
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Chinasoft International Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee. This circular is addressed to the shareholders of Chinasoft International Limited in connection with an extraordinary general meeting to be held on 28 December 2005. This circular is not and does not constitute an offer of, nor is it intended to invite offers for, shares in or other securities of Chinasoft International Limited.

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中软国际

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8216)

DISCLOSEABLE AND CONNECTED TRANSACTION

**ACQUISITION OF THE REMAINING 49% EQUITY INTEREST IN
CHINASOFT RESOURCES INFORMATION TECHNOLOGY SERVICES LIMITED**

Financial Adviser to the Company



Oriental Patron Asia Limited

Independent Financial Adviser to the Independent Board Committee



A letter from the Board is set out on pages 4 to 14 of this circular. A letter from the Independent Board Committee is set out on page 15 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee is set out on pages 16 to 26 of this circular.

A notice convening the EGM to be held at 27th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong at 4:00 p.m. on 28 December 2005 is set out on pages 36 to 37 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit with the Company at its principal place of business in Hong Kong at Units 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

This circular will remain on the Growth Enterprise Market website at <http://www.hkgem.com> on the “Latest Company Announcements” pages for at least 7 days from the date of its posting.

* *for identification purpose only*

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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DEFINITIONS

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

“Acquisition”	the acquisition by Chinasoft (HK) of the Equity Interest held by the Vendor pursuant to the Agreement
“Agreement”	the agreement dated 15 November 2005 entered into between Chinasoft (HK) and the Vendor in relation to the Acquisition
“associate”	has the meaning ascribed to it in the GEM Listing Rules
“Board”	the board of Directors
“Chinasoft Resources”	北京中軟資源信息科技服務有限公司 (Chinasoft Resources Information Technology Services Limited), a wholly-foreign owned enterprise established in the PRC in April 2004
“Chinasoft (HK)”	Chinasoft International (Hong Kong) Limited, a company incorporated in Hong Kong on 3 November 1999, the entire issued share capital of which is beneficially owned by the Company
“CNSS”	中國軟件與技術服務股份有限公司 (Chinasoft National Software and Service Company Limited), the A-shares of which are listed on the Shanghai Stock Exchange and the holding company of the Vendor
“CS&S(HK)” or “Vendor”	China National Computer Software & Technology Service Corporation (Hong Kong) Limited (中國計算機軟件與技術服務(香港)有限公司), a company incorporated in Hong Kong with limited liability in which the total voting rights are held as to approximately 99.3% by the CNSS and as to approximately 0.7% by an independent third party which is not a connected person (as defined under the GEM Listing Rules) of the Company
“Company”	Chinasoft International Limited, a company incorporated in Cayman Islands with limited liability, the Shares of which are listed on GEM
“Completion”	completion of the Acquisition pursuant to the Agreement
“Dalian Chinasoft”	大連中軟軟件有限公司 (Dalian Chinasoft Software Limited), a limited liability company established under the laws of the PRC owned as to 62% by CNSS and as to the remaining 38% by six independent third parties which are not connected persons (as defined under the GEM Listing Rules) of the Company

DEFINITIONS

“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the Acquisition, scheduled to be held on 28 December 2005
“Equity Interest”	the remaining 49% of the registered capital of Chinasoft Resources owned by the Vendor
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK GAAP”	generally accepted accounting principles in Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors, namely Mr. He Ning, Mr. Zeng Zhijie and Mr. Au Yeung Shiu Kau, Peter
“Independent Financial Adviser” or “BCOM Securities”	BCOM Securities Company Limited, a licensed corporation to carry out types 1, 2, 4, 5, 6 and 9 regulated activities under the SFO, has been appointed as the independent financial adviser to the Independent Board Committee in relation to the Acquisition
“Latest Practicable Date”	7 December 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“PRC”	the People’s Republic of China
“Previous Acquisition”	the acquisition by Chinasoft HK from the Vendor an aggregate of 51% of the registered capital of Chinasoft Resources pursuant to an agreement between Chinasoft (HK) and the Vendor dated 28 April 2005 as announced by the Company on 9 May 2005
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Shanghai Resources”	上海中軟資源技術服務有限公司 (Shanghai Chinasoft Resources Information Technology Services Limited) a limited liability company established in the PRC owned as to 60% by Chinasoft Resources, as to 20% by Yan Juanyu (嚴隽鈺), a director of Chinasoft Resources, and as to 20% by an independent third party which is not a connected person (as defined under the GEM Listing Rules) of the Company

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.05 each in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Share Option Scheme”	the share option scheme adopted by the Company on 2 June 2003
“Shenzhen Resources”	深圳市中軟資源信息技術服務有限公司 (Shenzhen Chinasoft Resources Information Technology Services Limited) a limited liability company established in the PRC owned as to 99.8% by Chinasoft Resources and as to 0.2% by an independent third party which is not connected persons (as defined under the GEM Listing Rules) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

Unless otherwise specified, the Renminbi amounts shown in this circular have been translated into Hong Kong dollars at an exchange rate of HK\$1.00=RMB1.04. Such translation should not be construed as a representation that the RMB amounts have been, could have been or could be converted into HK\$, as the case may be, at this or any other rates or at all.

LETTER FROM THE BOARD



中软国际

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8216)

Executive Directors

Madam TANG Min (*Chairman*)
Dr. CHEN Yuhong (*Managing Director*)
Mr. CUI Hui
Mr. Duncan CHIU
Mr. PENG Jiang
Dr. TANG Zhenming
Mr. WANG Hui

Non-Executive Directors

Mr. David CHIU
Mr. LIU Zheng

Independent Non-Executive Directors

Mr. HE Ning
Mr. ZENG Zhijie
Mr. AU YEUNG Shiu Kau, Peter

Registered office

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

*Principal place of business
in Hong Kong*

Units 4607-08, 46th Floor,
COSCO Tower,
No. 183 Queen's Road Central,
Hong Kong

9 December 2005

To the Shareholders,

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

ACQUISITION OF THE REMAINING 49% EQUITY INTEREST IN CHINASOFT RESOURCES INFORMATION TECHNOLOGY SERVICES LIMITED

INTRODUCTION

The Directors announced on 17 November 2005 that Chinasoft (HK) (a wholly-owned subsidiary of the Company) entered into the Agreement with the Vendor on 15 November 2005 to conditionally acquire the Equity Interest from the Vendor. The consideration will be satisfied by cash in a maximum amount of HK\$41,881,132 payable by Chinasoft (HK) to the Vendor.

* *For identification purpose only*

LETTER FROM THE BOARD

Chinasoft Resources is currently owned as to 51% by Chinasoft (HK) and 49% by the Vendor. Upon Completion, Chinasoft Resources will become a wholly-owned subsidiary of Chinasoft (HK).

The Company announced on 9 May 2005 the Previous Acquisition in respect of 51% of the registered capital of Chinasoft Resources constituting a discloseable and connected transaction of the Company which was completed in July 2005. The Acquisition when considered together with the Previous Acquisition constitutes also a discloseable transaction of the Company under the GEM Listing Rules. As the Vendor is a substantial shareholder and thus a connected person (as defined under the GEM Listing Rules) of the Company, the Acquisition also constitutes a connected transaction of the Company under the GEM Listing Rules and is subject to the independent Shareholders' approval. CS&S(HK), being a Shareholder with a material interest in the Acquisition and holding approximately 24% of the total issued share capital of the Company as at the Latest Practicable Date, and its associates will be required to abstain from voting at the EGM, at which voting will be taken by poll. To the best of the Directors' knowledge, none of the associates of CS&S(HK) held any Shares as at the Latest Practicable Date. The Independent Board Committee has been formed by the Board to advise the independent Shareholders on the reasonableness and fairness of the Acquisition and on whether the Acquisition is in the interest of the Company and Shareholders as a whole. BCOM Securities has been appointed as an independent financial adviser to provide its opinion to the Independent Board Committee in connection with the Acquisition.

The purpose of this circular is (i) to provide you with further information in respect of the Agreement and the Acquisition; (ii) to set out the opinions of the Independent Board Committee and of the Independent Financial Adviser in connection with the Acquisition under the Agreement; and (iii) to give you the notice of the EGM.

THE AGREEMENT

Date

15 November 2005

Parties

Vendor: CS&S(HK)

Purchaser: Chinasoft (HK)

Interest to be acquired

Pursuant to the Agreement, Chinasoft (HK) has conditionally agreed to acquire the Equity Interest from the Vendor.

