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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

HIGHLIGHTS

Annual Results for 2009

	2009 *RMB'000*	**2008** *RMB'000*	**changes**
Total revenue	1,104,602	983,372	+12.3%
Net revenue	920,917	742,301	+24.1%
Gross profit	336,978	274,145	+22.9%

- The Register of Member will be closed from Wednesday, 26 May 2010 to Friday, 28 May 2010, both dates inclusive, during which period no share transfer shall be registered.

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	9	**(80,667)**	(17,387)
Finance costs	4	**(4,064)**	(2,842)
Share of results of associates		**2,959**	2,878
(Loss) gain arising from changes in fair value of redeemable convertible preferred shares	12	**(47,746)**	54,487
(Loss) profit before taxation		**(107,077)**	80,979
Taxation	5	**(13,480)**	(9,254)
(Loss) profit for the year	6	**(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	8		
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		**95,131**	79,038
Intangible assets		**83,197**	79,724
Goodwill	9	**414,615**	446,607
Interests in associates		**17,428**	14,469
Prepaid lease payments		**867**	1,034
Prepayment for acquisition of technical knowhow		**5,216**	2,318
Deferred tax assets		**3,528**	2,517
		619,982	625,707
Current assets			
Inventories		**14,457**	21,939
Trade and other receivables	10	**362,278**	399,815
Prepaid lease payments		**166**	166
Amounts due from customers for contract work		**161,019**	69,891
Amounts due from related companies		**711**	95
Pledged deposits		**12,870**	21,630
Bank balances and cash		**297,029**	265,804
		848,530	779,340
Current liabilities			
Amounts due to customers for contract work		**79,745**	17,769
Trade and other payables	11	**283,272**	282,122
Bills payable		**1,255**	13,163
Amounts due to related companies		**128**	22
Dividend payable to shareholders		**82**	82
Taxation payable		**11,568**	6,705
Borrowings		**104,071**	70,555
Consideration payable on acquisition of businesses		**22,296**	–
Consideration payable on acquisition of additional interest in a subsidiary	9	**844**	8,447
		503,261	398,865
Net current assets		**345,269**	380,475
Total assets less current liabilities		**965,251**	1,006,182

	Notes	**2009** *RMB'000*	2008 *RMB'000*
Non-current liabilities			
Deferred tax liabilities		**9,208**	8,371
Consideration payable for acquisition of a business		**11,374**	–
Redeemable convertible preferred shares	12	**167,655**	127,699
		188,237	136,070
		777,014	870,112
Capital and reserves			
Share capital		**52,357**	52,178
Share premium		**519,389**	516,306
Reserves		**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

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 (the "GEM") 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.

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.

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]

[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. 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 reportable segments as compared with the primary reportable 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 and reportable 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

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 information about these businesses is presented below.

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

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 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.

Segment assets and liabilities

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

	2009	2008
	RMB'000	*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.

Other information

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

	SGM		SFI		IT outsourcing		Training		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*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 cost	**3,304**	1,961	**543**	881	**196**	–	**21**	–	**4,064**	2,842
Share 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	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*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

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

4. FINANCE COSTS

	2009	2008
	RMB'000	*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

5. TAXATION

	2009	2008
	RMB'000	*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.

Certain PRC group companies are subject to tax exemption arrangements as 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% (2008: 15%).

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.

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 purpose	**53,471**	18,064
Tax effect of income not taxable for tax purpose	**(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 rate of subsidiaries	**291**	(148)
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**–**	(349)
Effect of different tax rate used in recognition of deferred tax	**–**	2,388
Tax charge for the year	**13,480**	9,254

6. (LOSS) PROFIT FOR THE YEAR

	2009	2008
	RMB'000	*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	**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 payment	**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

7. 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.

8. (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.

9. GOODWILL

	RMB'000
COST	
At 1 January 2008	445,993
Arising on acquisition of businesses	12,880
Arising on acquisition of additional interest in 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

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.

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.

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 RMB87,843,000 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.

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.

10. TRADE AND OTHER RECEIVABLES

	2009	2008
	RMB'000	*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.

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	2008
	RMB'000	*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.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of RMB67,911,000 (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).

11. TRADE AND OTHER PAYABLES

	2009	2008
	RMB'000	*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	2008
	RMB'000	*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.

12. 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

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.

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

	Liability component *RMB'000*	**Derivative component** *RMB'000*	**Total** *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.

