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中软国际

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 354)

DISCLOSEABLE TRANSACTION

SALE AND PURCHASE AGREEMENT

On 27 December 2012, the Purchaser and the Seller entered into the Sale and Purchase Agreement pursuant to which the Purchaser has conditionally agreed to purchase, and the Seller has conditionally agreed to sell, the State Grid electric power information service business and the related assets at a consideration of RMB190 million (equivalent to approximately HK\$233.96 million), to be satisfied by the Group by a combination of cash and the issue of Consideration Shares. The Consideration Shares will be issued pursuant to the General Mandate.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction under the Listing Rules for the Company and is therefore required to publish an announcement under the Listing Rules.

THE SALE AND PURCHASE AGREEMENT DATED 27 DECEMBER 2012

Parties

- (1) 北京中軟國際信息技術有限公司 (Beijing Chinasoft International Information Technology Limited**) (a wholly-owned subsidiary of the Company) as the purchaser
- (2) 北京愛朗格瑞科技有限公司 (Beijing Along Grid Technology Co. Ltd.***) as the seller

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Seller and its ultimate beneficial owners are Independent Third Parties.

Business and assets to be acquired

Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to purchase, and the Seller has conditionally agreed to sell, the Target Business (as defined below).

The business and assets to be acquired are detailed as follow:–

- (1) the IT software outsourcing service business and the IT software solution business of the State Grid electric power field currently operated by the Seller;
- (2) the IT Team Members, being 207 existing team members of the Seller who are responsible for the State Grid electric power service business currently operated by the Seller;
- (3) the day-to-day operation system and process in respect of the IT software outsourcing service and IT software solution business for State Grid electric power business currently operated by the Seller; and
- (4) the intellectual property rights and the non-patent technology legally owned by the Seller which is relevant for the operation of the State Grid electric power information service business.

(for (1) to (4) above, collectively, the “**Target Business**”)

The Purchaser will not assume any debts, obligations (including contingent liabilities) incurred or yet to be incurred by the Seller, including but not limited to, accounts receivable, accounts receivable, bank loans, taxes, water and electricity charges, rent, staff wages and salaries payable, benefits and performance bonuses, employee reimbursements, employees of any form of commitment. All of the above claims and debt have to be assumed and be responsible by the Seller.

Consideration

The consideration for the Acquisition is RMB190 million (equivalent to approximately HK\$233.96 million), which shall be payable by the Group in the following manner:–

- (1) RMB24,000,000 (equivalent to approximately HK\$29,553,010.71) by way of cash, which shall be payable within three (3) Business Days from the date of signing the Sale and Purchase Agreement by crediting to the designated bank account of the Seller;
- (2) RMB36,000,000 (equivalent to approximately HK\$44,329,516.07) by way of cash, which shall be payable within three (3) Business Days from the Acquisition Completion Date. The Purchaser and the Seller shall open a bank account jointly controlled by both parties within eight (8) Business Days from the date of signing

of the Sale and Purchase Agreement, and the Purchaser shall credit the said amount to the joint bank account within five (5) Business Days from the date of opening the joint bank account;

- (3) RMB100,000,000 (equivalent to approximately HK\$123,137,545.64) by way of issue of Consideration Shares, at the issue price of HK\$1.9065 per Consideration Share to the Seller or its designated party(ies) after the Acquisition Completion Date. The said amount of RMB100,000,000 shall be converted into HK\$ using the exchange rate published by the Bank of China in the afternoon of the Business Day immediately preceding the date of signing of the Sale and Purchase Agreement (i.e. HK\$1 to RMB0.8121) for the purpose of calculating the number of Consideration Shares to be issued; and
- (4) the balancing amount of RMB30,000,000 (equivalent to approximately HK\$36,941,263.39) by way of cash. If there is no material change during the process of transfer of the Target Business, according to the situation as confirmed by the Purchaser, the Purchaser shall credit the said amount to the designated bank account of the Seller in batches.

The Group intends to finance the cash consideration of the Acquisition by internal resources of the Group.

Moratorium Period of the Consideration Shares

The Consideration Shares to be issued are subject to moratorium period(s) commencing from the date of issue of the Consideration Shares, half in the number (i.e. 32,294,137 Consideration Shares) of which shall be subject to a moratorium period of one (1) year, and the other half in number (i.e. 32,294,137 Consideration Shares) shall be subject to a moratorium period of two (2) years.