LETTER FROM THE BOARD

Consideration

The consideration for the Acquisition will be satisfied by cash in a maximum aggregate amount of HK\$41,881,132 payable by Chinasoft (HK) to the Vendor. Subject to fulfillment (or waiver if applicable) of conditions, the aggregate consideration of HK\$41,881,132 will be payable as follows:

1. HK\$20,940,566 will be payable to the Vendor within 14 days after the date of Completion;
2. if the audited consolidated net profit of Chinasoft Resources after taxation and minority interests but before extraordinary items for the year ending 31 December 2005 according to the audited consolidated financial statements of Chinasoft Resources prepared in accordance with HKGAAP (“2005 Accounts”) is not less than RMB12 million (equivalent to approximately HK\$11.54 million) (“Profit Hurdle”), an additional amount of HK\$10,470,283 will be payable to the Vendor within 14 days from the date of issue of the 2005 Accounts, which is expected to be on or before 31 March 2006; and
3. if the number of IT outsourcing staff of Chinasoft Resources and its subsidiaries at 31 March 2006 is not less than the number of such staff (600 staff) as at 28 April 2005 (the date of the agreement for the Previous Acquisition) (“Head Count Hurdle”), a further amount of HK\$10,470,283 will be payable to the Vendor within 14 days after the completion by Chinasoft (HK) of its due diligence on the employment of staff by Chinasoft Resources and its subsidiaries and the issue of a confirmation by the auditors of Chinasoft Resources that the condition stated in this paragraph is fulfilled. The due diligence and the confirmation by the auditors of Chinasoft Resources are expected to be completed or issued on or about 31 May 2006.

If either the Profit Hurdle or the Head Count Hurdle is not fulfilled, the corresponding portion of the consideration will not be payable and the aggregate consideration for the Acquisition will be reduced accordingly.

The following set out the effective consideration payable by Chinasoft (HK) to the Vendor for the Acquisition taking into account the two performance hurdles:

	Effective Consideration <i>HK\$</i>
Neither of the Profit Hurdle nor the Head Count Hurdle is achieved	20,940,566
Only the Profit Hurdle is achieved	31,410,849
Only the Head Count Hurdle is achieved	31,410,849
Both of the Profit Hurdle and the Head Count Hurdle are achieved	41,881,132

LETTER FROM THE BOARD

Conditions of the Agreement

Completion of the Agreement is conditional upon the fulfillment (or waiver by Chinasoft (HK) in respect of the conditions under (b), (c) and (f) below) of the following conditions:

- (a) approval by the Shareholders of the Agreement and the transactions contemplated thereunder at an extraordinary general meeting of the Company to be held in accordance with the requirements of the GEM Listing Rules;
- (b) completion to the satisfaction of Chinasoft (HK) of the legal and financial due diligence conducted by Chinasoft (HK) on Chinasoft Resources and its subsidiaries;
- (c) the obtaining by Chinasoft (HK) of a PRC legal opinion in such form and content satisfactory to itself on the legal status of Chinasoft Resources and its subsidiaries;
- (d) approval of the transfer of the Equity Interest from the Vendor to Chinasoft (HK) by the board of directors of Chinasoft Resources;
- (e) the obtaining of all government or third party approvals, consents and licences necessary for the transfer of the Equity Interest pursuant to the Agreement; and
- (f) that there has been no breach of any of the representations, warranties and undertakings given by the Vendor under the Agreement from the date of the Agreement up to the date of Completion.

If the conditions have not been fulfilled (or waived if applicable) on or before 30 April 2006 or such later date as the Vendor and Chinasoft (HK) may agree, the Agreement shall lapse and be terminated and thereafter all rights, obligations and liabilities of all parties therein shall cease and terminate except for antecedent breach. As at the Latest Practicable Date, conditions (d) and (e) (except for issuance of the amended business license of Chinasoft Resources) above has been fulfilled.

Completion

For the purpose of obtaining the amended business license of Chinasoft Resources (i.e. the condition under (e) above), Chinasoft (HK) and the Vendor will submit the Agreement and other relevant documents of Chinasoft Resources to the appropriate PRC authorities for approval after the conditions under (a) to (d) above have been fulfilled (or waived in respect of the condition under (b) or (c) above). Thus, within 14 days after the conditions of the Acquisition under (a) to (d) above having been fulfilled (or waived in respect of the condition under (b) or (c) above), Chinasoft (HK) and the Vendor shall proceed with the formalities of PRC government authorities for the transfer of the Equity Interest. The date of Completion shall be the date the approvals of the transfer of the Equity Interest to Chinasoft (HK) by PRC authorities with competent jurisdiction have been obtained and the amended business license of Chinasoft Resources has been issued.

Chinasoft Resources is currently owned as to 51% by Chinasoft (HK) and 49% by the Vendor. Upon Completion, Chinasoft Resources will become a wholly-owned subsidiary of Chinasoft (HK).

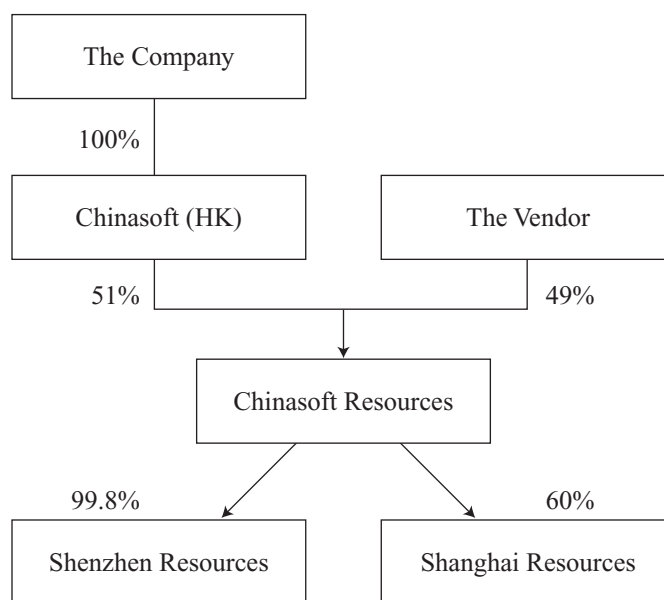
LETTER FROM THE BOARD

Information on the Vendor and the connection between the parties to the Agreement

CS&S(HK) is an investment holding company owned as to approximately 99.3% of its total voting rights by CNSS and as to approximately 0.7% of its total voting rights by an independent third party not being a connected person (as defined under the GEM Listing Rules) of the Company or any of its subsidiaries or an associate of any of them.

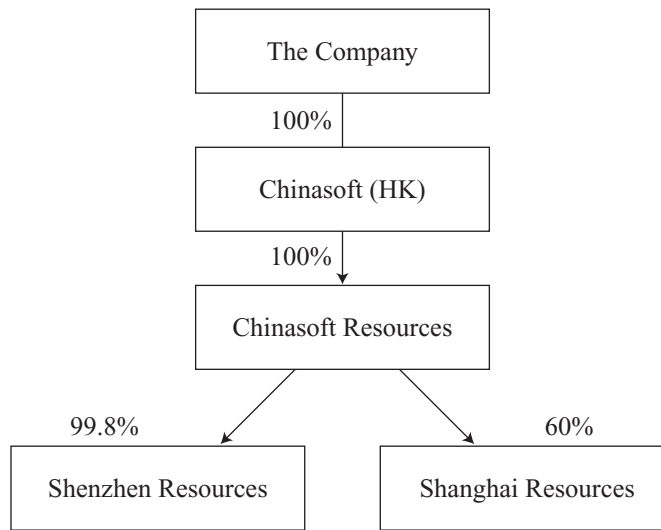
CNSS, the A-shares of which are listed on the Shanghai Stock Exchange, is principally engaged in software and IT product development and systems integration in the sectors of railway, communication, aviation, taxation and military. In addition, CNSS is also engaged in IT outsourcing through its indirect subsidiary Dalian Chinasoft. CNSS is also interested in IT outsourcing through the Group's 51% subsidiary, Chinasoft Resources, in which CNSS current has a 49% interest through CS&S(HK). Upon Completion, CNSS will no longer have any interest in Chinasoft Resources, and Chinasoft Resources will become a wholly-owned subsidiary of the Group. The shareholding structure of Chinasoft Resources before and after the Acquisition is summarized as follows:

Before the Acquisition



LETTER FROM THE BOARD

After the Acquisition



Shenzhen Resources is a limited liability company established under the laws of the PRC owned as to 99.8% by Chinasoft Resources and as to 0.2% by an independent third party which is not a connected person (as defined under the GEM Listing Rules) of the Company.

Shanghai Resources is a limited liability company established under the laws of the PRC owned as to 60% by Chinasoft Resources, as to 20% by Yan Juanyu (嚴隽鈺), a director of Chinasoft Resources, and the remaining 20% by an independent third party which is not a connected person (as defined under the GEM Listing Rules) of the Company.

Dalian Chinasoft is a limited liability company established under the laws of the PRC owned as to 62% by CNSS and the remaining 38% by six independent third parties which are not connected persons (as defined under the GEM Listing Rules) of the Company.

The IT outsourcing business generally refers to the provision of IT services to high technology and other enterprises which prefer to use their resources in their core competencies and consider outsourcing IT services. Such IT services include customised system and software development, integration, implementation and maintenance according to the customer requirement.