MANAGEMENT DISCUSSION AND ANALYSES

FINANCIAL REVIEW

For the year ended December 31	**2009**	2008	Change
	RMB'000	*RMB'000*	
Turnover	**1,104,602**	983,372	12.3%
Cost of sales	**(767,624)**	(709,227)	8.2%
Gross profit	**336,978**	274,145	22.9%
Gross profit margin	**30.51%**	27.88%	2.6%
Other operating income	**18,868**	26,128	(27.8%)
Selling & distribution costs	**(71,065)**	(47,494)	49.6%
Administrative expenses (excluding depreciation and amortization)	**(174,443)**	(137,130)	27.2%
Research and development cost expensed	**(19,397)**	(15,688)	23.6%
Allowance for doubtful debts	**(21,113)**	(16,799)	25.7%
EBITDA	**69,828**	83,162	(16.0%)
EBITDA margin	**6.32%**	8.46%	(2.1%)
Depreciation	**(23,495)**	(17,733)	32.5%
EBITA	**46,333**	65,429	(29.2%)
Amortization of intangible assets & trademark use right	**(23,892)**	(21,586)	10.7%
Impairment loss recognized in respect of goodwill	**(80,667)**	(17,387)	364.0%
(Loss)/profit from operations	**(58,226)**	26,456	N/A
Finance costs	**(4,064)**	(2,842)	43.0%
Share of results of associates	**2,959**	2,878	2.8%
(Loss)/gain arising from changes in fair value of redeemable convertible preferred shares	**(47,746)**	54,487	N/A
(Loss)/profit before taxation	**(107,077)**	80,979	N/A
Taxation	**(13,480)**	(9,254)	(45.7%)
(Loss)/profit for the year	**(120,557)**	71,725	N/A
Net profit margin	**N/A**	7.29%	N/A

The management is pleased to present our audited consolidated statement of comprehensive income for the year ended 31 December 2009 in the above format.

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: RMB742,301,000), representing an increase of 24% as compared to the same period last year.

Regarding the business itself, turnover from Government and Manufacturing Industry, Financial and Banking Industry, IT Outsourcing Business and Training Business, 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 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 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 recognize 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.

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 (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 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 RMB330 million in 2008; in 2009, the proportion of receivables aged over six months was 20.7%, which represents also an obvious improvement as compared with 39.3% in 2008 (2007: 37.3%).

(2) The turnover of the receivables in 2009 was 3.7, which represents an obvious improvement as compared with 2.5 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.

The ratio of administrative expenses (excluding depreciation and amortization) 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 development and 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 amortization of the intangible assets and trademark usage right amounted to RMB23,892,000 (2008: RMB21,586,000), representing an increase of 11% over the year of 2008. It is mainly attributable to the growth in the amortization 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 revitalizing policies for the information industries in respect of the national political strategies, the Group's overall operations picked up and the result indications had a great 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 development and 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 23% as compared to the same period of last year.

During the reporting period, the Group achieved pleasant results in all its business 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 solution business, 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.

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 reorganize 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.

Government and Manufacturing Industry

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 the government and manufacture segment 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 development and 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 informatization 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 organization project management systems, audit management system application optimization and nationalization, site audit implementation system expansion optimization 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.

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 segment 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.

Financial and Banking Industry

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

During the reporting period, the main business line operated by the Group in Financial and Banking Industry 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 development and 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 financial and banking 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 foreign-funded 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.

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.

Hi-tech MNC IT Services

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

During the reporting period, the revenue amounted to RMB385,492,000, representing an increase of 41% as compared to the same period in 2008.

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, capitalize 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 realized 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.

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.

Information Processing and Engineering Design IT Services

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

The Group 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 revenue from the segment amounted to RMB70,046,000, representing a 3% decrease as compared with the same period of last year.

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 fro 大手通信公司 in Japan, enhancing its popularity in the communication industry.

Excellence Training Centers (ETC)

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 Authorized Microsoft Certified Partner for Learning Solutions(CPLS), Authorized Sun Education Center (ASEC) for Java, Authorized Training Center for IBM Software Department and Authorized 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) 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 ETCs 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 and The Hong Kong Community College to join the info-tech summer camp organized 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 specializing 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).

Acquisition of Beijing Challenger Science and Technology Co., Ltd. (成眾萊恩)

Optimizing service ability for the tobacco industry 成眾萊恩 is a professional enterprise that pioneered to provide informatization 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, specialized 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
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"

- 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 ct "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 internalized development strategy upheld by the Group to act according to domestic market situation, serve partners globally, emphasize interaction at home and abroad and realize 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 specialized 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 maximizing the interest of shareholders, the Group will seize opportunities, optimize processes, and make integrated use of the listing platform to realize 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.

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.

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%

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)

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.

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.

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.

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%
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.

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.

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.

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.

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.

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.

FINAL DIVIDEND AND CLOSURE OR REGISTER OF MEMBERS

The Board do not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: Nil).

The register of members of the Company will be closed from Wednesday, 26 May 2010 to Friday, 28 May 2010, both days inclusive, during which period no transfer of shares will be effected.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company is proposed to hold on Friday, 28 May 2010. Notice of the Annual General Meeting will be published and despatched to the shareholders in due course.

By order of the Board
Chinasoft International Limited
Dr. CHEN Yuhong
Managing Director

Hong Kong, 9 April 2010

As at the date of this announcement, the directors of the Company are as follows:

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

Non-executive Directors:
Dr. CUI Hui *(Chairman)*
Mr. Duncan CHIU
Mr. LIU Zheng
Dr. ZHANG Yaqin
Mr. FANG Jun

Independent Non-executive Directors:
Mr. XU Zeshan
Mr. ZENG Zhijie
Dr. LEUNG Wing Yin

* *For identification purposes only*