Conditions precedent

Pursuant to the Sale and Purchase Agreement, the Acquisition is conditional upon the fulfillment of the following conditions:

- (1) the Purchaser and the Seller having received all necessary approval(s) from their respective authoritative approving authorities;
- (2) the Listing Committee having approved or agreed to approve the listing of, and permission to deal in, the Consideration Shares;
- (3) All the Core Staff having entered into an agreement with the Seller in respect of the termination of the labour contract previously entered into between each of the Core Staff and the Seller, and after that, having entered into a labour contract and a confidentially agreement with the Purchaser and having delivered the original copies of the same to the Purchaser;

- (4) Over 90% of the IT Team Members (save for the Core Staff) having entered into an agreement with the Seller in respect of the termination of the labour contract previously entered into between each of the IT Team Members (save for the Core Staff) and the Seller, and after that, having entered into a labour contract and a confidentiality agreement with the Purchaser and having delivered the original copies of the same to the Purchaser;
- (5) at the request of the Purchaser, by the end of year 2012, the Seller having provided its clients which has an existing business contract with the Seller (“Clients”) in respect the Target Business with the legal supporting documents in respect of the transfer of service provider from Seller to the Purchaser;
- (6) the Seller having delivered the intellectual property rights to the Purchaser, and having provided the Purchaser with document or information for assisting the Purchaser to apply for the relevant ownership document(s) in respect of the assets from the relevant State competent authorities; and
- (7) the Seller having duly executed the Undertaking Letter and having delivered the original copy of the same to the Purchaser.

As at the date of this announcement, save for condition precedent (7) above, none of the above conditions precedent have been fulfilled.

Acquisition Completion

Pursuant to the Sale and Purchase Agreement, the Acquisition Completion Date shall take place on the day when all the conditions precedent having been fulfilled and the Seller having completed the transfer of the assets and/or documents as contemplated under the Sale and Purchase Agreement to the Purchaser at the request of the Purchaser.

Other major terms of the Sale and Purchase Agreement

If the Seller shall fail to deliver the assets and/or documents to the Purchaser pursuant to the Sale and Purchase Agreement, unless the Purchaser has the right to delay the payment of the consideration of the Acquisition accordingly due to this reason, the Seller shall be liable to pay the Purchaser a daily default fee that equals to 0.1% of the contract sum in respect of the undelivered assets and/or documents not being provided commencing from 5 days after the deadline of the Delivery Date until all the assets/or documents has been delivered to the Purchaser, but such default fee, in aggregate, shall not exceed 5% of the contract sum under the Sale and Purchase Agreement.

If the Purchaser shall fail to pay the contract sum pursuant to the Sale and Purchase Agreement, the Purchaser shall be liable to pay the Seller a daily default fee that equals to 0.1% of the unpaid contract sum until all overdue amount has been fully settled by the Purchaser, but such default fee, in aggregate, shall not exceed 5% of the contract sum under the Sale and Purchase Agreement.

UNDERTAKING LETTER DATED 27 DECEMBER 2012

Set out below is the principal terms of the Undertaking Letter executed by the Seller:

Undertakings given by the Seller to the Purchaser

The Seller warrants that:

- (1) During the tenure of the IT Team Members with the Purchaser pursuant to the labour contract to be entered into before the Acquisition Completion Date and within three (3) years from the date of termination of the relevant labour contract entered into between each of the IT Team and the Purchaser for whatever reasons, the Seller and the Seller's Associates shall not enter into any labour contract, employ, establish a consultancy, commissioning or outsourcing relationship with the IT Team Members;
- (2) the Seller and the Seller's Associates shall no longer carry out the business as contemplated under the Sale and Purchase Agreement for the State Grid Corporation of China, i.e. only focus in the fields of electric power information collection, electric power transaction and public facilities energy savings, as well as electric power electronic device business and its control software in the electric power field, and no longer carry out electric power type of sales and other types of information service business, but can carry out any business outside the scope of the State Grid Corporation of China; and
- (3) before the commencement of a project to be carried out by the Seller and the Purchaser jointly in respect of the business that the Seller shall not carry out as contemplated under clause (2) above, the Seller will obtain waiver from the Purchaser in writing in respect of the Seller's obligations and duties under the Undertaking Letter.