Although CNSS will no longer have any interests in Chinasoft Resources upon Completion, Mr. Cui Hui, an executive Director, may have interests in competing business in CNSS due to the fact that he was interested in approximately 1.34% of the issued share capital of CNSS and also served as a director of CNSS, in which CNSS also engaged in IT outsourcing through Dalian Chinasoft.

However, one of the key competitive factors among IT outsourcing service providers is in terms of geographical location. Prospective clients tend to set up their own IT centres in different parts of the PRC in accordance with their own needs. IT outsourcing service providers are therefore required to be located in the same geographic location so that they can promptly respond to the need of their clients and deliver their services on a timely fashion.

LETTER FROM THE BOARD

The Directors consider that there is no direct competition between Dalian Chinasoft and Chinasoft Resources due to the fact that the IT outsourcing businesses carried out by each of Chinasoft Resources, Shenzhen Resources, Shanghai Resources and Dalian Chinasoft primarily focus on clients at the geographical locations in which they respectively operate. Dalian Chinasoft primarily targets at its customers located in Dalian while Chinasoft Resources, Shanghai Resources and Shenzhen Resources primarily target at their customers located in Beijing, Shanghai and Shenzhen respectively. The client profiles for each of the Chinasoft Resources and its two subsidiaries, and Dalian Chinasoft do not overlap. There is thus no non-competition undertaking between Dalian Chinasoft and Chinasoft Resources. The Directors consider that potential competition may or may not occur with CNSS after Completion.

CS&S(HK) held Shares representing approximately 24% of the total issued share capital of the Company as at the Latest Practicable Date and is a substantial shareholder and a connected person (as defined under the GEM Listing Rules) of the Company. Accordingly the Agreement entered into between Chinasoft (HK) and CS&S(HK) constitutes a connected transaction of the Company under the GEM Listing Rules and is thus subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Information on Chinasoft Resources and its subsidiaries

Chinasoft Resources, principally engaged in IT outsourcing, was established by the Vendor in the PRC in April 2004. With its major operation located in Beijing, Chinasoft Resources also carries out its IT outsourcing business through Shanghai Resources which is its 60% owned subsidiary and Shenzhen Resources which is its 99.8% owned subsidiary.

Based on the PRC audited consolidated accounts of Chinasoft Resources for the period from 22 April 2004 (the date of incorporation) to 31 December 2004 (as adjusted to HK GAAP), the audited consolidated net tangible asset value of Chinasoft Resources was approximately RMB15.39 million (which is equivalent to approximately HK\$14.80 million). For the period from 22 April 2004 (date of incorporation) to 31 December 2004, the PRC audited consolidated net profit before tax and net profit after tax and minority interests but before extraordinary items of Chinasoft Resources (as adjusted to HK GAAP) were approximately RMB9.07 million (which is equivalent to approximately HK\$8.72 million) and RMB9.06 million (which is equivalent to approximately HK\$8.71 million) respectively.

The IT outsourcing businesses carried out by Chinasoft Resources, Shenzhen Resources and Shanghai Resources are mainly targeted at Mainland China and US customers located in Beijing, Shenzhen and Shanghai respectively. The Group currently maintains a Research and Development ("R&D") team. Such R&D team is for the use in its solution and software product activities. The Directors consider that the critical factor of IT outsourcing business does not depend on R&D capabilities. In the event that the IT outsourcing contract requires R&D facilities, depending on the specific requirements of the customer, Chinasoft Resources and its subsidiaries may utilize the R&D facilities of the customer, the Group or other independent third parties as appropriate.

LETTER FROM THE BOARD

Basis of Directors' valuation of Chinasoft Resources

The consideration for the Acquisition represents:

	Effective Valuation of 100% of Chinasoft Resources HK\$	Effective Price/ earning ratio times
Neither of the Profit Hurdle nor the Head Count Hurdle is achieved	42,735,849	4.91 <i>(Note 1)</i>
Only the Profit Hurdle is achieve	64,103,773	5.55 <i>(Note 2)</i>
Only the Head Count Hurdle is achieved	64,103,773	7.36 <i>(Note 1)</i>
Both of the Profit Hurdle and the Head Count Hurdle are achieved	85,471,698	7.41 <i>(Note 2)</i>

Notes:

- (1) Based on the historical audited consolidated net profit after taxation and minority interest but before extraordinary items (as adjusted to HK GAAP) of Chinasoft Resources for the period from 22 April 2004 (date of incorporation) to 31 December 2004 of approximately RMB9.06 million (which is equivalent to approximately HK\$8.71 million);
- (2) Based on the Profit Hurdle of RMB12 million (which is equivalent to approximately HK\$11.54 million).

Pursuant to the agreement of the Previous Acquisition, 34,872,453 Shares were issued by the Company to the Vendor at an issue price of HK\$0.77 per Share in July 2005. As stated in the announcement by the Company on the Previous Acquisition dated 9 May 2005, additional 23,248,302 Shares will be issued to the Vendor if the Profit Hurdle is achieved while the Vendor may exercise a cash option to require that a cash payment of HK\$17,901,193 be made in lieu of the issue of such additional Shares.

With reference to the price/earnings ratios in the Previous Acquisition and having considered the price/earnings ratios under each of the Profit Hurdle and Performance Hurdle, and the further enhancement in the market share in IT outsourcing business of the Group, the Directors consider that the terms of the Acquisition are fair and reasonable and are on normal commercial terms and in the best interest of the Company and the Shareholders as a whole.

Reasons for the Acquisition

The Directors consider that the Acquisition would further enhance the position of the Group in terms of its IT outsourcing capability in China and the earning base of the Group in the long run. In addition, the Acquisition will further minimise future potential competition in the IT outsourcing between the Group and CNSS.

LETTER FROM THE BOARD

Funding

Pursuant to the Agreement, the consideration will be satisfied by cash at a maximum amount of HK\$41,881,132. Within 14 days after the date of Completion, an amount of HK\$20,940,566 will be payable to the Vendor. The Company intends to finance the cash payment by the proceeds from the proposed issue of series A preferred shares to Microsoft Corporation and International Finance Corporation as announced by the Company on 21 October 2005. In the event that the issue of the series A preferred shares does not proceed to completion, the Company will finance the Acquisition by using its internal source of funding.

Implications on the Financial Accounts of the Company

Prior to the Completion, the Company owns 51% of the total equity interest of Chinasoft Resources through Chinasoft (HK). Upon Completion, Chinasoft Resources will become a wholly-owned subsidiary of the Company. Hence, the net financial results of Chinasoft Resources (including earnings, assets and liabilities) will be consolidated into and reflected in the financial results of the Company. Following the Acquisition, 100% consolidated financial results of Chinasoft Resources will be consolidated into the financial results of the Company. Therefore, there will be no immediate impact on assets, liabilities and earnings of the Group upon Completion.

Given that the consolidated net profit before tax and net profit after tax and minority interests but before extraordinary items of Chinasoft Resources (as adjusted to HK GAAP) were approximately RMB9.07 million (which is equivalent to approximately HK\$8.72 million) and RMB9.06 million (which is equivalent to approximately HK\$8.71 million) respectively, the Directors also consider that the Acquisition would have a positive impact on the earning base and net assets of the Group in the long run and will be beneficial to the Group as well as the Shareholders as a whole.

Connected Transactions

As at the Latest Practicable Date, CS&S(HK) held 175,762,453 Shares representing approximately 24% of the total issued share capital of the Company. CS&S(HK) is a substantial shareholder and a connected person (as defined under the GEM Listing Rules) of the Company. The Agreement constitutes a discloseable and connected transaction of the Company under the GEM Listing Rules and is thus subject to the reporting, announcement and independent shareholder's approval requirements under Chapter 20 of the GEM Listing Rules. CS&S(HK) will abstain from voting at the EGM. As at the Latest Practicable Date, as far as the Directors were aware, having made all reasonable enquiries:

- (a) CS&S(HK) controlled or were entitled to exercise control over the voting rights in respect of the Shares held by itself;
- (b) (i) there were no voting trusts or other agreement or arrangements or undertakings (other than an outright sale) entered into by or binding upon CS&S(HK); and
- (ii) there were no obligations or entitlements of CS&S(HK),

whereby CS&S(HK) had or might have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to third parties, either generally or on a case-by-case basis; and

LETTER FROM THE BOARD

- (c) there were no discrepancies between the beneficial shareholding interests of CS&S (HK) in the Company and the number of Shares in respect of which it would control or would be entitled to exercise control over the voting rights at the EGM.

The Independent Board Committee comprising Mr. He Ning, Mr. Zeng Zhijie and Mr. Au Yeung Shiu Kau, Peter has been formed to advise the Independent Shareholders on the fairness and reasonableness of the Acquisition and as to whether the Acquisition is in the interest of the Company and the Shareholders as a whole. BCOM Securities has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the same.

EGM

Set out on pages 36 to 37 in this circular is a notice convening the EGM to be held at 4:00 p.m. on 28 December 2005 at 27th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong at which a resolution will be proposed to approve the Acquisition. CS&S(HK), being a Shareholder materially interested in the Acquisition, will be required to abstain from voting at the EGM.

