annual salary of such Director for the preceding year;

(iii) Dr. Chen Yuhong, Dr. Cui Hui and Mr. Duncan Chiu are each entitled to management bonus by reference to the consolidated net profits of the Group after taxation and minority interests but before extraordinary items as shown in the Group's audited consolidated accounts for the relevant financial year (the "Net Profits") as the Board may approve, provided that the aggregate amount of management bonuses payable to all executive Directors in respect of any financial year of the Group shall not exceed 5 percent of the Net Profits; and

(iv) each such Director shall abstain from voting and shall not be counted in the quorum in respect of the resolution regarding the amount of management bonus payable to himself/herself.

Dr. Tang Zhenming, Mr. Wang Hui, Mr. Su Zhenming, Mr. Timothy Chen Yung Cheng, Mr. Fang Jun and Mr. Liu Zheng, have not entered into service agreements with the Group. The monthly remuneration for Mr. Su Zhenming is HK$10,000. Dr. Tang Zhenming, Mr. Wang Hui, Mr. Timothy Chen Yung Cheng, Dr. Zhang Zaqin, Mr. Fang Jun and Mr. Liu Zheng receive no remuneration for holding their office as non-executive Director.

Mr. He Ning and Mr. Zeng Zhijie were appointed as independent non-executive Directors pursuant to letters of appointment for a term of 2 years from 20 June 2003, and their appointments have continued since expiry of such term. Each of them receives an annual remuneration of HK$120,000 for his office.

Dr. Leung Wing Yin Patrick and Mr. Xu Zeshan have not entered into any service agreements as independent non-executive Directors with the Group. The monthly remuneration for Dr. Leung Wing Yin Patrick is HK$10,000. Mr. Xu Zeshan receives no remuneration for holding his office as an independent non-executive Director.

Report of the Directors

None of the Directors has entered into any service agreements with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Details of the Directors' remuneration are set out in the Annual Report to the financial statements. Save as disclosed in note 9 of the Annual Report to the financial statements, there are no other emoluments, pension and any compensation arrangements for the Directors and past Directors as is specified in Section 161 and 161A of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2009, the following Directors had interests in the shares and underlying shares of the Company and shares in an associated corporation (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) of the Company as set out below and recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of listed issuers.

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

Name of Director	Total No. of Shares	Approximate percentage of total issued share capital of the Company as at 31 December 2009
Chen Yuhong	67,387,608	6.66%
Cui Hui	20,000,000	1.98%
Tang Zhenming	11,747,765	1.16%
Wang Hui	8,087,838	0.80%

Report of the Directors

Options to subscribe for Shares

Name of Director	Exercise Price (HK$)	No. of share options outstanding as at 31 December 2009	Percentage of total issued share capital of the Company as at 31 December 2009	No. of underlying Shares interested in	Note
Chen Yuhong (Note1)	1.78	3,800,000	0.38%	8,800,000	(5)
	1.37	5,000,000	0.50%		(6)
Cui Hui	0.65	500,000	0.05%	500,000	(2)
Duncan Chiu	0.65	1,000,000	0.10%	11,000,000	(2)
	1.37	10,000,000	0.99%		(6)
Tang Zhenming	0.58	80,000	0.01%	6,180,000	(2)
	0.65	1,300,000	0.13%		(3)
	0.97	800,000	0.08%		(4)
	1.78	2,000,000	0.20%		(5)
	1.37	2,000,000	0.20%		(6)
Wang Hui	0.58	250,000	0.02%	7,600,000	(2)
	0.65	1,750,000	0.17%		(3)
	0.97	1,000,000	0.10%		(4)
	1.78	2,000,000	0.20%		(5)
	1.37	2,600,000	0.26%		(6)
Zeng Zhijie	1.78	750,000	0.07%	750,000	(5)

Report of the Directors

Notes:

(1) An aggregate of 1,200,000 shares options were exercised by Dr. Chen Yuhong at the exercise price of HK$0.97 each during the year. Hence, following the exercise of these share options, the number of share options outstanding reduced to 8,800,000 as at 31 December 2009.

(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 10 years from the date of offer subject to the following conditions:

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

(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:

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

(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:

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

(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:

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

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

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

Save as disclosed above and so far as was known to the Directors, as at 31 December 2009 none of the Directors or chief executive of the Company had any interests or short positions in the shares, debentures or underlying shares of the Company or its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the required standard of dealings by directors of listed issuers as referred to the Model Code for Securities Transactions, to be notified to the Company and the Stock Exchange.

As at 31 December 2009, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2009 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by, or leased to the Company or any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at 31 December 2009, none of the Directors were materially interested in any subsisting contract or arrangement which was significant in relation to the business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

During the year ended 31 December 2009, save as disclosed above, none of the Directors was granted any options to subscribe for shares of the Company. As at 31 December 2009, none of the Directors had any rights to acquire shares in the Company save as disclosed above.

Report of the Directors

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the year ended 31 December 2009, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions. Having made specific enquiry with all the Directors, the Directors had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the year ended 31 December 2009.

SHARE OPTION SCHEME

As at 31 December 2009, share options allowing for the subscription of an aggregate of 301,772,236 Shares granted to certain directors and employees of the Group pursuant to the Share Option Scheme were outstanding, with terms on the exercise of such share options granted as set out in note 36 to the financial statements and notes 2, 3, 4, 5 and 6 in the section headed "Directors' Interests in Shares" above.

Save as disclosed above, no share options have been granted, exercised or have lapsed pursuant to the Share Option Scheme as at 31 December 2009.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the Directors, or their spouses or children under 18 years of age, had any rights to subscribe for the shares of the Company, or had exercised any such rights during the period.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiary, its holding company or any subsidiary of its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Report of the Directors

CONNECTED TRANSACTIONS

During the year, the Group had entered into continuing connected transactions as set out below.

1. Lease of office premises by various subsidiaries of the Company from Chinasoft National Software and Service Company Limited ("CNSS"), a substantial shareholder of the Company:

   (i) Lease of 2nd Floor in Tower A2 at 18 Changsheng Road, Changping District, Beijing, PRC

Date	:	31 December 2008
Floor area of leased premises	:	1,635.09 square meters in aggregate
Term	:	1 January 2009 to 31 December 2009
Monthly rental	:	RMB107,915.94
Usage	:	as office premises

   (ii) Lease of 3rd Floor of Block C and 3rd Floor of Block B of 55 Xue Yuan Nan Road, Haidian District, Beijing, PRC

Date	:	31 December 2008
Floor area of leased premises	:	1,114.47 square meters in aggregate
Term	:	1 January 2009 to 31 December 2009
Monthly rental	:	RMB81,913.55
Usage	:	as office premises

   (iii) Lease of 8th, 9th and 10th Floors of Block A and 7th Floor of Block C of 55 Xue Yuan Nan Road, Haidian District, Beijing, PRC

Date	:	31 December 2008
Floor area of leased premises	:	2,650.4092 square meters in aggregate
Term	:	1 January 2009 to 31 December 2009
Monthly rental	:	RMB194,850.08
Usage	:	as office premises

Report of the Directors

(iv) Lease of 5th Floor of Block B of 55 Xue Yuan Nan Road, Haidian District, Beijing, PRC

Date	:	5 May 2009
Floor area of leased premises	:	1,026 square meters in aggregate from 1 January 2009 to 28 February 2009 703 square meters in aggregate from 1 March 2009 to 31 December 2009
Term	:	1 January 2009 to 31 December 2009
Monthly rental	:	RMB75,411.00 from 1 January 2009 to 28 February 2009 RMB51,670 from 1 March 2009 to 31 December 2009
Usage	:	as office premises

(v) Lease of 2nd Floor and 3rd Floor in Tower A2 at 18 Chengsheng Road, Changping District, Beijing, PRC

Date	:	31 December 2008
Floor area of leased premises	:	1,173.5167 square meters in aggregate
Term	:	1 January 2009 to 31 December 2009
Monthly rental	:	RMB77,452.10
Usage	:	as office premises

The various lease agreements entered into between certain subsidiaries of the Group and CNSS constituted a continuing connected transaction of the Company.

The Directors consider that the above continuing connected transactions of the Group have been entered into under normal commercial terms and in the ordinary and usual course of business, and the terms are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The total amount of rent payable by the Group to CNSS for the lease of office premises under the lease agreements, did not exceed the cap amount of RMB6,384,209.56 (equivalent to approximately HK$7,246,548.88).

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the above transactions.

Save as disclosed therein, there were no other transactions required to be disclosed as connected transactions and/or continuing connected transactions in accordance with the requirements of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers accounted for approximately 36% of the Group's total turnover and the Group's largest customer accounted for approximately 14% of the Group's total turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 79% of the Group's total purchases and the Group's largest supplier accounted for approximately 38% of the Group's total purchases.

None of the Directors, their associates, or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in any of the five largest suppliers or customers of the Group.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in Shares

Name	**Nature of interest**	**Approximate number of Shares** (million)	**Approximate percentage of total issued share capital of the Company**
China National Computer Software & Information Technology Service Corporation (Hong Kong) Limited ("CS&S (HK)") (Note 1)	Beneficial interest	245.32	24.26%
Chinasoft National Software and Service Company Limited ("CNSS") (Note 1)	Interest of controlled corporation	245.32	24.26%
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)") (Note 2)	Interest of persons acting in concert	245.32	24.26%
Far East Holdings International Limited ("Far East Holdings") (Note 3)	Beneficial interest	138.99	13.74%

Report of the Directors

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of total issued share capital of the Company
Greater Pacific Capital Partners, LP (“GPC”) (Note 4)	Beneficial interest	119.27	11.79%
International Finance Corporation (“IFC”) (Note 5)	Beneficial interest	97.25	9.62%
Microsoft Corporation (“Microsoft”) (Note 5)	Beneficial interest	97.25	9.62%

Notes:

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

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

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

4. Greater Pacific Capital Partners, LP was interested in 119,268,639 Shares.

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

Save as disclosed above, as at 31 December 2009, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

Report of the Directors

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the year under review.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

COMPETING INTERESTS

As at 31 December 2009, Dr. Cui Hui, an non-executive Director, was interested in approximately 1.15% of the issued share capital of CNSS. Dr. Cui Hui also served as a director of CNSS. Although the Directors are of the view that the principal activities of CNSS do not directly compete with those of the Group currently, the Group and CNSS however are both engaged in the provision of information technology outsourcing.

Save as disclosed above, as at 31 December 2009, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

POST BALANCE SHEET EVENTS

No any events which happened after the date of the consolidated balance sheet of the Group of 31 December 2009.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Dr. Chen Yuhong
Managing Director

Beijing, 9 April 2010

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. The code provisions in the Code on Corporate Governance Practices of the Listing Rules (the "Code") have served as guideposts for the Company to follow in its implementation of corporate governance measures. The Company complied with all the code provisions in the Code during the year under review, particularly with respect to the management of the board of directors, financial reporting, communication with shareholders and the procedures for conduct of shareholders' meetings.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rule relating to dealings is securities. Having made specific enquiry of all the Directors, the Directors complied with the Model Code regarding securities transactions by the Directors throughout the year ended 31 December 2009.

BOARD OF DIRECTORS

During the year in review and up to the date of this report, the board of directors of the Company (the "Board") comprises:

Executive directors:

Dr. Chen Yuhong
Mr. Wang Hui
Dr. Tang Zhenming

Non-executive directors:

Mr. Su Zhenming (Chairman)	(resigned on 20 April 2009)
Dr. Cui Hui (Chairman)	(appointed as Chairman on 20 April 2009)
Mr. Duncan Chiu	
Mr. Timothy Chen Yung Cheng	(resigned on 2 January 2009)
Dr. Zhang Yaqin	
Mr. Fang Jun	(appointed on 20 April 2009)
Mr. Liu Zheng	

Independent non-executive directors:

Mr. Xu Zeshan
Mr. Zeng Zhijie
Dr. Leung Wing Yin Patrick

Corporate Governance Report

During the year ended 31 December 2009, two full board meetings were held on 29 April and 7 August and the attendance of each director is set out as follows:

Name of Director	Number of board meetings attended in 2009	Attendance rate
Executive Directors:		
Dr. Chen Yuhong	2	100%
Mr. Wang Hui	2	100%
Dr. Tang Zhenming	2	100%
Non-executive Directors:		
Mr. Su Zhenming (resigned on 20 April 2009)	0	N/A
Dr. Cui Hui	2	100%
Mr. Duncan Chiu	2	100%
Mr. Timothy Chen Yung Cheng (resigned on 2 January 2009)	0	N/A
Dr. Zhang Yaqin	2	100%
Mr. Fang Jun (appointed on 20 April 2009)	2	100%
Mr. Liu Zheng	2	100%
Independent non-executive Directors:		
Mr. Xu Zeshan	2	100%
Mr. Zeng Zhijie	2	100%
Dr. Leung Wing Yin Patrick	2	100%

The Board is currently responsible for corporate strategy and development, overseeing the business operations of the Group, financial reporting, legal and regulatory compliance, directors' appointments, risk management, major acquisitions, disposals and capital transactions. Major corporate matters delegated by the Board to management include preparation of annual and interim accounts for Board's approval, execution of business strategies and initiatives adopted by the Board and implementation of internal control system.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the section headed "Biographical Details of Directors and Senior Management" in this Annual Report. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director are suitably qualified for his position, and has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

Dr. Cui Hui is director of CNSS, a substantial shareholder of the Company. Dr. Cui Hui has been appointed as a senior vice president of CNSS since December 2003. Mr. Duncan Chiu is a director of Far East Holdings, a substantial shareholder of the Company. Save as aforesaid, there are no other relationships among the members of the Board.

Corporate Governance Report

The three independent non-executive Directors appointed by the Company have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The post of the chairman of the board (held by Mr. Su Zhenming until his replacement by Dr. Cui Hui on 20 April 2009) and the post of the chief executive officer (held by Dr. Chen Yuhong, the Managing Director) are segregated. Dr. Cui Hui is responsible for leadership and organisation of the board of directors, whereas Dr. Chen Yuhong is in charge of management of the overall business operations of the Group.

APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Dr. Cui Hui and Mr. Duncan Chiu were re-designated as non-executive Directors for a term of two years from 22 March 2006 and are subject to termination by one month's notice by the Company or himself. Mr. Timothy Chen Yung Cheng was appointed as a non-executive Director for two years from 22 March 2006 and resigned with effective from 2 January 2009. Dr. Zhang Yaqin and Mr. Fang Jun were appointed as non-executive Directors, from 31 December 2008 and 20 April 2009 respectively, subject to termination by one month's notice by the Company or himself. The term of appointment of Mr. Liu Zheng as a non-executive Director expired on 20 June 2005 and has continued subject to termination by one month's notice by the Company or himself.

REMUNERATION COMMITTEE

The remuneration committee was established on 28 June 2005. During the year under review, the chairman of the committee was Mr. Su Zhenming until his replacement by Dr. Cui Hui on 20 April 2009, and other members included Dr. Chen Yuhong, Mr. Xu Zeshan, Mr. Zeng Zhijie and Dr. Leung Wing Yin Patrick. Dr. Chen Yuhong is an executive Director, Dr. Cui Hui is a non-executive Director and the remaining three members are independent non-executive Directors.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the board of Directors for the remuneration of non-executive Directors. The remuneration committee will consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

Details of attendance of the meeting of the Remuneration Committee are set out as follows:

Name of Director	Number of Meetings attended in 2009	Attendance rate
Mr. Su Zhenming	0	N/A
Dr. Cui Hui	1	100%
Dr. Chen Yuhong	1	100%
Mr. Xu Zeshan	1	100%
Mr. Zeng Zhijie	1	100%
Dr. Leung Wing Yin Patrick	1	100%

Corporate Governance Report

The board of Directors considered that the existing terms of appointment and levels of remuneration of the Directors are fair and reasonable, and resolved that a review be carried out again in the year ending 31 December 2010.

The Company adopted a share option scheme on 2 June 2003, which serves as an incentive to attract, retain and motivate talented eligible staff, including the Directors. Details of the share option scheme are set out in note 36 to the financial statements. The emolument payable to Directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 9 to the financial statements.

NOMINATION OF DIRECTORS

During the year under review, one meeting was held by the board of Directors to consider the appointment and removal of Directors. Details of attendance of the nomination of Directors meeting are set out as follows:

Name of member	Number of meetings attended in 2009	Attendance rate
Dr. Cui Hui	1	100%
Dr. Chen Yuhong	1	100%
Mr. Duncan Chiu	1	100%
Dr. Leung Wing Yin Patrick	1	100%

Prior to the convening of the annual general meeting of the Company in June 2009, the board of Directors resolved that Mr. Wang Hui, Mr. Duncan Chiu and Mr. Zeng Zhijie should retire and stand for re-election at the annual general meeting in accordance with the requirements under the Articles of Association of the Company.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of accounts for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2009, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

THE AUDIT COMMITTEE

The Company established an audit committee on 2 June 2003 and amended its written terms of reference to comply with the requirements in the Code on Corporate Governance Practices of the Listing Rules. The primary duties of the audit committee are to review and to supervise the financial reporting process and internal control system of the Group. During the year ended 31 December 2009, the audit committee comprised of three independent non-executive Directors, Mr. Xu Zeshan, Mr. Zeng Zhijie and Dr. Leung Wing Yin Patrick. Dr. Leung Wing Yin Patrick is the Chairman of the audit committee. The audit committee met on a semi-yearly basis during the year ended 31 December 2009.

Corporate Governance Report

The Group's unaudited quarterly and interim results and audited annual results during the year ended 31 December 2009 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

During the year under review, two meetings were held by the audit committee. Details of attendance of audit committee meetings are set out as follows:

Name of member	Number of meetings attended in 2009	Attendance rate
Mr. Xu Zeshan	2	100%
Mr. Zeng Zhijie	2	100%
Dr. Leung Wing Yin Patrick	2	100%

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group was required to pay an aggregate of approximately RMB4.2 million to the external auditors for their services including audit and relating to financial information other service.

INTERNAL CONTROL

The Board acknowledged that it has the overall responsibility of the internal control system to enhance the awareness of risk management and assets protection. The internal control system is designed to provide reasonable policies and procedures to manage business risk and to avoid misstatement of the performance of the Group. The Company has a clearly defined organisation chart by functions, an effective filing system to maintain proper records for accounting and business transactions, well established procedures in approving payments and safeguarding the appropriate use of assets. The Company periodically conducted reviews of its financial, operational and risk management control activities to ensure the Group's compliance with applicable laws and regulations. The Company also reviews its internal control system periodically and report to the senior management quarterly and to the Audit Committee annually thereafter, taking effective actions on recommendation, if any, to improve its system.

INVESTORS RELATIONS

The Company has disclosed all necessary information to the shareholders in compliance with the Listing Rules. Meetings are held with media and investors periodically. The Company also replied to the enquires from its shareholders in a timely manner. The Directors host a annual general meeting each year to meet the Company's shareholders and answer their enquiries.

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF CHINASOFT INTERNATIONAL LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Chinasoft International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 136, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
9 April 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Turnover		**1,104,602**	983,372
Cost of sales		**(767,624)**	(709,227)
Gross profit		**336,978**	274,145
Other income, gains and losses		**18,868**	26,128
Selling and distribution costs		**(71,065)**	(47,494)
Administrative expenses		**(197,938)**	(154,863)
Research and development cost expensed		**(19,397)**	(15,688)
Allowance for doubtful debts		**(21,113)**	(16,799)
Amortisation of intangible assets and prepaid lease payments		**(23,892)**	(21,586)
Impairment loss recognised in respect of goodwill	14	**(80,667)**	(17,387)
Finance costs	6	**(4,064)**	(2,842)
Share of results of associates	15	**2,959**	2,878
(Loss) gain arising from changes in fair value of redeemable convertible preferred shares	26	**(47,746)**	54,487
(Loss) profit before taxation		**(107,077)**	80,979
Taxation	7	**(13,480)**	(9,254)
(Loss) profit for the year	8	**(120,557)**	71,725
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**(553)**	(114)
Total comprehensive income for the year		**(121,110)**	71,611
(Loss) profit for the year attributable to:			
Owners of the Company		**(126,743)**	63,335
Minority interests		**6,186**	8,390
		(120,557)	71,725
Total comprehensive income attributable to:			
Owners of the Company		**(127,283)**	63,221
Minority interests		**6,173**	8,390
		(121,110)	71,611
(Loss) earnings per share	11		
Basic		**RMB(0.1256)**	RMB0.0633
Diluted		**RMB(0.1256)**	RMB(0.0020)

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	12	**95,131**	79,038
Intangible assets	13	**83,197**	79,724
Goodwill	14	**414,615**	446,607
Interests in associates	15	**17,428**	14,469
Prepaid lease payments	16	**867**	1,034
Prepayment for acquisition of technical knowhow		**5,216**	2,318
Deferred tax assets	25	**3,528**	2,517
		619,982	625,707
Current assets			
Inventories	17	**14,457**	21,939
Trade and other receivables	18	**362,278**	399,815
Prepaid lease payments	16	**166**	166
Amounts due from customers for contract work	19	**161,019**	69,891
Amounts due from related companies	22	**711**	95
Pledged deposits	20	**12,870**	21,630
Bank balances and cash	20	**297,029**	265,804
		848,530	779,340
Current liabilities			
Amounts due to customers for contract work	19	**79,745**	17,769
Trade and other payables	21	**283,272**	282,122
Bills payable	23	**1,255**	13,163
Amounts due to related companies	22	**128**	22
Dividend payable to shareholders		**82**	82
Taxation payable		**11,568**	6,705
Borrowings	24	**104,071**	70,555
Consideration payable on acquisition of businesses	31(a)(c)	**22,296**	–
Consideration payable on acquisition of additional interest in a subsidiary	14	**844**	8,447
		503,261	398,865
Net current assets		**345,269**	380,475
Total assets less current liabilities		**965,251**	1,006,182

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current liabilities			
Deferred tax liabilities	25	**9,208**	8,371
Consideration payable for acquisition of a business	31(a)	**11,374**	–
Redeemable convertible preferred shares	26	**167,655**	127,699
		188,237	136,070
		777,014	870,112
Capital and reserves			
Share capital	27	**52,357**	52,178
Share premium	28	**519,389**	516,306
Reserves	28	**154,311**	256,857
Equity attributable to owners of the Company		**726,057**	825,341
Minority interests		**50,957**	44,771
Total equity		**777,014**	870,112

The consolidated financial statements on pages 46 to 136 were approved and authorised for issue by the board of directors on 9 April 2010 and are signed on its behalf by:

Dr. Chen Yuhong
DIRECTOR

Mr. Duncan Chiu
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to the owners of the Company										
	Share capital RMB'000	Share premium RMB'000 (note 28)	Translation reserve RMB'000	Share options reserve RMB'000	General reserve fund RMB'000 (note 28)	Statutory enterprise expansion fund RMB'000 (note 28)	Statutory surplus reserve fund RMB'000 (note 28)	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2008	51,398	505,483	(1,224)	25,116	15,793	8,868	505	129,730	735,669	39,019	774,688
Profit for the year	–	–	–	–	–	–	–	63,335	63,335	8,390	71,725
Other comprehensive income for the year	–	–	(114)	–	–	–	–	–	(114)	–	(114)
Total comprehensive income for the year	–	–	(114)	–	–	–	–	63,335	63,221	8,390	71,611
New issue of shares (see note 27)	396	9,593	–	–	–	–	–	–	9,989	–	9,989
Acquisition of additional interest in subsidiaries (see note 14)	–	–	–	–	–	–	–	–	–	(2,338)	(2,338)
Capital contribution from a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	300	300
Issue of ordinary shares upon exercise of share options	384	5,636	–	(1,092)	–	–	–	–	4,928	–	4,928
Recognition of equity-settled share-based payments	–	–	–	15,940	–	–	–	–	15,940	–	15,940
Appropriations	–	–	–	–	–	–	1,207	(1,207)	–	–	–
Dividend recognised as distribution (see note 10)	–	(4,406)	–	–	–	–	–	–	(4,406)	–	(4,406)
Dividend paid to minority interests	–	–	–	–	–	–	–	–	–	(600)	(600)
At 31 December 2008	52,178	516,306	(1,338)	39,964	15,793	8,868	1,712	191,858	825,341	44,771	870,112
Loss for the year	–	–	–	–	–	–	–	(126,743)	(126,743)	6,186	(120,557)
Other comprehensive income for the year	–	–	(553)	–	–	–	–	–	(540)	(13)	(553)
Total comprehensive income for the year	–	–	(553)	–	–	–	–	(126,743)	(127,283)	6,173	(121,110)
Issue of ordinary shares upon exercise of share options	179	3,083	–	(737)	–	–	–	–	2,525	–	2,525
Recognition of equity-settled share-based payments	–	–	–	25,487	–	–	–	–	25,487	–	25,487
Appropriations	–	–	–	–	–	4,110	2,409	(6,519)	–	–	–
At 31 December 2009	**52,357**	**519,389**	**(1,891)**	**64,714**	**15,793**	**12,978**	**4,121**	**58,596**	**726,057**	**50,957**	**777,014**

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
Operating activities		
(Loss) profit before taxation	**(107,077)**	80,979
Adjustments for:		
Finance costs	**4,064**	2,842
Share of results of associates	**(2,959)**	(2,878)
Interest income	**(2,551)**	(1,901)
Amortisation of intangible assets and prepaid lease payments	**23,892**	21,586
Impairment loss recognised in respect of goodwill	**80,667**	17,387
Loss (gain) arising from changes in fair value of redeemable convertible preferred shares	**47,746**	(54,487)
Net foreign exchange loss (gain)	**82**	(11,548)
Depreciation of property, plant and equipment	**23,495**	17,733
Loss on disposal of property, plant and equipment and intangible assets	**147**	183
Allowance for doubtful debts	**21,113**	16,799
Allowance for inventories	**–**	3,408
Share option expenses	**25,487**	15,940
Operating cash flows before movements in working capital	**114,106**	106,043
Decrease in inventories	**7,498**	26,518
Decrease in trade and other receivables	**34,661**	24,624
Increase in amounts due from customers for contract work	**(91,128)**	(30,883)
Increase in amounts due to customers for contract work	**61,976**	7,341
Increase in amounts due to related companies	**106**	–
Decrease in trade and other payables	**(16,731)**	(10,539)
Decrease in bills payable	**(11,908)**	(21,969)
Cash generated from operations	**98,580**	101,155
Income taxes paid	**(13,068)**	(11,209)
Taxation refunded	**961**	2,426
Net cash from operating activities	**86,473**	92,372

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Investing activities			
Interest received		**2,551**	1,901
Acquisition of businesses	31(a) (b) (c)	**(33,541)**	(10,552)
Payment for acquisition of a subsidiary and technical expertise		**–**	(3,654)
Payment for acquisition of technical knowhow		**–**	(4,850)
Prepayment for acquisition of technical knowhow		**(2,898)**	(2,318)
Proceeds from disposal of property, plant and equipment		**810**	825
Proceeds from disposal of available-for-sale investment		**–**	109
Development costs paid		**(11,216)**	(11,085)
Purchases of property, plant and equipment		**(35,958)**	(28,891)
Repayment from (advance to) related companies		**95**	(966)
Decrease (increase) in pledged deposits		**8,760**	(17,126)
Net cash used in investing activities		**(71,397)**	(76,607)
Financing activities			
New bank loan raised		**88,600**	54,064
Repayment of borrowings		**(55,664)**	(10,000)
Proceeds from exercise of share options		**2,525**	4,928
Interest on borrowings		**(3,782)**	(1,961)
Interest paid on redeemable convertible preferred shares		**(7,555)**	(7,763)
Deferred payment for acquisition of additional interest in a subsidiary	14	**(7,603)**	–
Dividend paid to owners of the Company		**–**	(4,562)
Dividend paid to minority interests		**–**	(600)
Capital contribution from a minority shareholder of a subsidiary		**–**	300
Repayment to related companies		**–**	(14,029)
Net cash from financing activities		**16,521**	20,377
Net increase in cash and cash equivalents		**31,597**	36,142
Cash and cash equivalents at beginning of the year		**265,804**	230,435
Effect of foreign exchange rate changes		**(372)**	(773)
Cash and cash equivalents at end of the year, representing bank balances and cash		**297,029**	265,804

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

On 29 December 2008, the listing of the shares of the Company was transferred to the Main Board of the Stock Exchange.

The addresses of the registered office and principal places of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are development and provision of information technology ("IT") solutions, IT outsourcing services and training services.

Particulars of the Company's subsidiaries at 31 December 2009 and 2008 are set out as follows:

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2009	2008	**2009**	2008	
			%	%	**%**	%	
Chinasoft International Holdings Limited	Samoa/ Hong Kong ("HK")	US$1	**100**	100	**–**	–	Investment holding
Chinasoft International (Hong Kong) Limited	HK	HK$100	**–**	–	**100**	100	Investment holding and trading of standalone software products
Chinasoft International Treasury Management (Hong Kong) Limited	HK	HK$1	**–**	–	**100**	100	Inactive

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2009 %	2008 %	2009 %	2008 %	
Chinasoft Resource (International) Limited	HK	HK$100,000	–	–	100	100	Provision of IT outsourcing services
Chinasoft International Inc.	United States of America ("USA")	US$0.01	–	–	100	100	Provision of IT 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 (other than HK) ("PRC")	RMB50,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services, software development and trading of standalone software and hardware products
中軟國際(廣州)信息技術有限公司 Chinasoft International (Guang Zhou) Information Technology Limited	PRC	HK$5,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT 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	PRC	HK$5,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟總公司計算器培訓中心 Computer Training Center of CS&S	PRC	RMB500,000	–	–	100	100	Provision of IT training services
北京中軟國際教育科技有限公司 Beijing Chinasoft International Education Technology Co., Ltd.	PRC	RMB1,000,000	–	–	70	70	Development of educational software

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2009	2008	**2009**	2008	
			%	%	**%**	%	
無錫中軟國際信息技術培訓有限公司 Wuxi Chinasoft International information Technology Training Co., Ltd.	PRC	RMB2,000,000	**–**	–	**70**	70	Provision of IT 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**	100	Provision of solutions, IT outsourcing, IT 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	PRC	US$1,000,000	**–**	–	**100**	100	Provision of solutions, IT outsourcing, IT 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**	76	Provision of IT outsourcing services
厦門中軟海晟信息技術有限公司 Xiamen Chinasoft Haisheng International Technology Limited	PRC	RMB30,000,000	**–**	–	**51**	51	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
北京中科久輝信息自動化有限公司 Sino Sunnyever Automation and Information Co., Ltd. ("Sino Sunnyever") (note 31(e))	PRC	RMB8,000,000	**–**	–	**100**	100	Provision of solutions services

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2009	2008	**2009**	2008	
			%	%	**%**	%	
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**	100	Provision of IT outsourcing services
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**	100	Provision of IT 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") (note 14)	PRC	RMB3,000,000	**–**	–	**80**	80	Provision of IT outsourcing services
日本創智株式會社 Japan Powerise Co., Ltd. ("Japan Powerise") (note 31(d))	Japan	JPY22,500,000	**–**	–	**100**	100	Provision of IT outsourcing services
Hinge Global Resource Inc. ("HGR")	Cayman Islands	US$3,956,000	**97.35**	97.35	**–**	–	Investment holding
上海華騰軟件系统有限公司 Shanghai Huateng Software Systems Co., Ltd. ("Shanghai Huateng")	PRC	US$8,000,000	**–**	–	**86.43**	86.43	Development and provision of IT system
大連全數科技有限公司 Dalian Digitall Technology Co., Ltd. ("Dalian Digitall") (Note)	PRC	JPY25,000,000	**–**	–	**58.41**	58.41	Provision of IT outsourcing services
大連信華軟件技術有限公司 Dalian Xinhua Software Co., Ltd.	PRC	US$150,000	**–**	–	**97.35**	97.35	Provision of IT outsourcing services

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2009	2008	**2009**	2008	
			%	%	**%**	%	
大連信華信息技術有限公司 Dalian Xinhua Infotech Co., Ltd.	PRC	US$250,000	**–**	–	**97.35**	97.35	Provision of IT outsourcing services
株式會社東京信華 Kabushiki Kaisha Tokyo Xinhua ("Tokyo Xinhua")	Japan	JPY10,000,000	**–**	–	**97.35**	97.35	Provision of IT outsourcing services
DoubleBridge Technologies, Inc.	USA	US$2,204,400	**–**	–	**97.35**	97.35	Provision of IT outsourcing services
北京道達技術有限公司 Beijing Daoda Technology Co., Ltd.	PRC	US$1,300,000	**–**	–	**– ****	97.35	Inactive
DoubleBridge Technologies Hong Kong Limited	HK	HK$1,000,000	**–**	–	**– ****	97.35	Inactive
長沙中軟教育科技有限公司* Excellency Training Center of CSI (Changsha)	PRC	RMB1,500,000	**–**	–	**70**	–	Provision of IT training services
重慶中卓教育諮詢有限公司* Excellency Training Center of CSI (Chongqing)	PRC	RMB1,500,000	**–**	–	**70**	–	Provision of IT training services
大連中軟卓越信息技術有限公司* Dalian Excellency Information & Technology Ltd.	PRC	RMB500,000	**–**	–	**70**	–	Provision of IT training services
大連中軟卓越計算機培訓中心* Excellency Training Center of CSI (Dalian)	PRC	RMB1,000,000	**–**	–	**70**	–	Provision of IT training services
廈門中軟卓越教育服務有限公司* Excellency Training Center of CSI (Xiamen)	PRC	RMB1,000,000	**–**	–	**70**	–	Provision of IT training services

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2009 %	2008 %	**2009** %	2008 %	
天津開發區中軟卓越信息技術有限公司* Excellency Training Center of CSI (Tianjin)	PRC	RMB3,000,000	**–**	–	**70**	–	Provision of IT training services
中軟國際資源信息技術(無錫)有限公司* Chinasoft International Information Technology (Wuxi) Limited	PRC	USD450,000/ USD3,000,000	**–**	–	**100**	–	Provision of IT training services
北京廣域齊民信息技術有限公司 Beijing GuangYuQiMin Information Technology Limited ("Guangyuqinmin") (note 31(b))	PRC	RMB506,200	**–**	–	**100**	–	Provision of IT solutions
深圳市金華業軟件系统有限公司 Shenzhen Jinhuaye Software Ltd. ("Shenzhen Jinhuaye") (note 31(a))	PRC	RMB1,000,000	**–**	–	**100**	–	Provision of IT outsourcing services
蘇州華騰軟件系统有限公司* Suzhou Huateng Software systems Co., Ltd	PRC	RMB2,000,000	**–**	–	**86.43**	–	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products

* Newly incorporated

** Deregistered

None of the subsidiaries had any debt securities subsisting at 31 December 2009 or at any time during the year.

Note: HGR holds a 60% equity interest in the registered capital of Dalian Digitall. According to the Articles of Association of Dalian Digitall, the 40% minority owner is not entitled to share the profit or loss of Dalian Digitall in excess of the initial contributed capital.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising On Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosure about Financial Instruments
HKFRS 8	Operating Segments
HK (IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK (IFRIC) – Int 13	Customer Loyalty Programmes
HK (IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK (IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK (IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has no material effect on the consolidated financial statements of the Group for the current and prior accounting periods.

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's operating segments (see note 5) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

Improving Disclosures about Financial Instruments

(Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in relation to fair value measurements in accordance with the transitional provision set out in the amendments.

HKAS 23 (Revised 2007) Borrowing Costs

In previous year, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset.

The adoption of HKAS 23 (Revised 2007) has no material effect on the Group's consolidated financial statements and therefore no adjustment is required.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Revised)	First-time Adopters of Hong Kong Financial Reporting Standard[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK (IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK (IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

[1] Effective for annual periods beginning on or after 1 July 2009

[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate

[3] Effective for annual periods beginning on or after 1 January 2010

[4] Effective for annual periods beginning on or after 1 February 2010

[5] Effective for annual periods beginning on or after 1 January 2011

[6] Effective for annual periods beginning on or after 1 July 2010

[7] Effective for annual periods beginning on or after 1 January 2013

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on 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 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 statement of comprehensive income 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of consolidation – continued

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.

Business combinations

The acquisition of businesses 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.

When a business combination agreement provides for an adjustment to the cost of the acquisition contingent on future events, the Group includes the amount of that adjustment in the cost of the acquisition at the acquisition date if the adjustment is probable and can be measured reliably. If the adjustment is not included in the cost of acquisition at acquisition date because it is not probable or cannot be measured reliably, this additional consideration should be treated as an adjustment to cost of acquisition when it becomes probable or can be measured reliably in subsequent periods.

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.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of net assets and operations of another entity 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 acquiree 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).

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a business 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 business 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 business is presented separately in the consolidated statement of financial position. 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 receive 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 profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant CGU 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 over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Interests in associates – continued

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 investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of investment subsequently increases.

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.

Acquisition of additional interest in subsidiaries

Acquisitions of additional interest in subsidiaries are recorded at historical cost and the excess of the cost of acquisition over the carrying amount of net assets acquired is recognised as goodwill.

Revenue recognition

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

Revenue from sales of goods is recognised when goods are delivered and title has passed. Deposits and instalments received from purchasers in respect of sales of goods prior to meeting the above criteria on revenue recognition are included in trade and other payables.

Income from solutions and IT outsourcing on project-based IT development contracts is recognised based on the percentage of completion method in accordance with the accounting policy on project-based IT development contracts below.

Income from provision of IT outsourcing and training services is recognised when the services are provided.

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.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Project-based IT development contracts

Where the outcome of a contract for project-based IT development can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total costs for each contract, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

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. Contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable.

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

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Government grants

Government grants represent incentive subsidies from the government for the Group's IT, technology research and development activities. Government granted are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are for giving immediate financial support with no future related costs are recognised in profit or loss in the period in which they become receivable.

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.

The Group as lessee

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Retirement benefits costs

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as and included in finance costs in profit or loss in the period in which they are incurred.

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 consolidated statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary 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. 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

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, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets or liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly to equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment other than construction in progress 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 other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for its intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for intended use.

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 profit or loss in the period in which the item is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and 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 their estimated useful lives.

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 profit or loss in the period when the asset is derecognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets – continued

Research and development expenditure

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 or from the development phase of an internal project is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. 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 measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

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 values 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 their estimated useful lives.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Prepaid lease payments

Prepaid lease payments represent the right to use a trademark and is amortised on a straight-line basis over the effective period stipulated on the trademark license registration certificate.

Inventories

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

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determined the extent of the impairment loss, if any. 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, 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.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position 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 loans and receivables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related companies, pledged deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables from third parties and trade receivables from related companies, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

For financial assets carried at amortised cost, 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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 Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss ("FVTPL") and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liability classified as at FVTPL, of which the interest expense is included in net gains or losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity – continued

Financial liabilities at fair value through profit or loss

Redeemable convertible preferred shares issued by the Company comprise the host debt instrument and the embedded derivatives (including the redemption option and conversion option) are designated as financial liabilities at FVTPL on initial recognition. The conversion option allows the holder to convert the preferred shares into ordinary shares and 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, and therefore it does not meet the equity classification under HKAS 32. At the end of each reporting period subsequent to initial recognition, the entire redeemable convertible preferred shares are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

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

Other financial liabilities

Other financial liabilities including trade and other payables, bills payable, amounts due to related companies, dividend payable to shareholders, borrowings, consideration payable on various items 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 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 is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 the respective 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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. 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 re-translation of monetary items, are recognised in profit or loss in the period in which they arise.

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 Group (i.e. Renminbi) at the rate of exchange prevailing at the end of the reporting period, 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 in other comprehensive income and accumulated in 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 before 1 January 2005 is treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

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 end of the reporting period. Exchange differences arising are recognised in the translation reserve.

Equity-settled share-based payment transactions

Share options granted to employees and customers of the Group

In relation to share options granted after 7 November 2002 and vested before 1 January 2005, the financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Equity-settled share-based payment transactions – continued

Share options granted to employees and customers of the Group – continued

The Group has applied HKFRS 2 to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005 and share options that were granted on or after 1 January 2005. For share options granted to employees on or after 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 expensed on a straight-line basis over the vesting period, with a corresponding increase in share options reserve.

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

For share options granted to customers of the Group, share options are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Allowance for doubtful debts

In determining whether there is objective evidence of allowance for doubtful debts, the Group takes into consideration the collectability, aged 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. As at 31 December 2009, the carrying amount of trade receivables is RMB254,786,000 (2008: RMB334,688,000) which is after allowance for doubtful debts of RMB55,768,000 (2008: RMB34,783,000) (see note 18).

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. For certain CGUs, the recoverable amount determination is based on the value in use calculation which requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The recoverable amount determination for other CGUs is based on an estimation of a weighted average of market value multiples as determined by comparable companies in the relevant industry. Should there be any change in the market conditions, it may lead to a change in the results of the determination and an impairment to goodwill may be required. During the year ended 31 December 2009, the Group recognised an impairment loss of RMB80,667,000 (2008: RMB17,387,000). As at 31 December 2009, the carrying amount of goodwill is RMB414,615,000 (2009: RMB446,607,000). Details of the recoverable amount calculation are disclosed in note 14.

Project-based IT development contracts

Revenue from project-based IT development is recognised under the percentage of completion method which requires estimation made by management. The Group's management estimates the contract costs, outcome and expected cost to complete the contacts based on the budgets prepared for the contracts. Because of the nature of the activities, management reviews and revises the estimates of both contract outcome and expected costs to complete in the budget prepared for each contract as the contract progresses. Any revisions to estimates of contract outcomes and expected costs to complete would affect contract revenue recognition. Should expected costs to complete exceed contract revenue, a provision for contract loss would be recognised.

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4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Fair value of redeemable convertible preferred shares

The fair value of the liability component of the redeemable convertible preferred shares is based on a discounted cash flow model using quoted benchmark interest yield curves as at the end of the reporting period and by obtaining lender quotes for borrowing of similar maturity to estimate the credit risk margin. The fair value of the derivative component of the redeemable convertible preferred shares is calculated using the binomial option pricing model. The model involves estimates on time to maturity, risk free rate, the Company's share price volatility and others. As at 31 December 2009, the carrying amount of the redeemable convertible preferred shares is RMB167,655,000 (2008: RMB127,699,000).

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

5. TURNOVER AND SEGMENT INFORMATION

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

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group's operating segments as compared with the primary segments determined in accordance with HKAS 14.

In prior years, segment information reported externally was analysed on the basis of the types of goods supplied or services provided (i.e. (i) Solutions, (ii) IT outsourcing, (iii) IT consulting and training services and (iv) Sales of standalone software and hardware products). However, information reported to the chief operating decision maker, the Chief Executive Officer of the Company, is more specifically focused on the category of customers for each type of goods supplied or services provided by the Group's operating divisions. The Group's operating segments under HKFRS 8 are therefore as follows:

1. Solutions for government and manufacturing entities ("SGM") – development and provision of solutions services to government and manufacturing entities, and to a lesser extent, sales of standalone software and hardware products

2. Solutions for financial institutions ("SFI") – development and provision of solutions services to banks and other financial institutions; and to a lesser extent, sales of standalone software and hardware products

3. IT outsourcing

4. Training

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5. TURNOVER AND SEGMENT INFORMATION – continued

Information regarding the above segments is reported below. Amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8.

Segment revenues and results

The following is an analysis of the Group's revenues and results by operating segment:

	Segment revenue		Segment results	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
SGM	**308,569**	360,135	**1,848**	23,790
SFI	**305,757**	259,395	**18,349**	14,310
IT outsourcing	**455,538**	344,737	**61,126**	48,526
Training	**34,738**	19,105	**(7,729)**	(1,646)
	1,104,602	983,372	**73,594**	84,980

Segment revenue by products and services:

	2009	2008
	RMB'000	RMB'000
Sale of software and hardware products	**183,685**	241,070
Provision of services		
Solutions	**430,641**	378,460
IT outsourcing	**455,538**	344,737
Training	**34,738**	19,105
	920,917	742,302
	1,104,602	983,372

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5. TURNOVER AND SEGMENT INFORMATION – continued

Segment revenues and results – continued

Reconciliation of segment results to (loss) profit before taxation:

	2009	2008
	RMB'000	RMB'000
Segment results	**73,594**	84,980
Other income, gains and losses	**1,478**	1,112
Impairment loss recognised in respect of goodwill	**(80,667)**	(17,387)
Corporate expenses	**(53,736)**	(42,213)
(Loss) gain arising from changes in fair value of redeemable convertible preferred shares	**(47,746)**	54,487
(Loss) profit before taxation	**(107,077)**	80,979

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in either year.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3.

Segment results represent the profit earned by/loss from each segment without allocation of impairment loss recognised in respect of goodwill, corporate expenses, share-based payment, (loss) gain arising from changes in fair value of redeemable convertible preferred shares and certain items of other income, gains and losses recorded at corporate level. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

5. TURNOVER AND SEGMENT INFORMATION – continued

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment:

	2009 RMB'000	2008 RMB'000
Segment assets		
SGM	**417,352**	550,268
SFI	**315,005**	157,149
IT outsourcing	**289,072**	231,168
Training	**27,537**	15,699
Segment assets	**1,048,966**	954,284
Goodwill	**414,615**	446,607
Others	**4,931**	4,156
Consolidated assets	**1,468,512**	1,405,047
Segment liabilities		
SGM	**202,436**	202,333
SFI	**226,726**	153,434
IT outsourcing	**78,877**	45,534
Training	**9,965**	562
Segment liabilities	**518,004**	401,863
Redeemable convertible preferred shares	**167,655**	127,699
Others	**5,839**	5,373
Consolidated liabilities	**691,498**	534,935

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to all operating segments other than goodwill, unallocated bank balances and cash, and assets used jointly by operating segments.

- all liabilities are allocated to operating segments other than redeemable convertible preferred shares and liabilities for which operating segments are jointly liable.

Notes to the Consolidated Financial Statements

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5. TURNOVER AND SEGMENT INFORMATION – continued

Other information

Amounts included in the measure of segment profit or loss and segment asset:

	SGM		SFI		IT outsourcing		Training		Total	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000	**2009 RMB'000**	2008 RMB'000	**2009 RMB'000**	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Additions to non-current assets, other than deferred tax assets	**31,107**	38,679	**5,871**	964	**21,164**	13,249	**9,601**	1,199	**67,743**	54,091
Interests in associates	**17,428**	14,469	**–**	–	**–**	–	**–**	–	**17,428**	14,469
Depreciation of property, plant and equipment	**7,918**	6,554	**3,881**	1,489	**10,153**	8,823	**1,543**	867	**23,495**	17,733
Amortisation of intangible assets and prepaid lease payments	**13,229**	9,656	**2,461**	2,461	**8,030**	9,246	**172**	223	**23,892**	21,586
Allowance for doubtful debts	**11,217**	13,428	**3,863**	3,366	**6,033**	5	**–**	–	**21,113**	16,799
Allowance for inventories	**–**	3,408	**–**	–	**–**	–	**–**	–	**–**	3,408
Interest income	**486**	880	**1,498**	610	**553**	397	**14**	14	**2,551**	1,901
Finance costs	**3,304**	1,961	**543**	881	**196**	–	**21**	–	**4,064**	2,842
Share of results of associates	**2,959**	2,878	**–**	–	**–**	–	**–**	–	**2,959**	2,878
Loss (gain) on disposal of property, plant and equipment and intangible assets	**144**	120	**(103)**	–	**106**	63	**–**	–	**147**	183

Geographical information

The Group's operations are mainly located in its country of domicile (i.e. the PRC and HK) and to a lesser extent, USA and Japan.

The Group's revenues from external customers (based on location of the signing party of the sales/service contract) and information about its non-current assets, other than deferred tax assets, by geographical location are detailed below:

	Revenues from external customers		Non-current assets, other than deferred tax assets	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
PRC and HK	**979,675**	872,654	**615,700**	622,548
USA	**104,533**	94,084	**406**	444
Japan	**20,394**	16,634	**348**	198
	1,104,602	983,372	**616,454**	623,190

5. TURNOVER AND SEGMENT INFORMATION – continued

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2009 RMB'000	2008 RMB'000
Customer A	155,033	149,237
Customer B	113,027	56,038

6. FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Interest on borrowings wholly repayable within five years:		
Bank loans	3,782	1,961
Imputed interest expenses on		
– loan from a related party	86	881
– consideration payable for acquisition of a subsidiary	196	–
	4,064	2,842

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7. TAXATION

	2009 RMB'000	2008 RMB'000
Tax charge comprises:		
PRC Enterprise Income Tax		
– current year	**16,602**	10,877
– under provision in prior year	**107**	26
	16,709	10,903
Hong Kong Profits Tax	**–**	37
The US Federal and State Income taxes	**257**	–
Japan Income Tax	**–**	15
	16,966	10,955
Deferred tax	**(3,486)**	(1,701)
	13,480	9,254

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both year.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards unless subject to tax exemption set out below.

Pursuant to the resolution of National Development and Reform Commission, dated 31 December 2009, Chinasoft Beijing had been designated as a supported software enterprise and its income tax rate was reduced from 25% to 10% (2008: 10%).

Pursuant to a certificate issued by Yunnan Provincial Science and Technology Department dated 15 December 2008, Chinasoft Kunming had been designated as a High and New Technology Enterprise and its income tax rate was reduced from 25% to 15%. Moreover, Chinasoft Kunming was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2006. As a result, Chinasoft Kunming is subject to the income tax at the rate of 7.5% for the year ended 31 December 2009 (2008: 7.5%).

7. TAXATION – continued

Pursuant to a certificate issued by Beijing Municipal Science and Technology Commission dated 24 December 2008, Chinasoft Resources Beijing had been designated as a High and New Technology Enterprise and its income tax rate was reduced from 25% 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. As a result, Chinasoft Resources Beijing is subject to the income tax at the rate of 7.5% for the year ended 31 December 2009 (2008: 7.5%).

Pursuant to an approval document issued by the Shanghai City District Bureau dated 27 February 2007, Chinasoft Resources Shanghai was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction with effect from 2006. As a result, Chinasoft Resources Shanghai is subject to the income tax at the rate of 12.5% for the year ended 31 December 2009 (2008: 12.5%).

Pursuant to an approval document issued by the State Bureau of Tianjin Economic and Technology Development Zone dated 20 February 2003, Cyber Resources was established before the end of the year 1995 and was approved as a production enterprise and its income tax rate was reduced from 33% to 15%. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulations of the New Law. Cyber Resources is subject to the income tax computed at the rate of 20% for the year ended 31 December 2009 (2008: 18%).

Pursuant to an approval document issued by the Xuhui Branch of State Administration of Taxation Bureau in Shanghai and Xuhui Branch of Shanghai Local Taxation Bureau dated 22 May 2008, Shanghai Huateng was approved as a production enterprise and its income tax rate was reduced from 25% to 12.5% with effective from 1 January 2008 to 31 December 2010.

In addition, Chinasoft Resources Shenzhen is located in the Special Economic Zone and the applicable tax rate was 15% before the effective date of the New Law. With effect from 1 January 2008, the tax rate will increase progressively to 25%. The applicable tax rate of the Special Economic Zone is 20% in 2009 (2008: 18%). Pursuant to an approval document issued by the State Bureau of Shenzhen Nanshan District dated 1 March 2005, Chinasoft Resources Shenzhen 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. As a result, Chinasoft Resources Shenzhen is subject to the income tax at the rate of 20% for the year ended 31 December 2009 (2008: 9%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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For the year ended 31 December 2009

7. TAXATION – continued

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

	2009	2008
	RMB'000	RMB'000
(Loss) profit before taxation	**(107,077)**	80,979
Tax at PRC Enterprise Income Tax rate of 25% (2008: 25%)	**(26,769)**	20,245
Tax effect of share of results of associates	**(740)**	(720)
Tax effect attributable to tax exemptions and concessions granted to PRC subsidiaries	**(15,672)**	(15,298)
Tax effect of expenses not deductible for tax purposes	**53,471**	18,064
Tax effect of income not taxable for tax purposes	**(2,165)**	(17,745)
Under provision in prior year	**107**	26
Tax effect of utilisation of tax losses previously not recognised	**(234)**	(75)
Tax effect of tax losses not recognised	**5,191**	2,866
Effect of different tax rates of subsidiaries	**291**	(148)
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**–**	(349)
Effect of different tax rates used in recognition of deferred tax	**–**	2,388
Tax charge for the year	**13,480**	9,254

8. (LOSS) PROFIT FOR THE YEAR

	2009 RMB'000	2008 RMB'000
(Loss) profit for the year has been arrived at after charging:		
Directors' remuneration	**4,376**	10,019
Other staff costs	**499,861**	364,311
Retirement benefits costs (excluding those for directors)	**32,048**	28,250
Share option expenses (excluding those for directors)	**23,716**	9,215
Total staff costs	**560,001**	411,795
Less: Staff costs capitalised as development costs	**(9,594)**	(10,317)
	550,407	401,478
Research and development costs expensed	**21,051**	16,329
Less: Government grants	**(1,654)**	(641)
	19,397	15,688
Depreciation of property, plant and equipment	**23,495**	17,733
Amortisation of intangible assets and prepaid lease payments	**23,892**	21,586
	47,387	39,319
Auditor's remuneration	**4,180**	3,336
Cost of inventories recognised as an expense	**173,906**	217,851
Allowance for inventories	**–**	3,408
Loss on disposal of property, plant and equipment and intangible assets	**147**	183
Minimum lease payments in respect of buildings	**42,154**	35,914
Net foreign exchange loss	**82**	–
and after crediting:		
Interest income from pledged deposits and bank balances	**2,551**	1,901
Government grants	**11,044**	4,623
Net foreign exchange gain	**–**	11,548
Tax incentive subsidies	**3,961**	3,275

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9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

Details of emoluments to the directors of the Company for the year ended 31 December 2009 are as follows:

	Executive director			Non-executive director							Independent non-executive director			
	Chen Yuhong RMB'000	Tang Zhenming RMB'000	Wang Hui RMB'000	Cui Hui RMB'000	Duncan Chiu RMB'000	Liu Zheng RMB'000	Zhang Yaqin RMB'000	Fang Jun RMB'000 (Note a)	Su Zhenming RMB'000	Timothy Chen Yung Cheng RMB'000 (Note b)	Xu Zeshan RMB'000	Zeng Zhijie RMB'000	Leung Wing Yin Patrick RMB'000	Total RMB'000
Fees	-	-	-	-	-	-	-	-	32	-	123	164	106	425
Other emoluments:														
Salaries and other benefits	830	453	593	106	120	-	-	-	-	-	-	-	-	2,102
Share option expenses	581	272	307	-	553	-	-	-	-	-	-	58	-	1,771
Retirement benefits costs	26	26	26	-	-	-	-	-	-	-	-	-	-	78
Total directors' remuneration	1,437	751	926	106	673	-	-	-	32	–	123	222	106	4,376

Details of emoluments to the directors of the Company for the year ended 31 December 2008 are as follows:

	Executive director			Non-executive director						Independent non-executive director				
	Chen Yuhong RMB'000	Tang Zhenming RMB'000	Wang Hui RMB'000	Cui Hui RMB'000	Duncan Chiu RMB'000	Liu Zheng RMB'000	Zhang Yaqin RMB'000	Su Zhenming RMB'000	Timothy Chen Yung Cheng RMB'000 (Note b)	Xu Zeshan RMB'000	Zeng Zhijie RMB'000	Leung Wing Yin Patrick RMB'000	He Ning RMB'000 (Note c)	Total RMB'000
Fees	–	–	–	–	–	–	–	–	–	–	107	107	38	252
Other emoluments:														
Salaries and other benefits	1,190	629	820	107	120	–	–	107	–	–	–	–	–	2,973
Share option expenses	2,013	901	1,067	–	2,615	–	–	–	–	–	129	–	–	6,725
Retirement benefits costs	23	23	23	–	–	–	–	–	–	–	–	–	–	69
Total directors' remuneration	3,226	1,553	1,910	107	2,735	–	–	107	–	–	236	107	38	10,019

Note a: Appointed during 2009.

Note b: Resigned during 2009.

Note c: Resigned during 2008.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2008: four) was director of the Company whose emoluments were included above. The emolument of the remaining four (2008: one) highest paid individuals was as follows:

	2009 RMB'000	2008 RMB'000
Salaries and other benefits	**1,674**	728
Share option expenses	**3,627**	259
Retirement benefits costs	**75**	11
Discretionary bonus	**–**	168
	5,376	1,166

Their emoluments were within the following bands:

	No. of employees 2009	2008
HK$1,000,001 to HK$1,500,000 (equivalent to RMB881,200 to RMB1,321,880; 2008: equivalent to RMB889,700 to RMB1,334,550))	**1**	1
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,321,880 to RMB1,762,400; 2008: equivalent to RMB1,334,550 to RMB1,779,400))	**3**	–
	4	1

During either year, no emoluments were paid by the Group to any of the directors and the five highest paid individuals 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 either year.

10. DIVIDEND

On 1 April 2008, the Company declared a final dividend of HK0.5 cents (equivalent to RMB0.5 cents) per share. The total amount of dividend of RMB4,406,000 was paid in 2008.

No dividend was paid or proposed during 2009, nor has any dividend been proposed since the end of the reporting period.

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11. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

	2009	2008
	RMB'000	RMB'000
(Loss) earnings for the purposes of calculating basic earnings per share	**(126,743)**	63,335
Exchange adjustment	**–**	(11,260)
(Loss) gain arising from changes in fair value of redeemable convertible preferred shares	**–**	(54,487)
(Loss) earnings for the purposes of calculating diluted (loss) earnings per share	**(126,743)**	(2,412)

	Number of shares	
	2009	2008
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,008,951,120**	1,000,707,872
Effect of dilutive potential ordinary shares:		
Issuable under the Company's share option scheme	**–**	15,033,789
Conversion of the redeemable convertible preferred shares	**–**	194,500,000
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,008,951,120**	1,210,241,661

The computation of diluted loss per share for the year ended 31 December 2009 did not assume the exercise of share options or conversion of the redeemable convertible preferred shares as the exercise or conversion would result in a decrease in loss per share.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST					
At 1 January 2008	14,297	70,347	11,099	–	95,743
Exchange adjustments	(17)	(89)	(4)	–	(110)
Additions	4,361	12,627	1,840	10,063	28,891
Acquired on acquisition of subsidiaries (note 31(d)(e))	–	213	–	–	213
Disposals	–	(4,150)	(415)	–	(4,565)
At 31 December 2008	18,641	78,948	12,520	10,063	120,172
Exchange adjustments	–	1	–	–	1
Additions	4,417	25,508	1,574	4,459	35,958
Acquired on acquisition of subsidiaries (note 31(a)(b))	–	4,359	221	–	4,580
Disposals	(78)	(3,000)	(210)	–	(3,288)
Transfers	11,184	413	262	(11,859)	–
At 31 December 2009	**34,164**	**106,229**	**14,367**	**2,663**	**157,423**
DEPRECIATION					
At 1 January 2008	5,271	19,239	2,510	–	27,020
Exchange adjustments	(11)	(51)	–	–	(62)
Provided for the year	2,899	13,664	1,170	–	17,733
Eliminated on disposals	–	(3,536)	(21)	–	(3,557)
At 31 December 2008	8,159	29,316	3,659	–	41,134
Provided for the year	4,339	17,710	1,446	–	23,495
Eliminated on disposals	(45)	(2,103)	(189)	–	(2,337)
At 31 December 2009	**12,453**	**44,923**	**4,916**	**–**	**62,292**
CARRYING VALUES					
At 31 December 2009	**21,711**	**61,306**	**9,451**	**2,663**	**95,131**
At 31 December 2008	10,482	49,632	8,861	10,063	79,038

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12. PROPERTY, PLANT AND EQUIPMENT – continued

The above property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	19%-33 1/3%
Furniture, fixtures and equipment	9%-20%
Motor vehicles	9%-20%

13. INTANGIBLE ASSETS

	Development costs	Technical knowhow	Software	Contract-based customer-related intangibles	Technical expertise	Customer relationship	Patent	Trade name	Technology	Non-compete agreements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST											
At 1 January 2008	34,241	6,722	4,970	19,704	12,494	26,464	717	–	–	–	105,312
Acquired on acquisitions (note 31(d)(e))	–	–	–	–	–	1,441	–	968	6,643	–	9,052
Additions	11,085	4,850	–	–	–	–	–	–	–	–	15,935
At 31 December 2008	45,326	11,572	4,970	19,704	12,494	27,905	717	968	6,643	–	130,299
Acquired on acquisitions (note 31(a)(b)(c))	–	–	–	–	–	14,970	–	–	–	1,019	15,989
Additions	11,216	–	–	–	–	–	–	–	–	–	11,216
Disposals	–	–	(120)	–	–	–	–	–	–	–	(120)
At 31 December 2009	**56,542**	**11,572**	**4,850**	**19,704**	**12,494**	**42,875**	**717**	**968**	**6,643**	**1,019**	**157,384**
AMORTISATION/IMPAIRMENT											
At 1 January 2008	12,462	2,546	52	5,911	6,355	1,764	67	–	–	–	29,157
Provided for the year	7,065	1,642	540	3,941	1,712	5,509	200	145	664	–	21,418
At 31 December 2008	19,527	4,188	592	9,852	8,067	7,273	267	145	664	–	50,575
Provided for the year	7,477	1,642	491	3,941	1,712	6,699	200	194	1,329	41	23,726
Disposals	–	–	(114)	–	–	–	–	–	–	–	(114)
At 31 December 2009	**27,004**	**5,830**	**969**	**13,793**	**9,779**	**13,972**	**467**	**339**	**1,993**	**41**	**74,187**
CARRYING VALUES											
At 31 December 2009	**29,538**	**5,742**	**3,881**	**5,911**	**2,715**	**28,903**	**250**	**629**	**4,650**	**978**	**83,197**
At 31 December 2008	25,799	7,384	4,378	9,852	4,427	20,632	450	823	5,979	–	79,724

Development costs are internally generated. All of the Group's technical knowhow, software, contract-based customer-related intangibles, technical expertise, customer relationship, patent, trade name, technology and non-compete contracts were acquired from third parties.

13. INTANGIBLE ASSETS – continued

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

Development costs	5 years
Technical knowhow	3-10 years
Software	3-5 years
Contract-based customer-related intangibles	5 years
Technical expertise	5 years
Customer relationship	5 years
Patent	3.6 years
Trade name	5 years
Technology	5 years
Non-compete agreements	3-5 years

14. GOODWILL

	RMB'000
COST	
At 1 January 2008	445,993
Arising on acquisition of businesses	12,880
Arising on acquisition of additional interest in a subsidiary (Note)	6,109
At 31 December 2008	464,982
Arising on acquisition of businesses	48,675
At 31 December 2009	**513,657**
IMPAIRMENT	
At 1 January 2008	988
Impairment loss recognised for the year	17,387
At 31 December 2008	18,375
Impairment loss recognised for the year	80,667
At 31 December 2009	**99,042**
CARRYING VALUES	
At 31 December 2009	**414,615**
At 31 December 2008	446,607

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14. GOODWILL – continued

Note: In October 2008, the Group acquired a 20% additional interest of a subsidiary, Chinasoft Resources Shanghai for a cash consideration of RMB8,447,000. The carrying value of the net assets acquired are RMB2,338,000. During the current year, RMB7,603,000 has been settled. At the end of the reporting period, RMB844,000 (2008: RMB8,447,000) of the consideration remains unsettled.

Impairment testing on goodwill

For the purposes of impairment testing, the carrying amount of goodwill (net of impairment loss) as at 31 December 2009 and 2008 has been allocated to the following individual CGUs under the four segments:

	2009	2008
	RMB'000	RMB'000
SGM segment		
– Chinasoft Beijing	**26,396**	26,396
– Sino Sunnyever	**2,669**	2,669
– Guangyuqinmin	**2,909**	–
– Tobacco	**26,275**	–
	58,249	29,065
SFI segment		
– HGR and its subsidiaries (Note)	**134,188**	134,188
IT outsourcing segment		
– Cyber Resources	**31,963**	31,963
– Chinasoft Resources Beijing	**80,968**	80,968
– HGR and its subsidiaries (Note)	**82,817**	163,484
– Chinasoft Resources Shanghai	**6,109**	6,109
– Shenzhen Jinhuaye	**19,491**	–
	221,348	282,524
Training segment	**830**	830
	414,615	446,607

Note: At the end of 2009 and 2008, the total carrying amount of goodwill before impairment was of RMB297,672,000 which was resulted from the acquisition of HGR and its subsidiaries in 2007. The goodwill contributes to the cash flows of both the SFI and IT outsourcing segments.

14. GOODWILL – continued

Impairment testing on goodwill – continued

The Group recognised an impairment loss of RMB80,667,000 in 2009 (2008: RMB7,176,000) in relation to the goodwill arising on acquisition of HGR and its subsidiaries under the IT outsourcing segment. In addition, the Group recognised an impairment loss of RMB10,211,000 in 2008 in relation to the full amount of goodwill arising on acquisition of Japan Powerise in 2008 under the IT outsourcing segment.

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

IT outsourcing (other than HGR and its subsidiaries, Japan Powerise and Shenzhen Jinhuaye)

The recoverable amount of this CGU is fair value less costs to sell and has been determined based on the valuation at 31 December 2009 and 2008. The valuation is based on the management's 2009 financial information and a weighted average of market value of invested capital over earnings before interest and taxation of 17 (2008: 14) and that over earnings of 17 (2008: 17) based on comparable companies in the relevant industry.

Training

The recoverable amount of this CGU is fair value less costs to sell and has been determined based on the valuation at 31 December 2009 and 2008. The valuation is based on the management's 2009 financial information and a weighted average of market value of invested capital over earnings before interest and taxation of 17 (2008: 14) and that over earnings of 17 (2008: 17) based on comparable companies in the relevant industry.

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 2009 and 2008. The valuation is based on the management's 2009 financial information and a weighted average of market value of invested capital over earnings before interest and taxation of 17 (2008: 14) and that over earnings of 17 (2008: 17) based on comparable companies in the relevant industry.

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14. GOODWILL – continued

HGR and its subsidiaries

The recoverable amounts of HGR and its subsidiaries (the "HGR Group") have been determined based on a value in use calculation. These two CGUs generate cash flows separately and the cash flow projections of the respective CGUs are based on financial budgets approved by management covering a five-year period, and a discount rate of 18% (2008: 17%). The cash flows of the respective CGUs beyond the five-year period are extrapolated using a steady 3% (2008: 3%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Since the CGUs specialises in the solutions and IT outsourcing businesses, management of the Group believes that the projected growth rates are reasonable. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on the past performance of the CGUs and management's expectations for the market development. As at 31 December 2009 and 2008, the goodwill in relation to the acquisition of the HGR Group amounting to RMB80,667,000 and RMB7,176,000 was impaired.

Japan Powerise

For the year end 31 December 2008, the recoverable amount of Japan Powerise was determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 18%. The cash flows of Japan Powerise beyond the five-year period were extrapolated using a steady 3% growth rate. This growth rate was based on the relevant industry growth forecasts and did not exceed the average long-term growth rate for the relevant industry. Since Japan Powerise specialised in the IT outsourcing business, management of the Group believed that the projected growth rates were reasonable. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which included budgeted sales and gross margin. Such estimation was based on the past performance of Japan Powerise and management's expectations for the market development. As at 31 December 2009 and 2008, the goodwill in relation to the acquisition of Japan Powerise amounting to RMB10,211,000 was fully impaired.

Sino Sunnyever

The recoverable amount of Sino Sunnyever has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 14% (2008: 20%). The cash flows of Sino Sunnyever beyond the five-year period are extrapolated using a steady 3% (2008: 3%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Since Sino Sunnyever specialises in the SGM business, management of the Group believes that the projected growth rates are reasonable. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on the past performance of Sino Sunnyever and management's expectations for the market development.

14. GOODWILL – continued

Shenzhen Jinhuaye

The recoverable amount of Shenzhen Jinhuaye has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 16%. The cash flows of Shenzhen Jinhuaye beyond the five-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Since Shenzhen Jinhuaye specialises in the IT outsourcing business, management of the Group believes that the projected growth rates are reasonable. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on the past performance of Shenzhen Jinhuaye and management's expectations for the market development.

Guangyuqinmin

The recoverable amount of Guangyuqinmin has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 13%. The cash flows of Guangyuqinmin beyond the five-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Since Guangyuqinmin specialises in the SGM business, management of the Group believes that the projected growth rates are reasonable. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on the past performance of Guangyuqinmin and management's expectations for the market development.

Tobacco

The recoverable amount of Tobacco has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 17%. The cash flows of Tobacco beyond the five-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Since Tobacco specialises in the SGM business, management of the Group believes that the projected growth rates are reasonable. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin. Such estimation is based on the past performance of Tobacco and management's expectations for the market development.

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15. INTERESTS IN ASSOCIATES

	2009 RMB'000	2008 RMB'000
Unlisted cost of investments in associates	**6,500**	6,500
Share of post-acquisition profits net of dividend received	**10,928**	7,969
	17,428	14,469

Included in the unlisted cost of investments in associates is goodwill of RMB3,052,000 (2008: RMB3,052,000) arising on acquisition of China National Tobacco Information Company Limited in 2005.

Particulars of the Group's associates at 31 December 2009 and 2008 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 IT consulting services
北京中烟信息技術有限公司 China National Tobacco Information Company Limited	Equity joint venture enterprise	PRC	PRC	20%	Maintenance of a policy making system for the production, operation and management of the tobacco industry

15. INTERESTS IN ASSOCIATES – continued

The summarised financial information in respect of the Group's associates is set out below:

	2009	2008
	RMB'000	RMB'000
Total assets	**82,787**	65,482
Total liabilities	**(41,864)**	(34,093)
Net assets	**40,923**	31,389
Group's share of net assets of associates	**14,376**	11,417
Revenue	**76,589**	78,468
Profit for the year	**9,369**	7,921
Group's share of profits of associates for the year	**2,959**	2,878

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16. PREPAID LEASE PAYMENTS

	RMB'000
COST	
At 1 January 2008	1,887
Exchange adjustment	(104)
At 31 December 2008	1,783
Exchange adjustment	(2)
At 31 December 2009	**1,781**
AMORTISATION	
At 1 January 2008	434
Exchange adjustment	(19)
Provided for the year	168
At 31 December 2008	583
Exchange adjustment	(1)
Provided for the year	166
At 31 December 2009	**748**
CARRYING VALUES	
At 31 December 2009	**1,033**
At 31 December 2008	1,200

	2009	2008
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Non-current assets	**867**	1,034
Current assets	**166**	166
	1,033	1,200

Prepaid lease payments represent prepayments for a trademark usage right and are amortised on a straight-line basis over 10 years.

17. INVENTORIES

	2009 RMB'000	2008 RMB'000
Computer hardware, equipment and software products	**14,457**	21,939

18. TRADE AND OTHER RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade receivables	**304,569**	363,713
Less: Allowance for doubtful debts	**(55,768)**	(34,783)
	248,801	328,930
Trade receivables from related companies (Note)	**5,985**	5,758
	254,786	334,688
Advances to suppliers	**59,432**	9,888
Deposits, prepayments and other receivables	**48,060**	55,239
	362,278	399,815

Note: The balance arose from provision of services by the Group to certain related companies (see note 38).

The credit terms of the Group range from 30 to 180 days. An aged analysis of trade receivables (net of allowance for doubtful debts) is as follows:

	2009 RMB'000	2008 RMB'000
Within 90 days	**189,043**	177,956
Between 91 – 180 days	**13,675**	26,288
Between 181 – 365 days	**16,856**	29,045
Between 1 – 2 years	**34,702**	89,530
Over 2 years	**510**	11,869
	254,786	334,688

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by each customer. Limits attributed to customers are reviewed each time. 60% (2008: 44%) of the trade receivables that are neither past due nor impaired have the best credit quality assessed by the Group.

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18. TRADE AND OTHER RECEIVABLES – continued

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of RMB67,951,000 (2008: RMB173,328,000) which are past due at the reporting date for which the Group has not provided for an impairment loss as the Group is satisfied with the subsequent settlement and the credit quality of these customers had not been deteriorated. Accordingly, the Group does not consider these balances impaired. The Group does not hold any collateral over these balances. The average age of these receivables is 229 days (2008: 271 days).

Aging of trade receivables which are past due but not impaired

	2009 **RMB'000**	2008 RMB'000
Within 90 days	**6,585**	16,596
Between 91 – 180 days	**9,298**	26,288
Between 181 – 365 days	**16,856**	29,045
Between 1 – 2 years	**34,702**	89,530
Over 2 years	**510**	11,869
Total	**67,951**	173,328

The Group has provided full impairment losses for all receivables aged over 3 years because historical experience is such that receivables that are past due beyond 3 years are generally not recoverable.

Movement in the allowance for doubtful debts

	2009 **RMB'000**	2008 RMB'000
Balance at beginning of the year	**34,783**	17,984
Impairment losses recognised on receivables	**21,113**	16,799
Amounts written off as uncollectible	**(128)**	–
Balance at end of the year	**55,768**	34,783

19. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2009 RMB'000	2008 RMB'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**653,860**	464,557
Less: Progress billings	**(572,586)**	(412,435)
	81,274	52,122
Analysed for reporting purposes as:		
Amounts due from contract customers for contract work	**161,019**	69,891
Amounts due to contract customers for contract work	**(79,745)**	(17,769)
	81,274	52,122

At 31 December 2009, retentions held by customers for contract work amounted to RMB1,813,000 (2008: RMB2,122,000). There are no advances received from customers for contract work at the end of 2009 and 2008.

20. 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 is therefore classified a current asset. The deposits carry interest at the prevailing market interest rate. The average interest rate for the year was 0.36% (2008: 0.36%) per annum. The pledged deposits will be released upon the settlement of relevant liabilities under the trade facilities.

Bank balances

The amounts comprise short-term bank deposits carried at the prevailing market interest rates which range from 1.71% to 2.25% (2008: from 1.71% to 4.14%) per annum. At the end of the reporting period, included in bank balances are the following amounts denominated in currencies other than the functional currency of the relevant group entity to which they relate.

	2009 RMB'000	2008 RMB'000
Hong Kong Dollars	**1,757**	2,614
United States Dollars	**1,039**	149
Japanese Yen	**–**	30

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21. TRADE AND OTHER PAYABLES

	2009 RMB'000	2008 RMB'000
Trade payables	**119,627**	149,145
Trade payable to an associate	**–**	2,114
Trade payable to a related company (Note)	**921**	354
	120,548	151,613
Deposits received from customers	**6,300**	6,033
Other payables and accrued charges	**156,424**	124,476
	283,272	282,122

An aged analysis of trade payables is as follows:

	2009 RMB'000	2008 RMB'000
Within 90 days	**48,165**	88,543
Between 91 – 180 days	**18,419**	14,480
Between 181 – 365 days	**14,543**	13,493
Between 1 – 2 years	**27,331**	22,178
Over 2 years	**12,090**	12,919
	120,548	151,613

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

Note: Trade payable to a related company represents a payable to a holding company of a substantial shareholder of the Company.

22. AMOUNTS DUE FROM/TO RELATED COMPANIES

The amounts due from/to related companies are unsecured, non-interest bearing and repayable on demand. The amounts are due from/to a holding company of a substantial shareholder of the Company.

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23. BILLS PAYABLE

An aged analysis of bills payable is as follows:

	2009 RMB'000	2008 RMB'000
Within 90 days	**1,255**	12,551
Between 91 – 180 days	**–**	612
	1,255	13,163

24. BORROWINGS

	2009 RMB'000	2008 RMB'000
Bank loans unsecured (Note (i))	**57,000**	54,064
Loans from other financial institution, unsecured	**30,000**	–
Loan from a related party, unsecured (Note (ii))	**17,071**	16,491
	104,071	70,555
Carrying amount repayable:		
Within one year	**104,071**	70,555

	2009 RMB'000	2008 RMB'000
Total borrowings		
Interest free	**17,071**	16,491
At floating rates (Note (iii))	**87,000**	54,064
	104,071	70,555

	2009 RMB'000	2008 RMB'000
Analysis of borrowings by currency		
Denominated in RMB	**87,000**	54,064
Denominated in United States dollar	**17,071**	16,491
	104,071	70,555

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24. BORROWINGS – continued

Notes:

(i) Guaranteed by the Company and by China National Investment and Guaranty Co., Ltd., a guarantee service provider.

(ii) The loan from a related party represents a loan from a former shareholder of HGR that was assumed by the Group when the Group acquired HGR in 2007. The loan is unsecured, interest free and repayable within one year. The imputed interest rate on this loan is 5.26% (2008: 5.26%) per annum.

(iii) Interests on RMB borrowings are charged at interest rates announced by the People's Bank of China. The average interest rate during the year is 5.89% (2008: 7.06%) per annum.

At the end of the reporting period, the Group had the following undrawn trade facilities:

	2009	2008
	RMB'000	RMB'000
Expiring within one year	**23,745**	60,344

25. DEFERRED TAXATION

The following are the major deferred tax (liabilities) and assets recognised by the Group and movement thereon during the current and prior year:

	Deferred development costs	**Technical expertise**	**Customer relationship**	**Technology**	**Trade name**	**Non-compete agreement**	**Accrued expenses**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	(3,268)	(198)	(3,704)	–	–	–	1,806	(5,364)
Arising from acquisition of subsidiaries (note 31(d) (e))	–	–	(317)	(1,661)	(213)	–	–	(2,191)
(Charge) credit to profit or loss	(603)	35	710	166	32	–	1,012	1,352
Effect of change in tax rate	–	33	617	–	–	–	(301)	349
At 31 December 2008	(3,871)	(130)	(2,694)	(1,495)	(181)	–	2,517	(5,854)
Arising from acquisition of subsidiaries (note 31(a) (b) (c))	–	–	(3,083)	–	–	(229)	–	(3,312)
Credit to profit or loss	1,107	35	950	332	43	8	1,011	3,486
At 31 December 2009	**(2,764)**	**(95)**	**(4,827)**	**(1,163)**	**(138)**	**(221)**	**3,528**	**(5,680)**

25. DEFERRED TAXATION – continued

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2009 RMB'000	2008 RMB'000
Deferred tax assets	**3,528**	2,517
Deferred tax liabilities	**(9,208)**	(8,371)
	(5,680)	(5,854)

At the end of the reporting period, the Group had unused tax losses available for offset against future profits of approximately RMB44,517,000 (2008: RMB24,689,000) which may be carried forward indefinitely except for losses of approximately RMB20,318,000 (2008: RMB7,757,000) which will expire from 2010 to 2014 (2010: RMB1,488,000, 2011: RMB216,000, 2012: RMB839,000, 2013: RMB5,214,000, 2014: RMB12,561,000). No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams.

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profit earned by PRC subsidiaries from 1 January 2008 onwards at 5% or 10% according the relevant tax treaties. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of the PRC subsidiaries generated during 2009 amounting to RMB71,495,000 (2008: RMB51,669,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

26. REDEEMABLE CONVERTIBLE PREFERRED SHARES

	Number of shares	Nominal amount HK$'000
Redeemable convertible preferred shares (the "Series A Preferred Shares") of HK$0.05 each:		
Authorised		
Balance at 31 December 2008 and 2009	625,000,000	31,250
Issued and fully paid		
Issued during the year and balance at 31 December 2008 and 2009	194,500,000	9,725

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26. REDEEMABLE CONVERTIBLE PREFERRED SHARES – continued

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 dollar. 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 Re-stated Memorandum and Articles of the Company.

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 Series A Preferred Shares contain both a liability component and embedded derivatives and the entire instrument is designated as a financial liability at FVTPL on initial recognition.

At 31 December 2009 and 2008, the fair value of the liability component of the Series A Preferred Shares was estimated by using market interest rates of 14% and 16.19% respectively. The fair value of the embedded derivatives (including the redemption option and conversion option) is calculated using the binomial option pricing model. The inputs into the model were as follows:

	2009	2008
Share price	**HK$0.91**	HK$0.58
Exercise price	**HK$0.8**	HK$0.8
Time to maturity	**2 years**	3 years
Risk free rate	**0.551%**	0.786%
Share price volatility	**73.17%**	63.42%

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

26. REDEEMABLE CONVERTIBLE PREFERRED SHARES – continued

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

	Liability component	Derivative component	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2008	117,591	83,494	201,085
Exchange adjustment	(6,849)	(4,411)	(11,260)
Loss (gain) arising from changes in fair value	1,455	(55,942)	(54,487)
Interest paid	(7,639)	–	(7,639)
As at 31 December 2008	104,558	23,141	127,699
Exchange adjustment	(179)	(56)	(235)
Loss arising from changes in fair value	23,307	24,439	47,746
Interest paid	(7,555)	–	(7,555)
As at 31 December 2009	**120,131**	**47,524**	**167,655**

Included in the loss (gain) arising from changes of fair value is an interest expense of RMB7,561,000 (2008: RMB7,634,000) determined using the effective interest method.

27. SHARE CAPITAL

	Number of shares	Nominal amount
		HK$'000
Ordinary shares of HK$0.05 each:		
Authorised:		
At 1 January 2008, 31 December 2008 and 2009	1,500,000,000	75,000

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27. SHARE CAPITAL – continued

	Number of shares	Amount	Amount shown in the financial statements
		HK$	RMB'000
Issued and fully paid			
At 1 January 2008	989,838,375	49,491,919	51,398
Issue of new shares (Note)	8,790,313	439,516	396
Exercise of share options	8,650,000	432,500	384
At 31 December 2008	1,007,278,688	50,363,935	52,178
Exercise of share options	4,070,000	203,500	179
At 31 December 2009	**1,011,348,688**	**50,567,435**	**52,357**

Note: Pursuant to an resolution passed by the directors of the Company on 14 November 2007, 8,790,313 new shares of the Company of HK$0.05 each were allotted and issued as fully paid to the shareholder of Japan Powerise as the consideration shares of HK$1.26 (equivalent to RMB1.136) each for the acquisition of the entire equity interest of Japan Powerise (see note 31 (d)).

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

28. SHARE PREMIUM AND RESERVES

Share premium

In accordance with the Companies Law of the Cayman Islands, the share premium account is distributable to the owners 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 shareholders of the Company on 8 May 2008, dividend for 2007 in the amount of RMB4,406,000 was paid and distributed out of the share premium account. No dividend has paid and distributed in year 2009.

28. SHARE PREMIUM AND RESERVES – continued

General reserve fund and statutory enterprise expansion fund

As stipulated by the relevant laws and regulations in the PRC, foreign invested enterprises 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 relevant subsidiaries prepared in accordance with accounting principles generally accepted in the PRC and the amount and allocation basis are decided by their respective boards of directors annually. The general reserve fund can be used to make up prior year losses of these 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 these subsidiaries by means of capitalisation issue.

Statutory surplus reserve fund

As stipulated by the relevant laws and regulations in the PRC, the PRC subsidiaries other than foreign invested enterprises are required to provide for the statutory surplus reserve 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 the relevant subsidiaries prepared in accordance with accounting principles generally accepted in the PRC.

29. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 24, redeemable convertible preferred shares disclosed in note 26, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, share premium, reserves and accumulated profits.

The directors of the Company review the capital structure on a quarterly basis. As part of this review, the directors of the Company consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues and as well as the issue of new debt or the redemption of existing debt.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

30. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2009 RMB'000	2008 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**694,730**	729,578
Financial liabilities		
FVTPL designated as at FVTPL (see below)	**167,655**	127,699
Amortised cost	**417,022**	368,358

Redeemable convertible preferred shares

	2009 RMB'000	2008 RMB'000
Cumulative loss in fair value attributable to changes in credit risk (Note)	**(1,710)**	(2,308)
Gain (loss) in fair value attributable to changes in credit risk recognised during the year (Note)	**598**	(4,535)
Difference between carrying amount and maturity amount of the principal amount of HK$155,600,000		
At fair value	**120,131**	104,375
Amount payable at maturity	**(137,006)**	(136,984)
	(16,875)	(32,609)

Note: The redeemable convertible preferred shares of the Company contain the liability component and embedded derivatives are designated as financial liability at FVTPL on initial recognition. With respect to the liability component, the loss in fair value attributable to change in credit risk is calculated as the difference between total change in fair value of the liability component and the change in fair value of the liability component due to change in market conditions alone. The change in fair value of the liability component due to market conditions was calculated using benchmark interest yield curves as at the end of the reporting period holding credit risk rate constant. The fair value of the liability component was estimated by discounting future cash flows using quoted benchmark interest yield curves as at the end of the reporting period and by obtaining lender quotes for borrowing of similar maturity to estimate credit risk margin.

30. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. 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.

Market risk

(i) Currency risk

Several subsidiaries of the Company have bank balances and cash and trade receivables denominated in foreign currencies arising from income generated from provision of services, which expose the Group to foreign currency risk. Approximately 8.5% (2008: 11.6%) of the Group's income generated from provisions of services is denominated in currencies other than the functional currency of the group entity providing the services. In addition, redeemable convertible preferred shares, a loan from a related party of the Group and certain trade payables are denominated in foreign currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong dollars	**173,652**	128,144	**4,155**	5,200
US dollars	**19,400**	17,602	**23,440**	30,759
Japanese Yen	**2,484**	234	**17,669**	6,065

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 in Renminbi. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management but the management keep on monitoring the movement of all foreign currency exposure.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

30. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

(i) Currency risk – continued

Sensitivity analysis

The Group is mainly exposed to Hong Kong dollar, US dollar and Japanese Yen.

The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates a decrease in loss (2008: an increase in profit) where Renminbi strengthens 5% against the relevant currencies. For a 5% weakening of Renminbi against the relevant currencies, there would be an equal and opposite impact on the result, and the balances below would be negative.

	Hong Kong dollar Impact		**US dollar Impact**		**Japanese Yen Impact**	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
(Loss) profit for the year	**8,732**	6,570 (a)	**(205)**	398 (b)	**(1,115)**	(69) (c)

(a) This is mainly attributable to the exposure on Hong Kong dollar denominated bank balances and redeemable convertible preferred shares at the year end.

(b) This is mainly attributable to the exposure on US dollar trade receivables, bank balances and a loan from a related party at year end.

(c) This is mainly attributable to the exposure on Japanese Yens trade receivables, bank balances at year end.

30. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to redeemable convertible preferred shares (see note 26 for details) and a loan from a related party (see note 24 for details).

The Group is also 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 and borrowings at market rates.

The Group currently does not have an interest rate hedging policy and will consider hedging significant interest rate exposure should the need arises.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both the liability component of the redeemable convertible preferred shares and floating rate borrowings (see note 24) and short-term deposits at the end of the reporting period. A 50 basis points (2008: 50 basis points) increase or decrease is used for the liability component of the redeemable convertible preferred shares and floating rate borrowings and a 10 basis points (2008: 10 basis points) increase or decrease is used for short-term deposits when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

In respect of the liability component of the redeemable convertible preferred shares and floating rate borrowings, if interest rates had been 50 basis points (2008: 50 basis points) higher/lower and all other variables were held constant, the Group's results for the year ended 31 December 2009 would increase/decrease by RMB998,623 (2008: RMB1,079,821). This is attributable to the Group's exposure to fair value change on the liability component of its redeemable convertible preferred shares.

In respect of short-term bank deposits, if interest rates had been 10 basis points (2008: 10 basis points) higher/lower and all other variables were held constant, the Group's results for the year ended 31 December 2009 would increase/decrease by RMB310,000 (2008: increase/decrease by RMB287,000). This is attributable to the Group's exposure to interest rates on its short-term bank deposits.

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For the year ended 31 December 2009

30. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

(iii) Other price risk

The Group is required to estimate the fair value of the conversion option embedded in the redeemable convertible preferred shares at the end of the reporting period with changes in fair value to be recognised in profit or loss as long as the redeemable convertible preferred shares are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company's share market price and share price volatility.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to the Company's share price risks at the reporting date only as the directors of the Company consider that the change in market interest rate may not have significant financial impact on the fair value of conversion option.

If the Company's share price had been 5% higher/lower and all other variables were held constant, the Group's loss (2008: profit) for the year (as a result of changes in fair value of conversion option component of redeemable convertible preferred shares) would increase/decrease by RMB2,311,973/RMB4,726,700 (2008: decrease/increase by RMB2,767,000).

In management's opinion, the sensitivity analyses are unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the conversion option component of redeemable convertible preferred shares involves multiple variables and certain variables are interdependent.

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 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group reviews the recoverable amount of each individual trade receivable at each end of the reporting period 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 authorised banks in the PRC.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 89.6% (2008: 91.7%) of the total trade receivable as at 31 December 2009. Trade receivables consist of a large number of customers, spread across diverse industries. In addition, there is concentration of credit risk on liquid funds which are deposited with several authorised banks in the PRC. Other than the above, the Group does not have any other significant concentration of credit risk.

30. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

As at 31 December 2009, the Group has available unutilised general borrowing facilities of approximately RMB23,745,000 (2008: RMB60,344,000). Details of which are set out in note 24.

The following table details the Group's remaining contractual maturity for its financial liabilities. It has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity tables

	Less than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	1-2 years RMB'000	2+ years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2009 RMB'000
2009						
Trade and other payables	276,972	–	–	–	276,972	276,972
Bills payable	1,255	–	–	–	1,255	1,255
Amounts due to related companies	128	–	–	–	128	128
Dividend payable to shareholders	82	–	–	–	82	82
Borrowings	34,980	54,726	–	–	89,706	87,000
Consideration payables	18,492	4,648	12,147	–	35,287	34,514
Loan from a related party	17,071	–	–	–	17,071	17,071
Redeemable convertible preferred shares	3,788	3,768	7,535	138,890	153,981	167,655
	352,768	63,142	19,682	138,890	574,482	584,677

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30. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity tables – continued

	Less than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	1-2 years RMB'000	2+ years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2008 RMB'000
2008						
Trade and other payables	276,089	–	–	–	276,089	276,089
Bills payable	13,163	–	–	–	13,163	13,163
Amounts due to related companies	22	–	–	–	22	22
Dividend payable to shareholders	82	–	–	–	82	82
Borrowings	21,701	34,641	–	–	56,342	54,064
Consideration payables	8,447	–	–	–	8,447	8,447
Loan from a related party	17,087	–	–	–	17,087	16,491
Redeemable convertible preferred shares	3,789	3,774	7,547	146,658	161,768	127,699
	340,380	38,415	7,547	146,658	533,000	496,057

Fair value

The fair value of financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binomial model).

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

Fair value measurements recognised in the statement of financial position

Financial instruments that are measured subsequent to initial recognition at fair value, are grouped in to Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

30. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Fair value measurements recognised in the statement of financial position – continued

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At the end of the reporting period, level 3 financial liability included redeemable convertible preferred shares (see note 26). During the year, the loss arising from changes in fair value recognised in profit or loss amounting to RMB47,746,000.

31. ACQUISITIONS

(a) In September 2009, the Group acquired the entire equity interest of Shenzhen Jinhuaye for a consideration up to RMB33,590,000. The amount included a consideration of RMB21,442,500, the payment of which is contingent upon achievement of certain specific milestones. In the opinion of the directors of Company, the payment of the contingent consideration was probable at the date of acquisition and accordingly was recognised as part of the cost of acquisition. The fair value of the total consideration was RMB32,621,000 at the date of acquisition. Shenghen Jinhuaye is engaged in the provision of IT outsourcing services. Acquisition of the subsidiary was accounted for by the purchase method. The provisional values for the intangible assets acquired are as follows:

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

31. ACQUISITIONS – continued

(a) – continued

	Acquiree's carrying amount RMB'000	Fair value adjustment RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	4,156	–	4,156
Intangible assets			
– Customer relationship	–	6,857	6,857
– Non-compete agreement	–	24	24
Trade and other receivables	18,784	–	18,784
Bank balances and cash	1,948	–	1,948
Trade and other payables	(16,919)	–	(16,919)
Deferred tax liability	–	(1,720)	(1,720)
	7,969	5,161	13,130
Goodwill on acquisition			19,491
Total consideration			32,621
Satisfied by:			
Cash			12,147
Outstanding consideration payable within one year			9,296
Outstanding consideration payable over one year			11,178
			32,621
Net cash outflow arising on acquisition:			
Cash consideration paid			12,147
Bank balances and cash acquired			(1,948)
Net cash outflow of cash and cash equivalents in respect of the acquisition			10,199

31. ACQUISITIONS – continued

(b) In November 2009, the Group acquired the entire equity interest of Guangyuqinmin for a cash consideration of RMB6,000,000. Guangyuqinmin is engaged in business of IT solution services. Acquisition of the subsidiary was accounted for by the purchase method. The provisional values for the intangible assets are as follows:

	Acquiree's carrying amount	Fair value adjustment	Fair value
	RMB'000	RMB'000	RMB'000
Net assets acquired:			
Property, plant and equipment	424	–	424
Intangible assets			
– Customer relationship	–	356	356
– Non-compete agreement	–	698	698
Inventory	16	–	16
Trade and other receivables	164	–	164
Bank balances and cash	2,658	–	2,658
Trade and other payables	(962)	–	(962)
Deferred tax liability	–	(263)	(263)
	2,300	791	3,091
Goodwill on acquisition			2,909
Total consideration			6,000
Satisfied by:			
Cash			6,000
Net cash outflow arising on acquisition:			
Cash consideration paid			6,000
Bank balances and cash acquired			(2,658)
Net cash outflow of cash and cash equivalents in respect of the acquisition			3,342

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31. ACQUISITIONS – continued

(c) In September 2009, the Group acquired a business ("Tobacco") from an entity engaged in the provision of IT solution services in tobacco retailing industry for a cash consideration up to RMB33,000,000. The amount included a consideration of RMB13,000,000, the payment of which is contingent upon achievement of certain specific milestones. In the opinion of the directors of Company, the payment of the contingent consideration was probable at the date of acquisition and accordingly was recognised as part of the cost of acquisition. Acquisition of the business was accounted for by the purchase method. The provisional values for the intangible assets acquired are as follows:

	Acquiree's carrying amount	**Fair value adjustment**	**Fair value**
	RMB'000	RMB'000	RMB'000
Assets acquired			
Intangible assets			
– Customer relationship	–	7,757	7,757
– Non-compete agreement	–	297	297
Deferred tax liability	–	(1,329)	(1,329)
	–	6,725	6,725
Goodwill on acquisition			26,275
Total consideration			33,000
Satisfied by:			
Cash			20,000
Outstanding consideration payable within one year			13,000
			33,000
Cash outflow arising on acquisition:			
Cash consideration paid			20,000
Bank balances and cash acquired			–
Cash outflow of cash and cash equivalents in respect of the acquisition			20,000

31. ACQUISITIONS – continued

(c) – continued

Note: The goodwill arising on the acquisitions of Shenzhen Jinhuaye, Guangyuqinmin and Tobacco are attributable to the anticipated profitability of the provision of the Group's IT outsourcing and solutions services and the anticipated future operating synergies from the combination. In addition, the Group believes that the acquisition of Tobacco furthers its strategy of expanding into the tobacco solutions market. The combination of these factors is the rationale for the excess of purchase price over the value of the assets acquired.

Shenzhen Jinhuaye, Guangyuqinmin and Tobacco contributed positively RMB11,147,000, RMB1,163,400 and 10,587,000 respectively to the Group's turnover and RMB166,000, RMB7,000 and 4,749,000 respectively to the Group's results for the year between the date of acquisition and the end of the reporting period.

If the acquisitions had been completed on 1 January 2009, total Group's turnover for the year would have been RMB1,147,870,000, and Group's loss for the year would have been RMB120,615,000. 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 2009, nor is it intended to be a projection of future results.

Notes to the Consolidated Financial Statements

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31. ACQUISITIONS – continued

(d) In April 2008, the Group acquired the entire equity interest of Japan Powerise for a total consideration of RMB13,113,000, comprising of both cash consideration and the issue of consideration shares. Japan Powerise is engaged in the provision of IT outsourcing services. Acquisition of the subsidiary was accounted for by the purchase method.

	Acquiree's carrying amount	Fair value adjustments	Fair value
	RMB'000	RMB'000	RMB'000
Net assets acquired:			
Property, plant and equipment	19	–	19
Intangible assets			
– Customer relationship	–	1,441	1,441
– Trade name	–	968	968
Trade and other receivables	5,081	–	5,081
Bank balances and cash	442	–	442
Trade and other payables	(4,514)	–	(4,514)
Tax payable	(5)	–	(5)
Deferred tax liability	–	(530)	(530)
	1,023	1,879	2,902
Goodwill on acquisition			10,211
Total consideration			13,113
Satisfied by:			
Cash			3,124
Shares issued (note 27)			9,989
			13,113
Net cash outflow arising on acquisition:			
Cash consideration paid			3,124
Bank balances and cash acquired			(442)
Net cash outflow of cash and cash equivalents in respect of the acquisition			2,682

31. ACQUISITIONS – continued

(e) In June 2008, the Group acquired the entire equity interest of Sino Sunnyever for a cash consideration of RMB8,016,000. Sino Sunnyever is engaged in the development and provision of IT system. Acquisition of the subsidiary was accounted for using the purchase method.

	Acquiree's carrying amount	Fair value adjustments	Fair value
	RMB'000	RMB'000	RMB'000
Net assets acquired:			
Property, plant and equipment	194	–	194
Intangible assets			
– Technology	–	6,643	6,643
Inventory	152	–	152
Amounts due from customers for contract work	2,307	–	2,307
Trade and other receivables	1,209	–	1,209
Bank balances and cash	146	–	146
Trade and other payables	(3,643)	–	(3,643)
Deferred tax liability	–	(1,661)	(1,661)
	365	4,982	5,347
Goodwill on acquisition			2,669
Total consideration			8,016
Satisfied by:			
Cash			8,016
Net cash outflow arising on acquisition:			
Cash consideration paid			8,016
Bank balances and cash acquired			(146)
Net cash outflow of cash and cash equivalents in respect of the acquisition			7,870

Notes to the Consolidated Financial Statements

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32. CONTINGENT LIABILITIES

During the year ended 31 December 2008, the Group received letters from lawyers acting for certain shareholders who sold their shares of HGR to the Group ("Selling Shareholders") in 2007. The legal letters relate to contingent purchase consideration as set out in the share sale and purchase agreement ("SPA") in connection with the acquisition of HGR in 2007. Under the SPA, the Selling Shareholders would be entitled to a payment of the contingent purchase consideration if the audited net profit of HGR for the year ended 31 December 2007 ("2007 Net Profit") was above a certain amount as set out in the SPA. In accordance with the terms of the SPA, if the 2007 Net Profit exceeds US$3.16 million, the amount of the earn-out payment shall be equal to 15.5 times the 2007 Net Profit less the consideration of US$45.04 million that was paid in 2007. The total final consideration (including the earn-out payment) may not be more than US$55 million. The earn-out payment would be settled (a) by cash in respect of not more than 30% and not less than 10% of the contingent purchase consideration; and (b) by issuing to those Selling Shareholders who have elected to receive the Company's shares such number of the Company's shares as shall have a total value equal to the remaining balance of the contingent purchase consideration. In the opinion of the directors of the Company, the 2007 Net Profit of HGR was lower than the amount set out in the SPA and accordingly, the consolidated financial statements did not include adjustments in respect of the contingent purchase consideration as at the end of 2007 and 2008.

As announced by the Company on 29 March 2010, the Company, HGR and 99.63% of the Selling Shareholders confirmed and agreed that the 2007 Net Profit shall be deemed less than US$3.16 million and the earn-out payment shall not be payable. As a result, the directors of the Company do not believe that the ultimate resolution of this matter will have a material adverse effect on the Group's financial position or operating results and accordingly, no adjustment in respect of the contingent purchase consideration is required as at the end of 2009.

33. MAJOR NON-CASH TRANSACTIONS

In April 2008, the Group acquired a 100% equity interest in Japan Powerise for a total consideration of RMB13,113,000. Part of the consideration was satisfied by the issuance of new shares of the Company (see note 31(d)).

34. OPERATING LEASE COMMITMENTS

At the end of the reporting period, 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:

	2009 **RMB'000**	2008 RMB'000
Within one year	**42,253**	22,089
In the second to fifth year inclusive	**58,746**	21,742
	100,999	43,831

34. OPERATING LEASE COMMITMENTS – continued

Operating lease payments represent rentals payable by the Group for certain premises for training office properties and storeroom. Certain lease agreements for offices properties were replaced by new agreements entered into during the year. Leases are negotiated for lease terms ranging from one year to five years (2008: one year to two years) for the Group and rentals are normally fixed during the lease period.

35. CAPITAL COMMITMENT

	2009	2008
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of technical know-how and software	**–**	2,898
Commitment to acquire a business	**–**	880

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 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.