CONSIDERATION SHARES

The Company will issue 64,588,274 Consideration Shares to the Seller or its designated party(ies) after the Acquisition Completion Date. The 64,588,274 Consideration Shares represent approximately (i) 3.76% of the entire issued Shares as at the date of this announcement; and (ii) 3.62% of the issued Shares as enlarged by the issue of 64,588,274 Consideration Shares to the Seller pursuant to the Sale and Purchase Agreement.

The Consideration Shares, when allotted and issued, shall rank *pari passu* in all respects amongst themselves and with the Shares in issue on the date of issue and allotment of the Consideration Shares.

ISSUE PRICE OF THE CONSIDERATION SHARES

The issue price of HK\$1.9065 per Consideration Share represents:

- (i) a premium of approximately 4.75% to the closing price of HK\$1.82 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 2.50% to the average closing price of HK\$1.86 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and
- (iii) a premium of approximately 0.87% to the average closing price of HK\$1.89 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day.

The issue price of HK\$1.9065 per Consideration Share was arrived at after arm's length negotiation between the Group and the Seller with reference to the average closing price of the Shares as quoted on the Stock Exchange over the past 60 consecutive trading days before the date of the Sale and Purchase Agreement. The Directors consider that the issue price is fair and reasonable and the issuance of the Consideration Shares at the issue price is in the interests of the Company and the Shareholders as a whole.

BASIS OF THE CONSIDERATION

The consideration under the Sale and Purchase Agreement was determined after arm's length negotiations between the Group and the Seller with reference to, among others, (i) the future operating growth potential and profitability of the Target Business; (ii) the extensive experience of the IT Team Members, in particular, the Core Staff (the IT Team Members have agreed to sign a fixed term labour contract with the Purchaser); and (iii) the valuation multiples of other listed companies engaging the in the same or similar business as the Target Business.

MANDATE TO ISSUE THE CONSIDERATION SHARES

The Company will issue 64,588,274 Consideration Shares to the Seller pursuant to the General Mandate granted to the Directors at the annual general meeting of the Company held on 18 May 2012.

As at the date of this announcement, no Shares have been issued pursuant to the General Mandate.

APPLICATION FOR LISTING

Application will be made by the Company to the Listing Committee for the listing of, and the permission to deal in, the Consideration Shares.

INFORMATION ON THE TARGET BUSINESS

- (1) *the IT software outsourcing business and the IT software solution business of the State Grid electric power field currently operated by the Seller*

By the end of year 2012, the Seller shall provide its client which has an existing business contract with the Seller in respect the Target Business with the legal supporting documents in respect of the transfer of service provider from Seller to the Purchaser.

- (2) *the IT Team Members, being existing team members of the Seller who are responsible for the State Grid electric power service business currently operated by the Seller*

207 IT Team Members including all of the 54 Core Staff.

Core Staff is part of the IT Team Members who are being considered core staff of the Seller responsible for the operation of the Target Business as agreed between the Purchaser and the Seller, including senior adviser, project manager, senior development engineer, senior implementation engineer and etc..

Each of the Core Staff has more than three (3) years of experience in the field of the State Grid electric power information service business, of which each of the senior engineers has (i) more than 5 years of experience in the field as mentioned above; (ii) experience in the design of the grid sales system; (iii) participated in the typical design of State Grid sales system and familiar with the application of the State Grid fundamental development platform.

- (3) *the day-to-day operation system and process in respect of the IT software outsourcing and IT software solution service for State Grid electric power business currently operated by the Seller*

This includes the operation manuals and flowcharts and any other documents or information which are necessary for carrying out the Target Business by the Purchaser.