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

PROCEDURE FOR DEMANDING A POLL

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

- (a) by the chairman of such meeting; or
- (b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (c) by any Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to less than one-tenth of the total sum paid up on all the Shares conferring the rights.

LETTER FROM THE BOARD

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

According to Rule 17.47(4) of the GEM Listing Rules, a vote of the Shareholders taken at a general meeting to approve a connected transaction pursuant to the GEM Listing Rules must be taken on a poll. The resolution to be proposed at the EGM to approve the Acquisition will therefore be decided by poll.

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of BCOM Securities, considers that the terms of the Acquisition are fair and reasonable to and in the interest of the Company and the independent Shareholders as a whole. Accordingly, the Independent Board Committee recommends the independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition. The full text of the letter from the Independent Board Committee and of the letter from BCOM Securities are set out on page 15 and pages 16 to 26 of this circular respectively.

GENERAL

The principal business activities of the Group are the provision of e-government solutions and customised software products, IT consulting and training services, IT outsourcing services and standalone software products for government authorities and respective IT services providers as main target customers.

You are advised to read carefully the letter from the Independent Board Committee (which contains its recommendation to the independent Shareholders as to voting at the EGM) on page 15, the letter from BCOM Securities (which contains its advice to the Independent Board Committee in relation to the Acquisition and the principal factors and reasons it considered in arriving at its opinion) on pages 16 to 26 and other information as set out in this circular. In addition, your attention is drawn to the additional information set out in the appendix to this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



中软国际

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

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

To the independent Shareholders,

9 December 2005

Dear Sir or Madam,

We refer to the circular of the Company dated 9 December 2005 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Acquisition and to advise you as to whether the terms of the Acquisition are fair and reasonable and in the interests of of Company and the independent Shareholders as a whole. BCOM Securities has been appointed as an independent financial adviser to advise us on the terms of the Acquisition.

We wish to draw your attention to the letter from the Board, and the letter from BCOM Securities to us which contains its advice in relation to the Acquisition together with the principal factors taken into consideration in arriving at such, as set out in the Circular.

Having considered the terms of the Acquisition and the advice of BCOM Securities in relation thereto, we are of the opinion that the terms of the Acquisition are fair and reasonable and in the interest of the Company and the independent Shareholders as a whole. We therefore recommend that you vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition.

Yours faithfully,
Independent Board Committee

Mr. He Ning Mr. Zeng Zhijie Mr. Au Yeung Shiu Kau Peter
Independent Non-Executive Director

* *For identification purpose only*

LETTER FROM BCOM SECURITIES COMPANY LIMITED

The following is the text of a letter from BCOM Securities Company Limited to the Independent Board Committee prepared for the purpose of incorporation in this circular:



3rd Floor
Far East Consortium Building
121 Des Voeux Road Central
Central
Hong Kong

**The Independent Board Committee
Chinasoft International Limited**

Unit 4607 - 8
46th Floor
COSCO Tower
No. 183 Queen's Road Central
Hong Kong

9 December 2005

*To the Independent Board Committee of
Chinasoft International Limited*

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

Acquisition of the remaining 49% equity interest in Chinasoft Resources Information Technology Services Limited ("Chinasoft Resources")

INTRODUCTION

We refer to the announcement (the "**Announcement**") issued by Chinasoft International Limited (the "**Company**") dated 17 November 2005 in relation to the Company's proposed acquisition through Chinasoft International (Hong Kong) Limited ("**Chinasoft HK**"), a wholly owned subsidiary of the Company, of 49% of the registered capital of Chinasoft Resources (the "**Acquisition**") by way of cash from China National Computer Software & Technology Service Corporation (Hong Kong) Limited (the "**Vendor**"). Details of, inter alia, the terms and conditions of the Acquisition are set out in a circular issued by the Company to its shareholders dated 9 December 2005 (the "**Circular**"), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context herein otherwise requires.

As referred to in the Letter from the Board as set out on pages 4 to 14 of the Circular pursuant to the Agreement, Chinasoft HK conditionally agreed to acquire the Equity Interest from the Vendor which will be satisfied by cash at a maximum of amount of HK\$41,881,132 payable by Chinasoft HK to the Vendor. Prior to completion of the Acquisition, Chinasoft

LETTER FROM BCOM SECURITIES COMPANY LIMITED

Resources is 51% owned by Chinasoft HK and 49% owned by the Vendor. Upon completion of the Acquisition, Chinasoft Resources will become a wholly-owned subsidiary of the Company. The Acquisition constitutes a discloseable transaction of the Company under the GEM Listing Rules. As the Vendor is a connected person of the Company under Rule 20.11(1), the Acquisition also constitutes a connected transaction of the Company under Rule 20.13(1) of the GEM Listing Rules and is subject to the independent Shareholders' approval at EGM.

The Independent Board Committee comprising Messrs He Ning, Zeng Zhijie and Au Yeung Shiu Kau Peter, being independent non-executive Directors, has been established by the Board to advise the independent Shareholders in relation to the Acquisition. We, BCOM Securities Company Limited, have been appointed by the Company to advise the Independent Board Committee as to whether or not (i) the terms and conditions of the Acquisition are fair and reasonable, based on normal commercial terms and are in the interests of the Company and Shareholders as a whole; and (ii) the settlement for the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iii) the Independent Board Committee should recommend the independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to consider and, if thought fit, approve the Acquisition pursuant to the Agreement, by way of a poll.

KEY ASSUMPTIONS MADE

In formulating our opinion and recommendation to the Independent Board Committee in relation to the Acquisition, we have relied on the accuracy of the information and representations contained in the Circular which have been provided to us by the Directors and which the Directors consider to be complete and relevant. We have assumed that all statements, information and representations made or referred to in the Circular, for which the Directors are solely responsible, were true and correct in all material respects at the time they were made and continued to be so as at the date of despatch of the Circular. We have also assumed that all statement of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and we have been advised by the Directors that no material facts have been omitted from the information and representations provided in and referred to in the Circular. We consider that we have received sufficient information to enable us to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our opinion and recommendation. We have no reason to suspect that any material information has been withheld by the Company or by the Directors. We have not, however, carried out any independent verification of the information provided to us by the Directors, nor have we conducted an independent in-depth investigation into the affairs and the business feasibility of the Company, its subsidiaries and Chinasoft Resources.

In formulating our opinion and recommendation, we have not considered the tax consequences on the Shareholders as a result of the approval (or otherwise) by the independent Shareholders of the Acquisition, since these are particular to the individual circumstances of any Shareholder. It is emphasized that we will not accept responsibility for any tax effects on or liabilities of any person resulting from the approval (or otherwise) of the Acquisition by the independent Shareholders. In particular, any Shareholder who is in any doubt about his/her own tax position in connection with the approval of the Acquisition should consult his/her own professional adviser(s).

LETTER FROM BCOM SECURITIES COMPANY LIMITED

PRINCIPAL FACTORS AND REASONS CONSIDERED

As referred to in the Letter from the Board as set out on pages 4 to 14 of the Circular, the Acquisition constitutes a discloseable transaction of the Company under the GEM Listing Rules. As the Vendor is a connected person (as defined under the GEM Listing Rules) of the Company, the Acquisition also constitutes a connected transaction of the Company under the GEM Listing Rules and is subject to the independent Shareholders' approval. The Vendor, being a Shareholder with an interest in the Acquisition and holding approximately 24.0% of the total issued share capital of the Company as at the Latest Practicable Date ("LPD"), will be required to abstain from voting at the EGM, at which voting will be taken by way of a poll. To the best of the Directors' knowledge, none of the associates of the Vendor held any Share as at the LPD. Therefore, all Shareholders, except for the Vendor, are eligible to consider and, if thought fit, vote on the resolution to approve (inter alia) the Acquisition pursuant to the Agreement. Accordingly, in this letter of advice, we shall formulate our opinion and recommendation to the Independent Board Committee in relation to the Acquisition. In arriving at our opinion and recommendation to the Independent Board Committee, we have considered the principal factors and reasons set out below:

1. Reasons for the Acquisition

We noted that, as at the LPD, the Company wholly and beneficially owned Chinasoft HK. Chinasoft Resources is a wholly-foreign owned enterprise whose registered capital is currently owned as to 51% by Chinasoft HK and 49% by the Vendor. The Vendor is in turn owned as to 99.3% of its total voting rights by Chinasoft National Software and Service Company Limited ("CNSS") and as to 0.7% of its total voting rights by an independent third party who is not connected with the directors, chief executive, substantial shareholders or management shareholders of the Company or any of its subsidiaries or any of their respective associates.

As referred to in the Letter from the Board as set out on pages 4 to 14 of the Circular, Chinasoft HK has conditionally agreed to acquire the Vendor's 49% registered capital of Chinasoft Resources. Upon completion of the Acquisition, Chinasoft Resources will become a wholly-owned subsidiary of Chinasoft HK.