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36. SHARE OPTION SCHEME – continued

The movements of the share options granted to the directors and employees of the Group during the year ended 31 December 2009 are as follows:

					Number of share options				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2009	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2009
Directors:									
Chen Yuhong	30.3.2006	HKD 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)	–	–
	10.4.2007	HKD 1.78	Nil	10.4.2007 – 9.4.2017	950,000	–	–	–	950,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	950,000	–	–	–	950,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	950,000	–	–	–	950,000
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	950,000	–	–	–	950,000
	14.4.2008	HKD 1.37	Nil	14.4.2008 – 13.4.2011	2,500,000	–	–	–	2,500,000
			14.4.2008 – 13.4.2009	14.4.2009 – 13.4.2011	2,500,000	–	–	–	2,500,000
Tang Zhengming	13.8.2003	HKD 0.58	13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	80,000	–	–	–	80,000
	13.5.2004	HKD 0.65	13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	–	–	–	–	–
			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	HKD 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
	10.4.2007	HKD 1.78	Nil	10.4.2007 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	500,000	–	–	–	500,000
	14.4.2008	HKD 1.37	Nil	14.4.2008 – 13.4.2011	1,000,000	–	–	–	1,000,000
			14.4.2008 – 13.4.2009	14.4.2009 – 13.4.2011	1,000,000	–	–	–	1,000,000

36. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2009	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2009
Directors:									
Wang Hui	13.8.2003	HKD 0.58	13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	250,000	–	–	–	250,000
	13.5.2004	HKD 0.65	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	HKD 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
	10.4.2007	HKD 1.78	Nil	10.4.2007 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	500,000	–	–	–	500,000
	14.4.2008	HKD 1.37	Nil	14.4.2008 – 13.4.2011	1,300,000	–	–	–	1,300,000
			14.4.2008 – 13.4.2009	14.4.2009 – 13.4.2011	1,300,000	–	–	–	1,300,000
Cui Hui	13.5.2004	HKD 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
Duncan Chiu	13.5.2004	HKD 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
	14.4.2008	HKD 1.37	Nil	14.4.2008 – 13.4.2011	5,000,000	–	–	–	5,000,000
			14.4.2008 – 13.4.2009	14.4.2009 – 13.4.2011	5,000,000	–	–	–	5,000,000
Zeng Zhijie	10.4.2007	HKD 1.78	Nil	10.4.2007 – 9.4.2017	187,500	–	–	–	187,500
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	187,500	–	–	–	187,500
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	187,500	–	–	–	187,500
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	187,500	–	–	–	187,500
					36,030,000	–	(1,200,000)	–	34,830,000

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36. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2009	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2009
Other employees	13.8.2003	HKD 0.58	13.8.2003 – 12.8.2005	13.8.2005 – 12.8.2013	1,117,500	–	(150,000)	–	967,500
			13.8.2003 – 12.8.2006	13.8.2006 – 12.8.2013	1,897,500	–	–	–	1,897,500
			13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	1,897,500	–	–	–	1,897,500
	13.5.2004	HKD 0.6	13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	934,000	–	(810,000)	–	124,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	8,025,000	–	–	–	8,025,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	8,025,000	–	–	–	8,025,000
	30.3.2006	HKD 0.97	Nil	30.3.2006 – 29.3.2016	2,550,000	–	(350,000)	(1,400,000)	800,000
			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
	10.4.2007	HKD 1.78	Nil	10.4.2007 – 9.4.2017	5,525,000	–	–	(1,500,000)	4,025,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	5,525,000	–	–	–	5,525,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	5,525,000	–	–	–	5,525,000
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	5,525,000	–	–	–	5,525,000
	13.6.2008	HKD 1.212	Nil	13.6.2008 – 12.6.2011	3,930,000	–	–	(3,000,000)	930,000
			13.6.2008 – 12.6.2009	13.6.2009 – 12.6.2011	3,930,000	–	–	–	3,930,000
			13.6.2008 – 12.6.2010	13.6.2010 – 12.6.2011	5,240,000	–	–	–	5,240,000
	4.7.2008	HKD 1.144	Nil	4.7.2008 – 3.7.2011	5,532,000	–	–	(2,060,000)	3,472,000
			4.7.2009 – 3.7.2009	4.7.2009 – 3.7.2011	5,532,000	–	–	–	5,532,000
			4.7.2010 – 3.7.2010	4.7.2010 – 3.7.2011	7,376,000	–	–	–	7,376,000
	2.2.2009	HKD 0.480	Nil	2.2.2009 – 1.2.2012	–	10,005,000	(1,560,000)	(300,000)	8,145,000
			2.2.2009 – 1.2.2010	2.2.2010 – 1.2.2012	–	10,005,000	–	–	10,005,000
			2.2.2009 – 1.2.2011	2.2.2011 – 1.2.2012	–	13,340,000	–	–	13,340,000
	15.5.2009	HKD 0.710	Nil	15.5.2009 – 14.5.2012	–	14,531,360	–	–	14,531,360
			15.5.2009 – 14.5.2010	15.5.2010 – 14.5.2012	–	14,531,360	–	–	14,531,360
			15.5.2009 – 14.5.2011	15.5.2011 – 14.5.2012	–	19,375,148	–	–	19,375,148
	24.8.2009	HKD 0.860	Nil	24.8.2009 – 23.8.2012	–	15,000,000	–	–	15,000,000
			24.8.2009 – 23.8.2010	24.8.2010 – 23.8.2012	–	15,000,000	–	–	15,000,000
			24.8.2009 – 23.8.2011	24.8.2010 – 23.8.2012	–	20,000,000	–	–	20,000,000
	3.11.2009	HKD 0.758	Nil	3.11.2009 – 2/11/2012	–	15,269,360	–	–	15,269,360
			3.11.2009 – 2/11/2010	3.11.2010 – 2/11/2012	–	15,269,360	–	–	15,269,360
			3.11.2009 – 2/11/2011	3.11.2011 – 2/11/2012	–	20,359,148	–	–	20,359,148

36. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2009	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2009
Customers	13.5.2004	HKD 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
					95,386,500	182,685,736	(2,870,000)	(8,260,000)	266,942,236
Total					131,416,500	182,685,736	(4,070,000)	(8,260,000)	301,772,236
Exercisable at the end of the year									100,668,000
Weighted average exercise price					1.04	0.72	0.70	1.23	0.9970

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36. SHARE OPTION SCHEME – continued

The movements of the share options granted to the directors and employees of the Group during the year ended 31 December 2008 are as follows:

					Number of share options				
Type of option holders	**Date of grant**	**Exercise price**	**Vesting period**	**Exercise period**	**Outstanding at 1.1.2008**	**Granted during the year**	**Exercised during the year**	**Forfeited during the year**	**Outstanding at 12.31.2008**
Directors:									
Chen Yuhong	13.8.2003	HKD 0.58	13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	300,000	–	(300,000)	–	–
	13.5.2004	HKD 0.65	13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	1,250,000	–	(1,250,000)	–	–
	30.3.2006	HKD 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
	10.4.2007	HKD 1.78	Nil	10.4.2007 – 9.4.2017	950,000	–	–	–	950,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	950,000	–	–	–	950,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	950,000	–	–	–	950,000
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	950,000	–	–	–	950,000
	14.4.2008	HKD 1.37	Nil	14.4.2008 – 13.4.2011	–	2,500,000	–	–	2,500,000
			14.4.2008 – 13.4.2009	14.4.2009 – 13.4.2011	–	2,500,000	–	–	2,500,000

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For the year ended 31 December 2009

36. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2008	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2008
Directors:									
Tang Zhengming	13.8.2003	HKD 0.58	13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	80,000	–	–	–	80,000
	13.5.2004	HKD 0.65	Nil	13.5.2004 – 12.5.2014	–	–	–	–	–
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	–	–	–	–	–
			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	HKD 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
	10.4.2007	HKD 1.78	Nil	10.4.2007 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	500,000	–	–	–	500,000
	14.4.2008	HKD 1.37	Nil	14.4.2008 – 13.4.2011	–	1,000,000	–	–	1,000,000
			14.4.2008 – 13.4.2009	14.4.2009 – 13.4.2011	–	1,000,000	–	–	1,000,000

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For the year ended 31 December 2009

36. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2008	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2008
Directors:									
Wang Hui	13.8.2003	HKD 0.58	13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	250,000	–	–	–	250,000
	13.5.2004	HKD 0.65	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	HKD 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
	10.4.2007	HKD 1.78	Nil	10.4.2007 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	500,000	–	–	–	500,000
	14.4.2008	HKD 1.37	Nil	14.4.2008 – 13.4.2011	–	1,300,000	–	–	1,300,000
			14.4.2008 – 13.4.2009	14.4.2009 – 13.4.2011	–	1,300,000	–	–	1,300,000
Cui Hui	13.5.2004	HKD 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
Duncan Chiu	13.5.2004	HKD 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
	14.4.2008	HKD 1.37	Nil	14.4.2008 – 13.4.2011	–	5,000,000	–	–	5,000,000
			14.4.2008 – 13.4.2009	14.4.2009 – 13.4.2011	–	5,000,000	–	–	5,000,000

36. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2008	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2008
Directors:									
Zeng Zhijie	10.4.2007	HKD 1.78	Nil	10.4.2007 – 9.4.2017	187,500	–	–	–	187,500
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	187,500	–	–	–	187,500
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	187,500	–	–	–	187,500
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	187,500	–	–	–	187,500
					17,980,000	19,600,000	(1,550,000)	–	36,030,000
Other employees	13.8.2003	HKD 0.58	13.8.2003 – 12.8.2004	13.8.2004 – 12.8.2013	–	–	–	–	–
			13.8.2003 – 12.8.2005	13.8.2005 – 12.8.2013	1,717,500	–	(600,000)	–	1,117,500
			13.8.2003 – 12.8.2006	13.8.2006 – 12.8.2013	1,897,500	–	–	–	1,897,500
			13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	1,897,500	–	–	–	1,897,500
	13.5.2004	HKD 0.65	Nil	13.5.2004 – 12.5.2014	–	–	–	–	–
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	7,434,000	–	(6,500,000)	–	934,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	8,025,000	–	–	–	8,025,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	8,025,000	–	–	–	8,025,000
	30.3.2006	HKD 0.97	Nil	30.3.2006 – 29.3.2016	2,550,000	–	–	–	2,550,000
			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
	10.4.2007	HKD 1.78	Nil	10.4.2007 – 9.4.2017	5,525,000	–	–	–	5,525,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	5,525,000	–	–	–	5,525,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	5,525,000	–	–	–	5,525,000
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	5,525,000	–	–	–	5,525,000
	13.6.2008	HKD 1.212	Nil	13.6.2008 – 12.6.2011	–	3,930,000	–	–	3,930,000
			13.6.2008 – 12.6.2009	13.6.2009 – 12.6.2011	–	3,930,000	–	–	3,930,000
			13.6.2008 – 12.6.2010	13.6.2010 – 12.6.2011	–	5,240,000	–	–	5,240,000
	4.7.2008	HKD 1.144	Nil	4.7.2008 – 3.7.2011	–	5,532,000	–	–	5,532,000
			4.7.2009 – 3.7.2011	4.7.2009 – 3.7.2011	–	5,532,000	–	–	5,532,000
			4.7.2010 – 3.7.2011	4.7.2010 – 3.7.2011	–	7,376,000	–	–	7,376,000

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36. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2008	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2008
Customers	13.5.2004	HKD 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
					70,946,500	31,540,000	(7,100,000)	–	95,386,500
Total					88,926,500	51,140,000	(8,650,000)	–	131,416,500
Exercisable at the end of the year									73,076,000
Weighted average exercise price					1.09	1.18	0.64	–	1.04

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$1.38 (2008: HK$1.06).

The estimated fair value of the share options granted on 2 February 2009 (“A”) ranged from HK$0.14 to HK$0.19. The estimated value of the share options granted on 15 May 2009 (“B”) ranged from HK$0.21 to HK$0.28. The estimated fair value of the share options granted on 24 August 2009 (“C”) ranged from HK$0.23 to HK$0.35. The estimated fair value of the share options granted on 3 November 2009 (“D”) ranged from HK$0.20 to HK$0.30. During the year ended 31 December 2008, the estimated fair value of the share options granted on 14 April 2008 (“E”) ranged from HK$0.34 to HK$0.38. The estimated value of the share options granted on 13 June 2008 (“F”) ranged from HK$0.32 to HK$0.40. The estimated fair value of the share options granted on 4 July 2008 (“G”) ranged from HK$0.30 to HK$0.38. Fair values were calculated using the Binomial model. The variables and assumptions used in computing the fair value of the share options are based on the directors’ best estimate. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

36. SHARE OPTION SCHEME – continued

	2009			
	A	**B**	**C**	**D**
Share price on grant date	**HK$0.48**	**HK$0.71**	**HK$0.86**	**HK$0.74**
Exercise price	**HK$0.48**	**HK$0.71**	**HK$0.86**	**HK$0.758**
Expected volatility	**63.70%**	**64.16%**	**64.71%**	**64.91%**
Time to maturity	**3 years**	**3 years**	**3 years**	**3 years**
Risk-free rate	**1.053%**	**0.889%**	**1.078%**	**0.913%**
Expected dividend yield	**1.04%**	**0.70%**	**0.00%**	**0.00%**

	2008		
	E	F	G
Share price on grant date	HK$1.26	HK$1.20	HK$1.14
Exercise price	HK$1.37	HK$1.21	HK$1.14
Expected volatility	48.22%	49.17%	49.40%
Time to maturity	3 years	3 years	3 years
Risk-free rate	1.51%	3.39%	2.97%
Expected dividend yield	0.37%	0.42%	0.44%

Expected volatility was determined by using the historical volatility of the Company's share price over a period of 780 days (2008: 784 days).

The Group recognised a total expense of RMB25,487,000 for the year ended 31 December 2009 (2008: RMB15,940,000) 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.

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37. RETIREMENT BENEFIT SCHEMES – continued

During the year, the total cost of retirement benefits contributions charged to profit or loss of RMB32,126,000 (2008: RMB28,319,000) 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

During the year, the Group had the following transactions with the following related companies:

	Notes	**2009 RMB'000**	2008 RMB'000
Rental expenses			
– China National Software and Service Company Limited ("CNSS")	(a) & (i)	**6,087**	7,064
Provision of IT outsourcing services			
– 日本國株式會社 CDI	(b) & (ii)	**12,956**	10,486
– Viador Inc.	(c) & (iii)	**3,236**	4,919
– CNSS Group	(iv)	**–**	1,953
Subcontracting costs			
– Chinasoft Wuhan	(d)	**–**	2,151
Trademark usage right	(v)		
– CNSS Group (see note 16)		**166**	168

Notes:

(a) CNSS is a holding company of a substantial shareholder of the Company. CNSS, its subsidiaries and predecessor entities are referred to as CNSS Group.

(b) 日本國株式會社CDI is a substantial shareholder of Dalian Digitall, a subsidiary of the Company.

(c) Mr. Xi Wang, a director of Viador Inc, is also a director of HGR, a subsidiary of the Company.

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

38. RELATED PARTY TRANSACTIONS

Notes: – continued

(i) During both years, certain subsidiaries of the Company, entered into rental agreements with CNSS for a period of 12 months. Pursuant to the rental agreements, the subsidiaries rented the premises from CNSS for training, as office and storeroom. The transactions under the rental agreements constituted non-exempt continuing connected transactions for the Company under the Listing Rules as CNSS is a connected person (as defined under the Listing Rules) of the Company. At 31 December 2009, an amount of RMB124,000 (2008: RMB22,000) was included in amounts due to related companies in the consolidated statement of financial position.

(ii) During the year, the Group provided IT outsourcing services of RMB12,956,000 (2008: RMB10,486,000) to 日本國株式會社 CDI. At 31 December 2009, an amount of RMB927,000 (2008: RMB1,144,000) was included in trade and other receivables in the consolidated statement of financial position.

(iii) During the year, the Group provided IT outsourcing services of RMB3,236,000 (2008: RMB4,919,000) to Viador Inc. At 31 December 2009, an amount of RMB2,662,000 (2008: RMB2,208,000) was included in trade and other receivables in the consolidated statement of financial position.

(iv) During year 2008, the Group provided IT outsourcing services of RMB1,953,000 to CNSS Group.

(v) The Group entered into a trademark usage right agreement with CNSS Group on 20 December 2003 and paid RMB2,000,000 for the trademark usage right. The annual amount charged to expense is RMB166,000 (2008: 168,000)

Compensation of key management personnel

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

	2009 RMB'000	2008 RMB'000
Short-term employee benefits	**5,198**	7,192
Retirement benefits costs	**156**	173
Share option expenses	**3,200**	4,261
	8,554	11,626

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