- (4) Software and systems legally owned by the Seller which is relevant for the operation of the State Grid electric power information service business

INFORMATION OF THE SELLER

The Seller is a limited liability company incorporated in Beijing, the PRC on 25 May 2011. It is a company committed to research and development, and promotion of smart power and electricity business information technology. It is principally engaged in the provision of business consulting, software development, system operation and maintenance and service for grid enterprises at all levels (State, province, cities, counties, power supply enterprises), city lighting, as well as large enterprises. It is a New High-tech and software enterprise in Beijing, and an innovative technology enterprise highly supported by the innovation fund of the Ministry of Science and Technology of the PRC, and a close partner of the State Electric Power Research Institute.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the provision of consulting-powered solutions, professional information technology outsourcing (ITO) and business process outsourcing (BPO), and human resources supply chain oriented training services, including information technology consulting, software development, application integration, software testing, software localization, construction and maintenance of business application platforms, IT outsourcing and operational process outsourcing.

The Group commenced the development of IT software outsourcing and IT software solution services in the field of the State Grid electric power information service field since early 2012. The Directors is optimistic on the prospect and the development potential of the State Grid electric power information service field and thus the Group would like to expand its market share in the IT software solution and outsourcing business in the State Grid electric power information service field.

Due to:

- (1) the IT construction of the State Grid Corporation of China has satisfactory results in recent years, the requirement imposed by the State Grid Corporation of China on the business experience of IT suppliers, IT qualifications and the requirements of the project threshold become more stringent year by year. The cost and probability of failure for new entrants to the industry through natural growth or a single point of breakthrough was higher. Thus, the Group intends to enter into the State Grid sales business field through the Acquisition so that the Group can successfully share a certain market share in the relevant field in a more rapid pace;
- (2) the IT Team Members have the capabilities of consulting, design, development and implementation of point to-point business and has received full recognition from the headquarters of the State Grid and some of the provincial grid. Thus, the Acquisition is very much in line with the Group's business development direction;

- (3) the Group has extensive consulting experience, high quality delivery capability and operational excellence management and control system, which together with the extensive experience of the IT Team Members in the Target Business operations, will give full play to their respective advantages, better serve the customers, through enhancing customers' value, consolidating and developing business partnerships with customers;
- (4) through the Acquisition, under the support of the Group's knowledge management system, can realize the transfer of electric power information business knowledge to the Group, enabling the Group to achieve an understanding and a comprehensive upgrade of the State Grid information services business; and
- (5) through the Acquisition, the IT Team Members can provide guidance and on-the-job training to the existing staff of the Group, so that the Group can better understand and master the experience and skills of the State Grid development platform, and comprehensively improve the service quality.

Based on the above, the Directors consider that the Acquisition is on normal commercial terms and in the ordinary course of business of the Group, and that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming that (i) no Share will be issued and/or repurchased by the Company; and (ii) the shareholding structure of the Company remains the same from the date of this announcement up to and including the date of issue of 64,588,274 Consideration Shares pursuant to the Sale and Purchase Agreement, set out below is a table illustrating the shareholding structure of the Company of the following time:

- (1) as at the date of this announcement; and
- (2) immediately upon the issue of the 64,588,274 Consideration Shares pursuant to the Sale and Purchase Agreement.

Name of the Shareholders	As at the date of this announcement		Immediately upon the issue of 64,588,274 Consideration Shares pursuant to the Sale and Purchase Agreement	
	Number of Shares held	%	Number of Shares held	%
Keen Insight Limited	335,076,453	19.51%	335,076,453	18.79%
<i>Directors</i>				
CHEN Yuhong	170,230,136	9.90%	170,230,136	9.55%
TANG Zhenming	11,747,765	0.68%	11,747,765	0.66%
JIANG Xiaohai	6,872,447	0.40%	6,872,447	0.39%
WANG Hui	6,277,838	0.37%	6,277,838	0.35%
ZHENG Zhijie	300,000	0.02%	300,000	0.02%
<i>Public Shareholders</i>				
The Vendor	0	0.00%	64,588,274	3.62%
Other public Shareholders	1,187,860,020	69.12%	1,187,860,020	66.62%
Total	<u>1,718,364,659</u>	<u>100.00%</u>	<u>1,782,952,933</u>	<u>100.00%</u>

LISTING RULES IMPLICATIONS

As the applicable percentage ratios in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction under the Listing Rules for the Company and is therefore required to publish an announcement under the Listing Rules.

DEFINITIONS

Unless the context requires otherwise, the capitalised terms used herein shall have the following meanings:

“Acquisition”	the acquisition of the Target Business by the Purchaser from the Seller on the terms and conditions of the Sale and Purchase Agreement
“Acquisition Completion”	completion of the Acquisition

“Acquisition Completion Date”	the day on which all the conditions precedent having been fulfilled in accordance with the Sale and Purchase Agreement and the Seller having completed the transfer of the assets and/or documents as contemplated under the Sale and Purchase Agreement to the Purchaser at the request of the Purchaser
“associate(s)”	as such term is defined under the Listing Rules
“Board”	the board of Directors
“Company”	Chinasoft International Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	as such term is defined under the Listing Rules
“Consideration Shares”	64,588,274 new Shares to be allotted and issued by the Purchaser to the Seller after the Acquisition Completion Date as the part of the consideration for the Acquisition
“Core Staff”	IT Team Members, who are considered core staff of the Seller responsible for the operation of the Target Business as agreed between the Purchaser and the Seller, including senior adviser, project manager, senior development engineer, senior implementation engineer and etc.
“Delivery Date”	any Business Day from the date of signing of the Sale and Purchase Agreement and no later than 31 January 2013 which the Seller commences the transfer of the Target Business to the Purchaser, and such date shall be before the Acquisition Completion Date
“Director(s)”	the director(s) of the Company
“Last Trading Day”	24 December 2012, being the trading day on which Shares were traded on the Stock Exchange immediately before the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“General Mandate”	the general mandate granted to the Directors pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 18 May 2012 (“AGM Date”) in respect of the issue up to 20% of the issued share capital of the Company as at the AGM Date
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	a party(ies) who is/are independent of and is/are not connected with any of the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
“IT”	information technology
“IT Team Members”	existing team members of the Seller (including all of those Core Staff) who are responsible for the State Grid electric power service business currently operated by the Seller
“percentage ratios”	as such term is defined under the Listing Rules
“PRC”	the People’s Republic of China, for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	北京中軟國際信息技術有限公司 (Beijing Chinasoft International Information Technology Limited**), a limited liability company incorporated in the PRC, being an indirect wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 27 December 2012 and entered into between the Purchaser as the purchaser and the Seller as the seller in relation to the Acquisition

“Seller”	北京愛朗格瑞科技有限公司 (Beijing Along Grid Technology Co. Ltd.**), a limited liability company incorporated in Beijing, the PRC
“Seller’s Associates”	companies, enterprises, institutions, individuals or other entities which, whether directly or indirectly, obtain actual control of the Seller through either ownership of its equity interest or any other way; or together with the Seller being jointly actually controlled by any companies, enterprises, institutions, individuals or other entities. By “actual control” or “actually controlled” as mentioned above, it refers to having over 50% of capital which has voting right, either directly or indirectly, or having less than 50% of capital which has voting rights, but can obtain control though owning capital which has voting rights and/ or other ways like having the appointment or veto rights from the majority of members of the board of directors or other similar authority(ies), the articles of association, agreement or more than half of the voting rights of the board of directors or other similar authorities
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the issued Share(s)
“State Grid”	國家電網公司 (State Grid Corporation of China)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Undertaking Letter”	a letter dated 27 December 2012 executed by the Seller in respect of the undertakings given by the Seller to the Purchaser in respect of the Acquisition
“%”	per cent.

By order of the Board
Chinasoft International Limited
Dr. Chen Yuhong
Chairman and Managing Director

27 December 2012, Hong Kong

As at the date of this announcement, the Board comprises:

Executive Directors:

Dr. CHEN Yuhong (*Chairman and Managing Director*)

Dr. TANG Zhenming

Mr. WANG Hui

Mr. JIANG Xiaohai

Non-executive Directors:

Mr. ZHAO John Huan

Dr. ZHANG Yaqin

Dr. SONG Jun

Mr. LIN Sheng

Ms. SHEN Lipu

Independent Non-executive Directors:

Mr. ZENG Zhijie

Dr. LEUNG Wing Yin

Mr. XU Zeshan

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

In this announcement, RMB has been converted into HK\$ at the rate of HK\$1 = RMB 0.8121 respectively for illustration purpose only. No representation is made that any amounts in RMB or HK\$ have been, could have been or could be converted at the above rate or at any other rates or at all.

** for identification purpose only*