From the perspective of contribution to the Group's financial results

As referred in the Letter from the Board as set out on pages 4 to 14 of the Circular, (i) the audited consolidated net tangible asset value of Chinasoft Resources as of 31 December 2004 was approximately RMB15.39 million (which is equivalent to approximately HK\$14.80 million); and (ii) for the period from 22 April 2004 (date of incorporation) to 31 December 2004, the PRC audited consolidated net profit before tax and net profit after tax and minority interests but before extraordinary items of Chinasoft Resources (as adjusted to HKGAAP) were approximately RMB9.07 million (which is equivalent to approximately HK\$8.72 million) and RMB9.06 million (which is equivalent to approximately HK\$8.71 million) respectively. Pursuant to the Acquisition, the Company will acquire the Equity Interest, and, as a result, Chinasoft Resources will become a wholly-owned subsidiary of the Company. Therefore, a 100% share of Chinasoft Resources' earnings and net tangible assets will be attributable to the Company as referred to above. In this regard, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

LETTER FROM BCOM SECURITIES COMPANY LIMITED

Based on our foregoing analysis, we consider that if Chinasoft Resources continues to sustain a profitable business, the Acquisition would contribute further to the Group's earnings.

The merits as well as the growth and development prospects of Chinasoft Resources

We were informed by the Directors and noted that Chinasoft Resources is principally engaged in information technology ("IT") outsourcing for business solutions, whereby the services include customized system and software development, integration, implementation and maintenance support according to customer requirements. Chinasoft Resources was the first Microsoft strategic alliance partner in the PRC. It is also one of the top 15 IBM core service providers in the PRC and is certified as Class A offshore outsourcing company by the Ministry of Science & Technology of the PRC. In addition, Chinasoft Resources has long-term stable clients including Microsoft, Oracle, Huawei Technologies, HP, Nokia, Lucent, IBM, etc.

According to a report issued in July 2005 by an international research house, International Data Corporation ("IDC"), they suggested that the size of the IT outsourcing market in the PRC amounted to approximately US\$466,000,000 (equivalent to approximately HK\$3,634,800,000) in 2005 which accounted for approximately 8.8% of the total IT services spending in the PRC. Under IDC's definition, such IT outsourcing services are contractual arrangements in which a service provider takes responsibility of managing specific parts of a client's integrated solution infrastructures and operation (examples are application management, desktop management, network management, software as a service and hosting infrastructure services). Such IDC's definition of IT outsourcing has a broader scope of coverage compares to Chinasoft Resources' business. IDC also expected the IT outsourcing market to grow at a compound annual growth rate of 36.2% from 2005 to 2009, hitting US\$1,601,900,000 (equivalent to HK\$12,494,820,000) in 2009, accounting for approximately 14.5% of the total IT services spending in the PRC. In this regard, we believe that the Group is able to capitalize on Chinasoft Resources' skills and expertise in developing and marketing its IT outsourcing solutions and to reap the benefits of the growth and development prospects in the PRC as discussed above.

Therefore, we consider that the Acquisition is in the interests of the Company and the Shareholders as a whole as we are advised by the Company that the Group will be able to expand its market share, increase the Group's competitiveness, broaden the Group's revenue base and to benefit from future growth and development prospects arising therefrom.

Direct competition between Dalian Chinasoft and Chinasoft Resources

CNSS, which has an equity interest of 99.3% in the Vendor and is a company listed on Shanghai Stock Exchange, is principally engaged in software and IT product development and system integration in the sectors of railway, communication, aviation, taxation and military. CNSS is also engaged in IT outsourcing through its 62% owned-subsiidiary, Dalian Chinasoft.

LETTER FROM BCOM SECURITIES COMPANY LIMITED

Although CNSS will no longer have any interests in Chinasoft Resources upon completion of the Acquisition, Mr. Cui Hui, an executive Director, may have interests in competing business in CNSS due to the fact that he is interested in approximately 1.34% of the issued share capital of CNSS and also served as a director of CNSS, in which CNSS is also engaged in IT outsourcing through Dalian Chinasoft.

As stated in the Letter from the Board as set out on pages 4 to 14 of the Circular, the IT outsourcing business carried out by each of Chinasoft Resources' subsidiaries and Dalian Chinasoft are primarily focused on clients at the geographical locations in which they operate. Dalian Chinasoft primarily targets its clients located in Dalian whereas the Chinasoft Resources' subsidiaries operate in different regions. Non-competition undertakings have not been provided by Dalian Chinasoft to Chinasoft Resources and the Directors consider that potential competition may or may not occur between the Group and CNSS upon completion of the Acquisition.

Based on the current arrangement, we concur with the view of the Directors that there is no direct competition between Chinasoft Resources and Dalian Chinasoft if IT outsourcing service providers are required to be located in the same geographic locations as their prospective clients in order to respond promptly to the needs of their clients and deliver their services on a timely fashion and Chinasoft Resources and its subsidiaries and Dalian Chinasoft target prospective clients located in their own respective regions.

Overall

Based on various factors mentioned above, we are of the view that given (i) the earnings attributable to the Equity Interest, which will be acquired by the Company pursuant to the Acquisition, based on Chinasoft Resources' historical financial statements for the period from 22 April 2004 to 31 December 2004; and (ii) the merits as well as the growth and development prospects of Chinasoft Resources' business operations, the Acquisition is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

2. Consideration payable by the Company for the Acquisition

As referred to in the Letter from the Board as set out on pages 4 to 14 of the Circular, Chinasoft HK shall pay an aggregate amount of HK\$41,881,132 to the Vendor, subject to fulfillment of certain conditions. The cash settlement will be paid in three portions: (i) HK\$20,940,566 will be payable to the Vendor within 14 days upon the completion of the Acquisition; (ii) if the audited consolidated net profit of Chinasoft Resources after taxation and minority interests but before extraordinary items for the year ending 31 December 2005 according to the audited consolidated financial statements of Chinasoft Resources prepared in accordance with HKGAAP ("**2005 Accounts**") is not less than RMB12,000,000 (equivalent to HK\$11,540,000) ("**Profit Hurdle**"), an additional amount of HK\$10,470,283 will be payable to the Vendor within 14 days from the date of issue of the 2005 Accounts, which is expected to be on or before 31 March 2006; and (iii) if the number of IT outsourcing staff of Chinasoft Resources and its subsidiaries as at 31 March 2006 is not less than the number of such staff (600 staff) as at 28 April 2005 (the date of the agreement for the Previous Acquisition) ("**Head Count Hurdle**"), a further

LETTER FROM BCOM SECURITIES COMPANY LIMITED

amount of HK\$10,470,283 will be payable to the Vendor within 14 days after the completion by Chinasoft HK of its due diligence on the employment of staff by Chinasoft Resources and its subsidiaries and the issue of a confirmation by the auditors of Chinasoft Resources that the condition stated in this paragraph is fulfilled. If neither the Profit Hurdle nor the Head Count Hurdle is fulfilled, the corresponding portion of the consideration will not be payable by the Group and the aggregate consideration for the Acquisition will be reduced accordingly i.e. HK\$20,940,566.

We consider that the settlement of the consideration payable by the Company for the Acquisition in the form of cash will not cause any dilutive effect on the aggregate beneficial shareholdings of the independent Shareholders. Furthermore, as advised by the Directors, the Company intends to finance the cash payment with the proceeds from the proposed issue of the series A preferred shares to Microsoft and IFC, which was announced on 21 October 2005. In addition, the further consideration of HK\$20,940,566 is subject to the Profit Hurdle and the Head Count Hurdle. We are of the view that such Profit Hurdle and Head Count Hurdle arrangements are to the benefit of the Company, whereby, if, in any case, Chinasoft Resources cannot meet the target as agreed, the corresponding portion of the consideration will not be payable to the Vendor. Also, as advised by the Directors, the further cash payment will be made out of internal resources of the Group and will not result in any external bank borrowings of the Group. Therefore, we consider that there will not be any significant impact on the Group's existing gearing level of 8.56% or any additional burden or interest costs to be borne by the Group. In such regards, we are of the view that the consideration payable by the Company for the Acquisition, in the form of cash with the Profit Hurdle and the Head Count Hurdle, is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

3. Valuation of the Equity Interest implied in the consideration payable for the Acquisition

As referred to in the Letter from the Board as set out on pages 4 to 14 of the Circular, based on Chinasoft Resources' audited net profit after tax and minority interests but before extraordinary items for the period from 22 April 2004 (date of incorporation) to 31 December 2004 (as adjusted to HKGAAP) was approximately RMB9,060,000 (equivalent to HK\$8,710,000). Assuming that neither of the Profit Hurdle nor the Head Count Hurdle could be fulfilled, the consideration would only amount to HK\$20,940,566, being 49% of the valuation of Chinasoft Resources, and the valuation of approximately HK\$42,735,849, being 100% of the valuation of Chinasoft Resources, represents a historical price/earnings multiple of approximately 4.91 times (HK\$42,735,849, being 100% of the valuation of Chinasoft Resources, divided by HK\$8,710,000, being the approximate earnings of Chinasoft Resources for the period from 22 April 2004 to 31 December 2004). Furthermore, Chinasoft Resources' audited net tangible asset value as at 31 December 2004 (as adjusted to HKGAAP) was approximately RMB15,390,000 (equivalent to approximately HK\$14,800,000). Assuming that neither of the Profit Hurdle nor the Head Count Hurdle could be fulfilled and no further cash would be paid, the consideration would amount to HK\$20,940,566, being 49% of the valuation of Chinasoft Resources, and the valuation of approximately HK\$42,735,849, being 100% of the valuation of Chinasoft Resources, represents a historical price/book ratio of approximately 2.89 times (HK\$42,735,849, being 100% of the valuation of Chinasoft Resources, divided by HK\$14,800,000, being the approximate audited net tangible asset value as at 31 December 2004 of Chinasoft Resources).

LETTER FROM BCOM SECURITIES COMPANY LIMITED

On the other hand, assuming Chinasoft Resources could fulfill the Profit Hurdle only (based on the net profit of HK\$11,540,000), the consideration would amount to approximately HK\$31,410,849, being 49% of the valuation of Chinasoft Resources, and the valuation of approximately HK\$64,103,773, being 100% of the valuation of Chinasoft Resources, represents a forward price/earnings multiple of approximately 5.55 times (HK\$64,103,773, being 100% of the valuation of Chinasoft Resources, divided by HK\$11,540,000, being the approximate earnings of Chinasoft Resources for the period ending 31 December 2005) and represents a historical price/book ratio of approximately 4.33 times (HK\$64,103,773, being 100% of the valuation of Chinasoft Resources, divided by HK\$14,800,000, being the approximate audited net tangible asset value as at 31 December 2004 of Chinasoft Resources)

Assuming Chinasoft Resources could fulfill the Head Count Hurdle only (based on the head count of 600 staff), the consideration would amount to approximately HK\$31,410,849, being 49% of the valuation of Chinasoft Resources, and the valuation of approximately HK\$64,103,773, being 100% of the valuation of Chinasoft Resources, represents a historical price/earnings multiple of approximately 7.36 times (HK\$64,103,773, being 100% of the valuation of Chinasoft Resources, divided by HK\$8,710,000, being the approximate earnings of Chinasoft Resources for the period from 22 April 2004 to 31 December 2004) and represents a historical price/book ratio of approximately 4.33 times (HK\$64,103,773, being 100% of the valuation of Chinasoft Resources, divided by HK\$14,800,000, being the approximate audited net tangible asset value as at 31 December 2004 of Chinasoft Resources).

In addition, assuming Chinasoft Resources could fulfill both the Profit Hurdle and the Head Count Hurdle, the consideration would amount to approximately HK\$41,881,132, being 49% of the valuation of Chinasoft Resources, and the valuation of approximately HK\$85,471,698, being 100% of the valuation of Chinasoft Resources, represents a forward price/earnings multiple of approximately 7.41 times (HK\$85,471,698, being 100% of the valuation of Chinasoft Resources, divided by HK\$11,540,000, being the approximate earnings of Chinasoft Resources for the period ending 31 December 2005) and represents a historical price/book ratio of approximately 5.78 times (HK\$85,471,698, being 100% of the valuation of Chinasoft Resources, divided by HK\$14,800,000, being the approximate audited net tangible asset value as at 31 December 2004 of Chinasoft Resources).

For the purpose of evaluating the price/earnings multiple and price/book ratio as implied by the consideration payable by the Company for the Acquisition and hence in evaluating the consideration payable by the Company for the Acquisition is on normal commercial terms or not, we have conducted a research on a number of companies listed on the Stock Exchange which are engaged in the development and marketing of IT solutions software and related business (the “**Reference Companies**”). Given the limited number of IT outsourcing companies listed in Hong Kong, we have therefore extended our comparable coverage to IT companies which are in similar nature of business (which includes providing business processes or business solutions to clients) but may not be exactly the same as those conducted by China Resources. As of the LPD, we have studied all the IT companies listed on the Stock Exchange through information on Bloomberg and have used the following selection criteria as our basis. The selection criteria of such Reference Companies are based on the business nature and the fulfillment of either one of the following conditions; (i) IT outsourcing related, (ii) being contracted by clients in respect of the development of IT functions, business processes or business solutions or

LETTER FROM BCOM SECURITIES COMPANY LIMITED

(iii) focusing on the management software application. The relevant market statistics of all Reference Companies (which have fulfilled either one of the above criteria and are listed on the Stock Exchange) are set out below:

Company	Principal business activities	Closing share price as at the LPD	Earnings per share as at 31 December 2004		Net asset value per share as at 31 December 2004		Historical price/earnings multiple (unless otherwise stated)	Historical price/book ratio
		(A) HK\$	(B) RMB HK\$		(C) RMB HK\$		(A)/(B) (times)	(A)/(C) (times)
Chinasoft International Limited (8216.hk)	Develops and provides IT solutions (including IT consulting, IT outsourcing)	0.81	0.05	0.05	0.13	0.13	16.20	6.23
Kingdee International Software Group Company Limited (268.hk)	Develops and sells enterprise management software, e-commerce application software and middle software	1.78	0.12	0.12	0.71	0.68	14.83	2.62
Shine Software (Holdings) Limited (8270.hk)	Provides system platforms, application software and technical support services for participants of Primary Clearing System and Secondary Clearing System in the PRC	0.09	0.0021	0.0020	0.10	0.10	45.00	0.90
Shanghai Jiaoda Withub Information Industrial Company Limited (8205.hk)	Researches and develops network security systems and provides business application solutions	0.16	(0.0095)	(0.0091)	0.25	0.24	N/A	0.67
Sinocom Software Group Limited (299.hk)	Provides outsourcing software development services to customers in the information technology sector in Japan	5.40	0.24	0.23	1.04	1.00	23.48	5.40
Travelsky Technology Limited (696.hk)	Provides information technology solutions to air travel, air cargo systems, civil aviation and tourism industries in the PRC	7.00	0.51	0.49	3.64	3.50	14.29	2.00
Hi Sun Technology (China) Limited (818.hk)	Provides telecommunication infrastructure, IT consultancy, IT outsourcing etc.	1.10	(0.04)	(0.04)	0.16	0.15	N/A	7.33
Simple average							22.76	3.59
Chinasoft Resources (Neither the Profit Hurdle nor the Head Count Hurdle could be fulfilled)							4.91	2.89
Chinasoft Resources (Only the Profit Hurdle could be fulfilled)*							5.55	4.33
Chinasoft Resources (Only the Head Count Hurdle could be fulfilled)							7.36	4.33
Chinasoft Resources (Both the Profit Hurdle and the Head Count Hurdle could be fulfilled)*							7.41	5.78

Source: Bloomberg

* Based on the net profit of HK\$11,540,000, being the approximate earnings of Chinasoft Resources for the period ending 31 December 2005

LETTER FROM BCOM SECURITIES COMPANY LIMITED

Based on the foregoing statistics, we have noted that the historical price/earnings multiples of approximately 4.91 times (neither the Profit Hurdle nor the Head Count Hurdle could be fulfilled) and approximately 7.36 times (only the Head Count Hurdle could be fulfilled), as implied by the further consideration payable by the Company for the Acquisition, and is lower than the corresponding average historical price/earnings multiple of 22.76 times (based on the closing share prices of the Reference Companies as at the LPD) by approximately 78.43% and 67.66% respectively, as demonstrated by the Reference Companies. Also, we noted that the forward price/earnings multiples of approximately 5.55 times (only the Profit Hurdle could be fulfilled) and approximately 7.41 times (both of the Profit Hurdle and the Head Count Hurdle could be fulfilled), as implied by the further consideration payable by the Company for the Acquisition, and is lower than the corresponding average historical price/earnings multiple of 22.76 times (based on the closing share prices of the Reference Companies as at the LPD) by approximately 75.62% and 67.44% respectively, as demonstrated by the Reference Companies. Nevertheless, we have noted that if both the Profit Hurdle and the Head Count Hurdle could be fulfilled, the historical price/book ratios will be approximately 5.78 times, as implied by the further consideration payable by the Company for the Acquisition, and is higher than the corresponding average historical price/book ratio of 3.59 times (based on the closing share prices of the Reference Companies as at the LPD), as demonstrated by the Reference Companies. In this regard, we noted from our discussions with the Directors that Chinasoft Resources is one of the leading IT outsourcing service providers and is certified as Class A offshore IT outsourcing company by the Ministry of Science & Technology of the PRC. Furthermore, Chinasoft Resources has generated a net profit of approximately RMB9,060,000 (which is equivalent to approximately HK\$8,710,000) in less than one year since its establishment in April 2004. As discussed in the paragraph headed “Reasons for the Acquisition” above, during such year, Chinasoft Resources was the first Microsoft strategic alliance partner in China and is one of the top 15 IBM core service providers in the PRC. There are also good prospects for business conducted by Chinasoft Resources, given that the IT services spending within the IT sector in the PRC will grow at a compound annual growth rate of 3.9% from 2005 to 2009, hitting US\$1,145,900,000 (equivalent to approximately HK\$8,938,020,000) in 2009, according to the relevant IDC report reviewed by us. We are also advised by the Board that Chinasoft Resources is able to capitalize its skills and expertise in the IT outsourcing market in the PRC and to reap the benefits of future growth prospects arising therefrom. Furthermore, pursuant to the agreement between the Vendor and Chinasoft HK dated 28 April 2005 for the acquisition by Chinasoft HK of 51% of the registered capital of Chinasoft Resources (“**Previous Acquisition**”), the price/earnings multiple is lower than that of the Previous Acquisition (which was 7.75 times as disclosed in the circular dated 6 June 2005). In such regards, we are of the view that since the price/earnings multiple is in discount comparing to the Reference Companies and is lower than that of the Previous Acquisition, therefore, we consider that the Acquisition is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

By contrast, the majority of the Reference Companies are predominantly engaged in the development and marketing of IT solutions as well as software development, which do not directly target IT outsourcing market. Therefore, the Reference Companies may operate under business models different from that of Chinasoft Resources and do not enjoy the relevant market segment of the IT sector in the PRC as in the case of Chinasoft

LETTER FROM BCOM SECURITIES COMPANY LIMITED

Resources. Accordingly, the Board confirms to us that Chinasoft Resources' business segment offers it with competitive advantages, which justify a premium in its business valuation when compared with the generality of IT solutions companies, such as the Reference Companies. However, we are of the view that given the nature of the industry is not capital intensive, price/earnings multiple is more appropriate as an indicator for comparison whereas price/book ratio, which vary from 0.67 times to 7.33 times, shall only be used as a reference. Therefore, based on the foregoing, we are of the view that the consideration payable by the Company for the Acquisition was determined on a fair and reasonable basis and on normal commercial terms.

4. Possible financial effect to the Company

As stated in the Letter from the Board as set out on pages 4 to 14 of the Circular, the consideration for the Acquisition will be primarily settled by cash at a maximum amount of HK\$41,881,132 payable by Chinasoft HK to the Vendor, subject to the fulfillment (or waiver if applicable) of the conditions. As advised by the Directors, the Company intends to finance the cash payment with the proceeds from the proposed issue of the series A preferred shares to Microsoft and IFC, which was announced on 21 October 2005 and is expected to be completed by the end of 2005. The Directors also advised us that, in the event that the issue of the series A preferred shares do not proceed to complete, the Company will finance the Acquisition by using internal resources.

In terms of earnings

Following the completion of the Acquisition, the Group will be able to share the profit or loss of Chinasoft Resources attributable to the Equity Interest, being 100% of Chinasoft Resources' net profit and loss after tax. Given our observation that Chinasoft Resources has demonstrated an earning record since its establishment in April 2004, we may uphold our assumption that the Acquisition would contribute further to the Group's earnings if Chinasoft Resources continues to sustain a profitable business. Accordingly, we consider that the Acquisition is fair and reasonable and is in the interests of the Company and Shareholders as a whole.

In terms of net tangible assets

We have noted that the Group reported unaudited net tangible assets after minority interest of approximately RMB210,203,000 (equivalent to approximately HK\$202,118,000) as at 30 June 2005. The maximum consideration of HK\$41,881,132 will not have any significant effect on the Group's net tangible assets after minority interest upon completion of the Acquisition. However, we consider that it would be more appropriate to evaluate the effects of the Acquisition based on the Group's earnings since the nature of the industry is not capital intensive. Accordingly, we consider that the Acquisition is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

LETTER FROM BCOM SECURITIES COMPANY LIMITED

RECOMMENDATION

Having considered the principal factors and reasons and the key assumptions adopted by us as referred to in our analysis and evaluation above, we are of the view that although it is not in the ordinary and usual course of business of the Company to contemplate the Acquisition, we have taken note of the earnings and net tangible assets attributable to Equity Interest which will be acquired by the Company pursuant to the Acquisition based on Chinasoft Resources' historical financial statements for the year ended 31 December 2004. Furthermore, as a result of the Acquisition, Chinasoft Resources will become a wholly-owned subsidiary of the Company and the Acquisition will enable the Group to further consolidate its board and management control in Chinasoft Resources, which will essentially be the Group's principal operating subsidiary and the relevant business operation has demonstrated merits as well as growth in the development prospects. Accordingly, we are of the view that the Acquisition is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

Based on the various factor and reasons stated above including that (i) the terms and conditions of the Acquisitions are (a) fair and reasonable; (b) based on normal commercial terms; and (c) in the interests of the Company and the Shareholders as a whole; and (ii) the settlement for the Acquisition is fair and reasonable and is in the interests of the Company and the Shareholders as a whole, we would advise the Independent Board Committee to recommend the independent Shareholders to vote in favour of the Acquisition pursuant to the agreement by way of a poll at the EGM.

Yours faithfully,
For and on behalf of
BCOM Securities Company Limited
Kenneth Leung
Executive Director
Investment Banking Division

RESPONSIBILITY STATEMENT

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

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading in any material respect;
- (b) there are no matters the omission of which would make any statement in this circular misleading in any material respect; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interest of the Directors in the shares and underlying shares of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

(a) Shares

Name of Directors	Capacity	Nature of Interest	Number of Shares held	Percentage of total issued share capital
Chen Yuhong	Beneficial Owner	Personal	22,967,472	3.14%
Cui Hui	Beneficial Owner	Personal	22,967,472	3.14%
Peng Jiang	Beneficial Owner	Personal	7,017,838	0.96%
Tang Zhenming	Beneficial Owner	Personal	10,207,765	1.39%
Wang Hui	Beneficial Owner	Personal	7,017,838	0.96%

(b) Share Options

Name of Directors	Exercise Price (HK\$)	No. of share options outstanding as at the Latest Practicable Date	Percentage of total issued share capital	Note
Chen Yuhong	0.58	1,200,000	0.16%	(1)
	0.65	5,000,000	0.68%	(2)
Cui Hui	0.65	500,000	0.07%	(2)
Duncan Chiu	0.65	1,000,000	0.14%	(2)
Peng Jiang	0.58	800,000	0.11%	(1)
	0.65	3,000,000	0.41%	(2)
Tang Zhenming	0.58	320,000	0.04%	(1)
	0.65	2,600,000	0.36%	(2)
Wang Hui	0.58	1,000,000	0.14%	(1)
	0.65	3,500,000	0.48%	(2)

Notes:

- (1) These share options were offered on 13 August 2003 under the Share Option Scheme and accepted on 27 August 2003. The options are exercisable for a period of ten years from the date of offer, subject to the following conditions:

Exercise Period		Number of share options exercisable
Commencing	Ending	
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

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

Exercise Period		Number of share options exercisable
Commencing	Ending	
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

SHARE OPTION SCHEME

As at the Latest Practicable Date, share options to subscribe for an aggregate of 63,740,000 Shares were granted to certain directors and employees of the Group pursuant to the Share Option Scheme with terms on the exercise of the share options granted as set out in Notes (1) and (2) in the section headed “Directors’ Interests” in this appendix.

Save as disclosed above, no option has been granted, exercised and lapsed pursuant to such Share Option Scheme as at the Latest Practicable Date.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at the Latest Practicable Date, the following persons, not being a Director or chief executive of the Company, had an interest in the Shares which were notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in Shares

Name	Type of interest	Approximate number of Ordinary Shares (million)	Approximate percentage of shareholding
CS&S(HK) (<i>Note 1</i>)	Beneficial interest	199.01	27.17%
CNSS (<i>Note 1</i>)	Interest of controlled corporation	199.01	27.17%
Chinasoft (HK) (<i>Note 2</i>)	Interest of persons acting in concert	199.01	27.17%
Far East Technology International Limited (“Far East”) (<i>Note 3</i>)	Beneficial interest	169.89	23.20%
International Finance Corporation (<i>Note 4</i>)	Beneficial interest	97.25	13.28%
Microsoft Corporation (<i>Note 4</i>)	Beneficial interest	97.25	13.28%
Authorative Industries Limited (“Authorative”) (<i>Note 5</i>)	Beneficial interest	57.49	7.85%
Yang Haimo (<i>Note 5</i>)	Interest of controlled corporation	57.49	7.85%

Name	Type of interest	Approximate number of Ordinary Shares (million)	Approximate percentage of shareholding
Prosperity International Investment Corporation (“Prosperity”) (Note 6)	Beneficial interest	39.79	5.43%
Joseph Tian Li (Note 6)	Interest of controlled corporation	39.79	5.43%
ITG Venture Capital Limited (“ITG”) (Note 7)	Beneficial interest	36.94	5.04%
Zhou Qi (Note 7)	Interest of controlled corporation	36.94	5.04%

Notes:

1. CNSS is taken to be interested in the Shares which CS&S(HK), its subsidiary, in which it holds approximately 99.3% of the total voting rights, is interested in. The number of Shares in which CS&S(HK) is interested includes the 23,248,302 Shares which may be issued to itself pursuant to an acquisition agreement between Chinasoft (HK) and CS&S(HK) dated 28 April 2005 subject to fulfillment of a condition and the exercise of a cash option.
2. Chinasoft (HK) and CS&S(HK) are parties to agreements to acquire interest in the Company which includes 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 and Mr. David Chiu, an executive Director and a non-executive Director of the Company respectively are nominated by Far East. Both Mr. Duncan Chiu and Mr. David Chiu are directors of Far East.
4. As at the Latest Practicable Date, International Finance Corporation and Microsoft Corporation 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 agreed to be subscribed for by each of them pursuant to a subscription agreement with the Company dated 26 September 2005 subject to the satisfaction of condition precedents set forth in the subscription agreement.
5. Mr. Yang Haimo controls the exercise of more than one-third of the voting power at general meetings of Authorative, and is thus taken to be interested in the Shares held by Authorative.
6. The entire issued share capital of Prosperity is beneficially owned by Mr. Joseph Tian Li. Mr. Joseph Tian Li is taken to be interested in the Shares held by Prosperity.
7. The entire issued share capital of ITG is beneficially owned by Mr. Zhou Qi. Mr. Zhou Qi is taken to be interested in the Ordinary Shares held by ITG.

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

Name of member of the Group	Name of substantial shareholder	Nature and amount of interest	Percentage of shareholding
Chinasoft Resources	the Vendor	equity interest in the amount of US\$392,000	49%
Shanghai Resources	上海東瑞信息諮詢服務有限公司 (Shanghai Dong Rui Information Consultation Services Co., Ltd.)	equity interest in the amount of RMB600,000	20%
Shanghai Resources	Yan Juanyu (嚴隽鈺)	equity interest in the amount of RMB600,000	20%

Save as disclosed above, as at the Latest Practicable Date so far as was known to the Directors, (a) none of the Directors or chief executive of the Company had any interest or short position in any shares or underlying shares or interest in debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules; (b) there was no person known to the Directors who had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was or was expected to be, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or had any options in respect of such capital.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor pursuant to Rule 6.35 of the GEM Listing Rules, Oriental Patron Asia Limited ("Oriental Patron"), neither Oriental Patron nor its directors, employees or associates had any interests in the share capital of the Company as at the Latest Practicable Date.

Pursuant to the agreement dated 9 June 2003 which was entered into between the Company and Oriental Patron, Oriental Patron has received and will receive a fee for acting as the Company's retained sponsor for the period from 20 June 2003 to 31 December 2005 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

LITIGATION

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

DIRECTORS' INTERESTS IN CONTRACTS

- (a) Madam Tang Min has entered into a service contract with the Company for an initial term of 2 years which commenced on 30 September 2004 at a monthly salary of RMB10,000. Such service contract shall continue until terminated by either party giving to the other not less than three month's notice, such notice not to be given before the expiry of the initial term of two years.
- (b) Save as disclosed above, as at the Latest Practicable Date, none of the Directors has entered into any service contract with any member of the Group which is not determinable within one year without payment of compensation, other than statutory compensation.
- (c) Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2004 (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.
- (d) Save as disclosed herein, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular and which is significant in relation to the business of the Group.

EXPERT

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

Name	Qualification
BCOM Securities	A licensed corporation to carry out types 1, 2, 4, 5, 6 and 9 regulated activities (dealing in securities, dealing in futures contracts, advising on securities, advising on futures contracts, advising on corporate finance and asset management) under the SFO

As at the Latest Practicable Date:

- (a) BCOM Securities did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, since 31 December 2004 (being the date to which the latest published audited consolidated accounts of the Group were made up) or which were proposed to be so acquired or, disposed of by or leased to, the Company or any member of the Group; and

- (b) BCOM Securities was not interested beneficially or non-beneficially in any Shares in the Company or any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

CONSENT

BCOM Securities has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and all references to its name, in the form and context in which they respectively appear.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

As at the Latest Practicable Date, Mr. Cui Hui, an executive Director, was interested in approximately 1.34% of the issued share capital of CNSS and also served as a director of CNSS. In addition, each of Mr. Cui Hui and Dr. Chen Yuhong had been appointed as a senior vice president by CNSS since December 2003.

The IT outsourcing businesses carried out by each of Chinasoft Resources, Shenzhen Resources, Shanghai Resources and Dalian Chinasoft primarily focus on clients at the geographical locations in which they respectively operate. Dalian Chinasoft, which is owned by CNSS as to 62%, primarily targets at its customers located in Dalian while Chinasoft Resources, Shanghai Resources and Shenzhen Resources primarily target at their customers located in Beijing, Shanghai and Shenzhen respectively. Therefore, although the Group and CNSS are both engaged in the provision of IT outsourcing, the Directors are of the view that the principal activities of CNSS do not directly compete with those of the Group currently.

Save as disclosed above, none of the Directors or the substantial shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

NO MATERIAL ADVERSE CHANGE

Since 31 December 2004, being the date to which the latest published audited accounts of the Company have been made up, the Directors are not aware of any material adverse change in the financial or trading position of the Group.

MISCELLANEOUS

- (a) The registered office of the Company is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies.
- (b) The Qualified Accountant and the Secretary of the Company is Mr. Fok Ming Fuk, FCPA, FCCA and the Chartered Accountant.
- (c) The Compliance Officer of the Company is Dr. Chen Yuhong.

- (d) The Company's Hong Kong branch share registrar and transfer office is Computershare Hong Kong Investor Services Limited, which is situated at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) This circular has been prepared in both English and Chinese. In the case of any discrepancy, the English text shall prevail.
- (f) The Company established an audit committee on 2 June 2003 with written terms of reference in compliance with the requirements as set out in Rules 5.28 and 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee has three members comprising all three independent non-executive Directors, namely Mr. He Ning, Mr. Zeng Zhijie and Mr. Au Yeung Shiu Kau Peter with their individual background stated below.

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

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

Mr. Au Yeung Shiu Kau, Peter was appointed as an independent non-executive Director on 30 September 2004. Mr. Au Yeung holds a diploma in accountancy in Hong Kong. He has more than 20 years' experience in the accountancy profession in Hong Kong and is currently a fellow member of both The Hong Kong Institute of Certified Public Accountants and The Chartered Association of Certified Accountants. He runs a business as a Certified Public Accountant in the form of sole proprietorship in Hong Kong. He was previously an independent non-executive director of Golden 21 Investments Holdings Limited, a company listed on the Main Board of the Stock Exchange.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at any weekday (public holiday excepted) at the Company's registered office, Units 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong from the date of this circular up to and including the date of the EGM:

- (i) the Agreement;
- (ii) the letter from the Independent Board Committee to the independent Shareholders, the text of which is set out on page 15 of this circular;
- (iii) the letter from BCOM Securities to the Independent Board Committee, the text of which is set out on pages 16 to 26 of this circular;
- (iv) the written consent referred to in paragraph headed "Consent" in this appendix; and
- (v) the service contract of Madam Tang Min as referred to above.

NOTICE OF EGM



中软国际

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

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

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Chinasoft International Limited will be held at 4:00 p.m. on 28 December 2005 at 27th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution, with or without amendment, as an ordinary resolution:

ORDINARY RESOLUTION

“THAT

- (a) the agreement for the acquisition of 49% of the equity interest of 北京中軟資源信息技術服務有限公司 (Chinasoft Resources Information Technology Services Limited) (a copy of which has been produced at this meeting and marked as “Exhibit-A” and signed by the chairman of the meeting for the purpose of identification) between Chinasoft International (Hong Kong) Limited, a wholly-owned subsidiary of the Company, and China National Computer Software & Technology Service Corporation (Hong Kong) Limited dated 15 November, 2005 (the “Agreement”) (details of which are set out in the circular of the Company dated 9 December 2005 to its shareholders) and all transactions contemplated thereby be and are hereby approved, confirmed and ratified; and
- (b) the directors of the Company be and are hereby authorized for and on behalf of the Company to do all such things and sign, seal, execute, perfect, perform and deliver all such documents as they may in their absolute discretion consider necessary or desirable or expedient to give effect to the Agreement or for the implementation of all transactions thereunder.”

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

* For identification purpose only

NOTICE OF EGM

Registered Office:

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

Principal Place of Business in Hong Kong:

Units 4607-08, 46th Floor,
COSCO Tower,
No. 183 Queen's Road Central,
Hong Kong

Hong Kong, 9 December 2005

Notes:

- (1) Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and to vote instead of them. A proxy need not be a member of the Company.
- (2) Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- (3) A form of proxy for use at the meeting is enclosed.
- (4) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority, must be deposited at the principal place of business of the Company in Hong Kong at Units 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting.