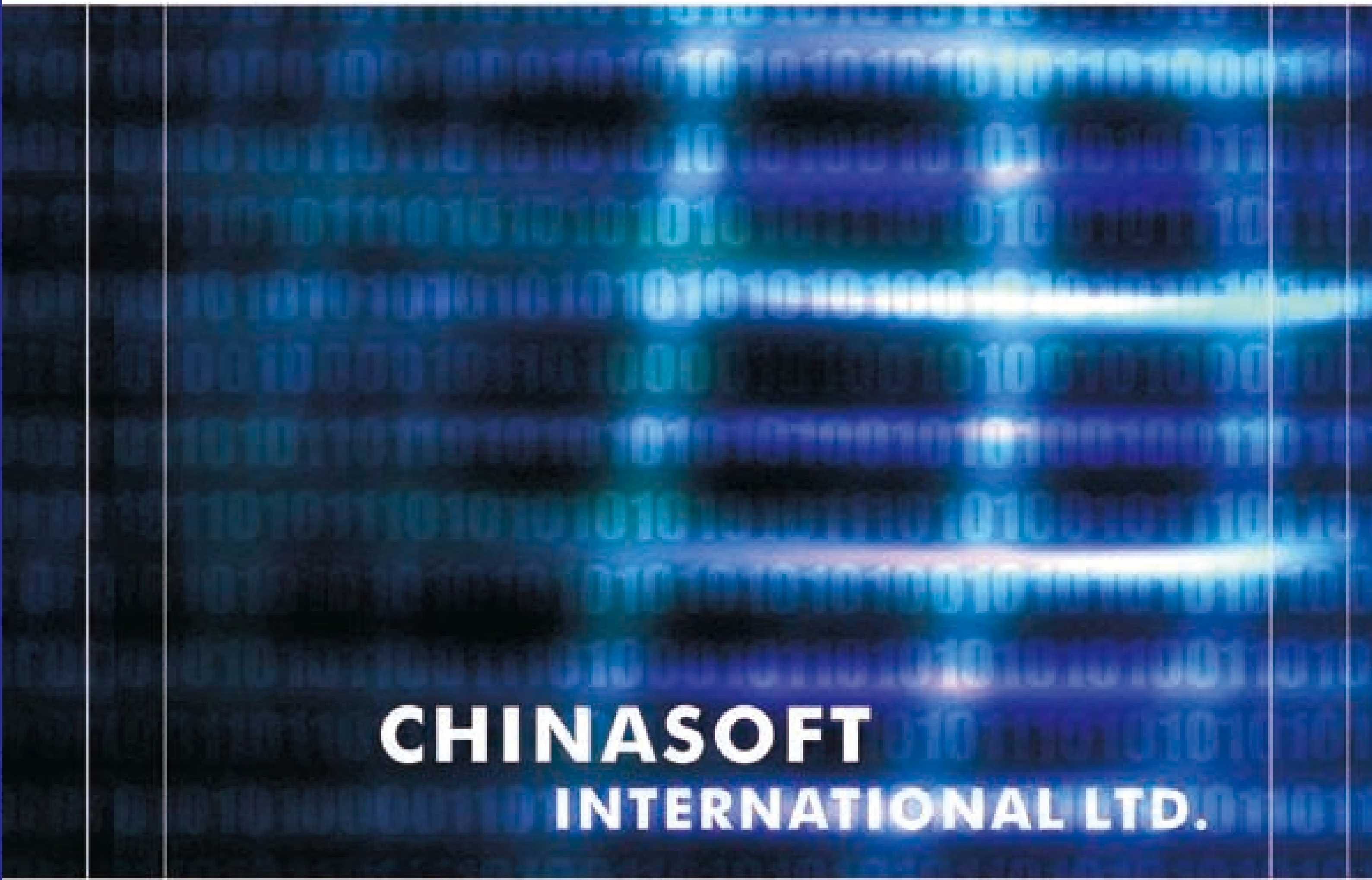
CHINASOFT INTERNATIONAL LIMITED
中 軟 國 際 有 限 公 司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8216)



2007 Annual Report

CS&S 中软国际

* for identification purpose only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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.

This report, for which the directors ("the Directors") of Chinasoft International Limited (the "Company" and, together with its subsidiaries, the "Group") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

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Cayman Islands
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COMPANY SECRETARY
Mr. Fok Ming Fuk, William, *MBA, FCCA, CPA*
CHARTERED ACCOUNTANT, FTIHK

COMPLIANCE OFFICER
Dr. Chen Yuhong

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

AUDIT COMMITTEE
Mr. He Ning
Mr. Zeng Zhijie
Dr. Leung Wing Yin Patrick

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

INTERNATIONAL AUDITORS
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HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
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STOCK CODE
8216

Financial Summary

RESULTS

	For the year ended 31 December				
	2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000	**2007 RMB'000**
Turnover	166,055	293,896	382,275	355,236	**811,552**
Profit (loss) before taxation	30,798	39,052	48,714	(51,972)	**131,448**
Taxation	(2,735)	(3,841)	(5,718)	(11,881)	**(8,908)**
Profit (loss) for the year	28,063	35,211	42,996	(63,853)	**122,540**
Attributable to:					
Equity holders of the Company	23,953	32,205	39,656	(66,593)	**115,445**
Minority interests	4,110	3,006	3,340	2,740	**7,095**
	28,063	35,211	42,996	(63,853)	**122,540**
Dividend	–	6,784	7,394	18,309	**797**

ASSETS AND LIABILITIES

	As at 31 December				
	2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000	**2007 RMB'000**
Total assets	183,117	331,325	438,765	661,221	**1,362,272**
Total liabilities	(42,824)	(131,930)	(129,730)	(427,566)	**(587,584)**
	140,293	199,395	309,035	233,655	**774,688**

Milestones 2007

January

- Our CEO, Dr. Chen Yuhong, was awarded "2006 Outstanding Leader Award of Information Industry of China"
- Formally signed the sale & purchase agreement with the shareholders of Hinge Global Resources Inc. (HGR)
- Awarded "2006 National Top-tier Domestic Software Enterprise"

February

- Our Company was ranked first in China's outsourcing business in Europe and US markets according to IDC's report "2007-2011 Forecast and Analysis of China Software Offshore Outsourcing Market"
- ResourceOne was accepted to be included in the supply list of agreement on government centralized purchase of information products for central government departments

March

- Won the tender for the e-Macro project software development project of the State Administration of Foreign Exchange
- Completed the development work of "On-site Audit Implementation System AO2008" of the National Audit Office of the People's Republic of China
- Won the tender of Core Application System Development Implementation Project of e-Security Project (Phase 1) from Xinjiang Production and Construction Corp.

April

- Signed contracts for the intranet audit projects with provinces, cities and counties such as Nanjing and Tsingtao
- Our Company was awarded one of the Top 5 China software exporting and outsourcing enterprises in "Top 25 China Software Export (Outsourcing) Enterprises 2006"
- Signed contracts of RFID-based tobacoo logistics track and trace project with Tobacco Monopoly Administration of Jinan, Jilin and Zhejiang

May

- Dr. Chen Yuhong, our CEO, was awarded Outstanding Person in "Top 25 China Software Export (Outsourcing) Enterprises 2006"
- Signed services contracts for carton-level tobacco track and trace system and purchase order information collecting system with provinces and cities such as Jiangsu and Guangzhou
- Signed contracts of RFID-based tobacoo logistic track and trace project with Tobacco Monopoly Administration of Hubei, Anhui and Fuzhou

Milestones 2007

June

- The CSI Training Centre was granted official authority by CSIP and became one of the authorized training centers of "National 521 Plan" – National Information Technical Engineers Training Program
- Won the tender for "On-site inspection system software development project" of China Banking Regulatory Commission
- Awarded the prize of 2006-2007 Best Informationization Application of China Sofware Proprietary Innovation

July

- Successfully passed the trial run of Data Centre System Phase 1 (Company) of Yunnan Tobacco Monopoly Administration
- Set up "Chinasoft International Global Resources (Beijing) Recruitment Centre"
- Won the tender of administrative work coordination and gateway integration services project from Hunan China Tobacco Industry Corporation

August

- Signed services contracts of carton-level tobacco track and trace system and purchase order information collecting system with provinces and cities such as Hunan and Qinghai etc
- Signed contracts of RFID-based tobacco logistics and trace project with Tobacco Monopoly Administration of Changsha, Liaoning, Guangzhou and Chongqing etc
- Passed the international standard of information security management ISO27001 certification

September

- Won the tender of "Remote business system software development project of e-Security Project" from the Ministry of Labour and Social Security
- Signed contracts of e-Audit project phase 1 Audit Management (OA) with provinces and cities such as Zhejiang province, Jilin province, Xinjiang, Jiangsu provinces etc
- The "customer credit line central management" performed function ahead of schedule of the VisionPlus credit card for the Agricultural Bank

October

- Won the tender of "e-Agriculture" (Phase 1) general integration and development of related systems project from the Ministry of Agriculture
- Won the tender of "Data processing project of social security card in Guangdong"
- Signed contracts for the intranet audit project with provinces, cities, districts and counties such as Shenzhen, Chongqing, Shanghai Qing Pu District and Jiangsu etc

Milestones 2007

November

- Signed the contract of "Remittance Macro Centralized Account Manager System" project with National Post Group Co
- Acquired 100% equity of Powerise Co. Ltd., a Japanese ITO (information technology outsourcing) service provider
- Chinasoft International Training Centre joined TechED2007 Forum of Microsoft as supporting partner

December

- Achieved the objective of nationwide coverage of OA development for the Audit Department in 37 provinces in China the coverage was 95%, in 328 regions and cities the coverage was 67%, in 2,862 districts and counties the coverage was 62%
- Awarded "2007 China IT Innovative Enterprise Prize"
- Another updated version of ResourceOne was made, the whole series ResourceOne V4.0 products was granted computer software copyright registration certificate
- Signed contracts with Bank of Communications and Guangdong Development Bank for personal loan management system
- Completed the "Railroad transport operation by network automatic fare collection system (AFC)" project of Shanghai Railroad Transport Lane 6
- Won the tender of "Administrative permit management information system project" from State Food and Drug Administration
- Won the tender of enterprise quality and credit and food safety business system development project of the "e-Quality" project from General Administration of Quality Supervision, Inspection & Quarantine
- Won the tender of "System Management of information system for punishment and prevention of corruption" project from State Owned Assets Supervision and Administration

Managing Director's Report

Year 2007 was the fourth year after our listing, and also a critical year of furthering our strategies of globalization and becoming a total IT service provider. We have the unique, strategic advantage of possessing mature and competitive business model, persisting on innovation in industry consulting business, integrating competitive resources in all domains for effective interaction with overseas and domestic businesses which is crucial for the Group's sustainable business growth.

During the reporting period, the Group has been dedicated to the building of three main platforms "Consolidation of resource in leading verticals", "Interaction of advantage in domestic-oversea market " and "human resources supply chain of IT industry". We achieved comprehensive business coverage in 10 cities in mainland China such as Beijing, Shanghai and Dalian as well as US and Japan, balanced development of business domains, rapid expansion of the size of staff to 4,363, excellent results in organization and culture creation, balanced development of the overall operation on the foundation of smooth completion of business merger and acquisition and integration.

FIRST OF ALL, I WOULD LIKE TO TAKE THIS OPPORTUNITY TO SHARE WITH OUR SHAREHOLDERS SOME OF THE GROUP'S FINANCIAL AND OPERATING RESULTS IN 2007:

balanced, large scale, steady were the "key words" of the overall development of the Group during the reporting period

During the reporting period, the Group's overall business revenue amounted to RMB811,552,000, of which revenue of services business amounted to RMB558,714,853, representing an increase of 128% and 80% compared to the same period last year. The Group's EBITDA amounted to RMB110,921,000, representing an increase of 33% compared to the same period last year, the EPS amounted to RMB0.1344, representing an increase of 0.2235 from last year.

In order to match our rapid business growth, the Group also accelerated the pace of training and recruitment of professional personnel. As of the end of 2007, the Group's total number of staff arrived at 4,363, representing a net increase of 1,981 compared to the beginning of the year; of which 3,656 were technical staff, with a percentage share of 84%.

During the reporting period, the Group formulated the core of business development strategy of "Innovative", "Interactive" and "Integrative": supported by an IT training business oriented towards human resources supply chain, aiming at becoming the largest industry consultant whose business is to provide solutions, and working on large ITO and BPO businesses in the international market. On one hand, we continued to penetrate into those sectors where we had competitive advantage and service business with strategic clients, and further expanded domestic industry clients and overseas market with strategic clients. On the other hand, with the merger and acquisition and integration with the business of Hinge Global Resource Inc (HGR), we achieved the following: firstly, we increased the industry coverage of consultation based solution business – from the original base of government, public utilities and fast moving consumer goods industry to financial and banking services industry; secondly we enhanced comprehensive IT services capability of the Group from BPO to application development and business consultancy; thirdly, we strengthened the front-end office establishment of the Group in US and Japan, and laid a solid cornerstone for our overseas business market expansion and IT service delivery as well as furthering the interaction of competitive advantages in domestic and overseas markets.

Managing Director's Report

During the reporting period, the Group's revenue of services business from consultation based solution business with "Competitive advantage industry, IT services integration" as the main model was RMB301,459,747, revenue of services business from IT outsourcing (ITO and BPO) with "domestic-oversea competitive advantage interaction of IT services" as the main model was RMB236,420,000. These two main businesses achieved balanced development with a share of 54%: 43%.

Supported by the strategy of "industry integration" and our capability, during the reporting period, we achieved vertical penetration and competitive advantage expansion, and we further strengthend our capability of industry solutions. The Group's industry solution business covers financial and banking services industry, government and public utilities industry and consumer packaged goods industry. During the reporting period, revenue from the financial and banking services industry amounted to RMB5,253,000; revenue from the government and public utilities industry amounted to RMB84,110,000; revenue from the consumer packaged goods industry amounted to RMB164,820,000.

Exploring the IT outsourcing services domain with the interaction of domestic-oversea competitive advantage resources, exploring business while taking into account industry development and strategic key clients are what distinguish us as a group with overall services capability from individual service providers of single outsourcing business.

During the reporting period, the Group's IT outsourcing (ITO and BPO) service business achieved comprehensive and rapid development, completely strengthened the technical service capability through a combination of organic growth and merger and acquisition, the businesses cover a full range of low end to high end technical services such as BPO (including Call Center, Data-entry and CAD), Testing, Localization & Globalization, Products engineering, Application Development and Packaged Software Services. The revenue of IT outsourcing services excluding financial and banking services industry for 2007 arrived at RMB224,620,000, representing an increase of 76% compared to the same period last year.

During the reporting period, we made good use of the American team's domain knowledge as well as the domestic solution business team's marketing advantage and general superising system implementation expertise. We won the tender of "administrative permit management information system project" from the State Food and Drug Administration. This showed clearly the synergy brought by good merger and acquisition and integration, and also proved the correctness and effectiveness of setting up the "domestic-oversea interaction" platform by the Company.

During the reporting period, the Group created "human resource supply chain" with initial scale, the Group further strengthened the setting up of recruitment and training centre based on the original computer training centre, to interact with the existing IT service business; we continued to expand the scale of the Practical Training Campus and strengthen the training of staff's technical ability to create a development platform of Chinasoft International's "IT industry human resource supply chain". The "human resource supply chain" is our strategic basic resources set up, and an important competitiveness of our large scale development of IT services.

Managing Director's Report

During the reporting period, the Group established Excellence Training Center (ETC) and Global Resources Recruitment Centre to maintain the human resource supply chain for our fast expanding business and contribute talents to the software industry in China as well. During the reporting period, the number of students trained in Beijing ETC reached approximately 5000.

During the reporting period, the Group was awarded an important prize of "China IT Fortune (CEO) Annual Meeting" – "2007 China IT Innovative Enterprise Prize"; the Group was awarded 9 prizes including Person, Enterprise, Product and Solution in "China IT User 2007 Excellent Enterprise and Product Presentation" event.

CREATION OF "TOP PLATFORM OF INTELLI-ED IN CHINA" ("中国智造第一平台")

advancing towards becoming a total and global IT services provider

On the basis of exploring the existing successful business model, we defined "Top Platform of Intelli-ed in China" to be the Group's strategic goal of the coming years (2008-2010). "Top Platform of Intelli-ed in China" is an action outline covering all our businesses and overall operation, it can be achieved by creating "The Top Platform in Industry IT consolidation", "Top Platform with Domestic-oversea Interaction" and "Top Platform of Human Resources Supply Chain".

For 2008, the Group will further achieve competitive advantage interaction, resource integration through merger and acquisition, and will optimize operational management through fostering standardized personnel management and creation of systems.

In 2008, the Group will further solidify its position in those industries where it has competitive advantage and set up general strategic alliance within the industries to ensure its competitive advantage in those industries and maintain sustainable development of business.

For 2008, the Group will take advantage of our multicultural mid to high-end human resources from Hong Kong and Singapore; joining them with our low to mid-end ETC and Training Campus human resource pool. Based on our solid domestic market position and our integrated resource pool, we will set up an extensive development base in the European and American markets to obtain strategic customers.

By sharing the opportunity of China's fast growing software industry, in 2008, the Group will enrich the meaning of Chinasoft International being "Top Platform of Intelli-ed in China" with business development strategy of "innovative, interactive, integrative" and will further advance towards the strategy of becoming a total and global IT services provider.

Opportunities always come with challenges, we are dedicated to be the advocate and executor of "Top Platform of Intelli-ed in China", I am willing to go with all staff members of the Group as well as all partners who care for the development of IT industry in China!

Managing Director's Report

APPRECIATION

I would like to take this opportunity to extend my sincere gratitude to all of you for your understanding and support over the past year; to our shareholders who render us strength for growth of the Group, our clients who create room for our continued development, our business partners for their cooperation as well as all members of staff for their dedicated work and contribution.

Managing Director
Dr Chen Yuhong

Beijing, China
1 April 2008

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended December 31	2007 RMB'000	2006 RMB'000	Better/ (Worse) y-o-y
Turnover	**811,552**	355,236	128%
Cost of sales	**(545,157)**	(186,338)	193%
Gross profit	**266,395**	168,898	58%
Gross margin	**32.8%**	47.5%	(15%)
Other operating income	**11,714**	9,147	28%
Selling & distribution costs	**(45,456)**	(20,631)	120%
Administrative expenses (excluding depreciation and amortization)	**(118,912)**	(71,586)	66%
Allowance for doubtful debts	**(2,820)**	(2,033)	39%
EBITDA	**110,921**	83,795	33%
EBITDA margin	**13.67%**	23.6%	(9.4%)
Depreciation	**(12,116)**	(6,496)	87%
EBITA	**98,805**	77,299	28%
Amortization of intangible assets & trademark use right	**(14,514)**	(8,364)	74%
Impairment loss recognized in respect of technical expertise	**(1,735)**	(1,087)	60%
Impairment loss recognized in respect of available-for-sale investment	**(59)**	–	N/A
Impairment loss recognized in respect of goodwill	**–**	(988)	N/A
Discount on acquisition of additional interests in a subsidiary	**–**	1	N/A
Profit from operations	**82,497**	66,861	23%
Finance costs	**(474)**	–	N/A
Share of results of associates	**3,323**	2,489	34%
Gain (loss) arising from changes in fair value of redeemable convertible preferred shares	**46,102**	(110,558)	N/A
Redeemable convertible preferred shares issue expenses	**–**	(10,764)	N/A
Profit (loss) before taxation	**131,448**	(51,972)	N/A
Taxation	**(8,908)**	(11,881)	25%
Profit (loss) for the year	**122,540**	(63,853)	N/A
Net margin	**15.09%**	–	

Management Discussion and Analysis

The management is pleased to present our audited consolidated income statement for the year ended December 31, 2007 in the above format.

For the year ended 31 December 2007, the Company reported an audited turnover of approximately RMB811,552,000 (2006: RMB355,236,000), representing an increase of approximately 128% as compared with last year. A detailed analysis is on the section "Business Result" of page 15.

For the year ended 31 December 2007, the Company accomplished an audited gross profit of approximately RMB266,395,000 (2006: RMB168,898,000), representing an increase of approximately 58% as compared with last year. The gross profit margin for the year ended 31 December 2007 was 32.8% (2006: 47.5%).

The selling and distribution cost was approximately RMB45,456,000 (2006: RMB20,631,000), representing an increase of approximately 120% as compared with last year which is in line with an increase of 128% in turnover. The ratio of selling and distribution cost to turnover was 5.6% (2006: approximately 5.8%) representing a decrease of 0.2%.

The administrative expenses (excluding depreciation of approximately RMB12,116,000) for the year ended 31 December 2007 was approximately RMB118,912,000 (2006:RMB71,586,000), representing an increase of approximately 66%. The ratio of administrative expenses (net) to turnover is 14.8% (2006: approximately 20.15%) representing a decrease of 5.35%.

The allowance for doubtful debts was approximately RMB2,820,000 (2006:RMB2,033,000), representing an increase of 39% which was much smaller than the 128% increase in turnover.

The EBITDA for the year ended 31 December 2007 was approximately RMB110,921,000 (2006: RMB83,795,000), representing an increase of 33%; depreciation was approximately RMB12,116,000 (2006: RMB6,496,000), representing an increase of 87% compared to last year.

The EBITA for the year ended 31 December 2007 was approximately RMB98,805,000 (2006: RMB77,299,000), representing an increase of 28% as compared to last year.

After the deduction of amortization of intangible assets and trademark use right of approximately RMB14,514,000 (2006: RMB8,364,000), impairment loss recognized in respect of technical expertise of approximately RMB1,735,000 (2006: 1,087,000), impairment loss recognized in respect of available-for-sale investment of approximately RMB59,000 (2006:nil) from our EBITA as analyzed above, our current year profit from operations was approximately RMB82,497,000 (2006:RMB66,861,000), representing an increase of 23% from last year. Most of the expenses incurred were mainly related to the financial impact of applying HKFRS such as amortization of intangible assets and impairment loss recognised in respect of technical expertise.

Management Discussion and Analysis

With the deduction of finance costs of RMB474,000 (2006: nil), contribution from the share of results of associates of approximately RMB3,323,000 (2006:RMB2,489,000) and pick up of the gain arising from changes in fair value of redeemable convertible preferred shares of approximately RMB46,102,000 (2006: RMB121,322,000 loss which comprise of RMB110,558,000 as the loss arising from change in fair value of redeemable convertible preferred shares and RMB10,764,000 as the redeemable convertible preferred share issue expenses), we eventually arrive to our profit before taxation of approximately RMB131,448,000 (2006:RMB51,972,000 loss) and profit after taxation of approximately RMB122,540,000 (2006:RMB63,853,000 loss).

For comparable purpose, to be consistent with prior year basis, we can use profit for the year of approximately RMB122,540,000 (2006:RMB63,853,000 loss) minus the impact of having a gain arising the redeemable convertible preferred shares of approximately 46,102,000 (2006: RMB121,322,000 loss), then the adjusted net profit should be approximately RMB76,438,000 (2006: 57,469,000 gain), representing an increase of 33% as compared to last year.

Basic EPS was RMB0.1344 (2006:RMB0.0891 loss).
Net asset per share was approximately RMB0.90.

As at year ended 31 December 2007, total equity of the Group amounted to approximately RMB774,688,000. Current assets amounted to approximately RMB757,607,000, of which approximately RMB234,939,000 were cash and bank deposits, which include pledge bank deposits of approximately RMB4,504,000. The current liabilities amounted to approximately RMB364,541,000, include mainly trade and other payables of RMB286,530,000 approximately. The net asset value per share was RMB0.90.

The Group recorded an increase of 66.7% in trade receivables in 2007 as compared to 2006 which attributes to the substantial increase of 128% in turnover in 2007. As for credit management, the Group has tightened its credit policy to minimize its credit exposure including credit control, negotiations and discussion with customers, issue of reminders and letters threatening legal action. In view of our credit management and sufficient allowance being provided for doubtful debt, the Group believes that trade receivables will soon be recovered.

As at 31 December 2007, except a bank deposit pledged with a bank of approximately RMB4,504,000 for trade facilities granted to the Group by the suppliers, the Group did not have any material investment in assets and assets pledged.

As at 31 December 2007, the Group did not have any material contingent liabilities.

No subsequent events occurred after 31 December 2007, which may have a significant effect, on the assets and liabilities or future operations of the Group.

Management Discussion and Analysis

Turnover Analysis

Breakdown of turnover of the Group for the year ended 31 December 2007 by category of services and products:

	2007 Turnover RMB'000	2007 %	2006 Turnover RMB'000	2006 %
Solutions	**515,947**	**64%**	193,513	55%
IT outsourcing	**236,420**	**29%**	127,821	36%
IT consulting and training services	**19,691**	**2%**	12,184	3%
Standalone software and hardware products	**39,494**	**5%**	21,718	6%
Total	**811,552**	**100%**	355,236	100%

Note: It can be seen that the share of solutions services in 2007 turnover increased compared to 2006, while the share of turnover from IT outsourcing decreased, the main reason is: in 2007 clients of e-Government and banking and financial services industry in China appointed the Group to subcontract several large scale integrated projects in the capacity as main service provider, many of them carried high turnover from sale of software and hardware.

Business Results

For the year ended 31 December 2007, the Group achieved a turnover of approximately RMB811,552,000, representing an increase of 128% compared to the same period last year. The reasons for the rather large increase were attributable to, on one hand, our large increase in revenue from services (an increase of 80% compared to the same period last year); and on the other hand, the large increase in turnover from software and hardware sales (an increase of RMB260 million compared to the same period last year). Among this, the increase in turnover from software and hardware sales was mainly because clients of e-Government and banking and financial services industry in China appointed the Group to subcontract several large scale integrated projects in the capacity as main service provider. This was a result of our full and in-depth cooperation relationship in IT services with clients of these industries, and our pre-determined business model and strategic development direction of concentrating on IT services was not affected.

For the year ended 31 December 2007, the gross profit and EBITDA amounted to approximately RMB266,395,000 and approximately RMB110,921,000 respectively, representing increases of 58% and 33% compared to the same period in the previous year, in which the 58% increase in gross profit over the previous year was different to the 80% increase in the income from service business over the previous year, mainly due to the relative increases in development in new businesses and the implementation of nation-wide IT businesses among the 2007 operating income, leading to a relative increase in corresponding service costs (including the service costs of the Group itself and subcontracting costs), representing an increase of approximately 107% compared to the same period in the previous year. The 33% increase in EBITDA over the same period in previous year was different to the 58% increase in gross profit over the same period in the previous year, mainly due to an increase of 80% in the sum of distribution cost and administrative cost (excluding depreciation and amortization) (consistent with the increase in the income from services) of the Group over the same period of the previous year, which was higher than the 58% increase in gross profit.

Management Discussion and Analysis

For the year ended 31 December 2007, our gross profit margin and EBITDA margin were approximately 32.8% and 13.7% respectively (2006: approximately 47.5% and 23.6% respectively), representing decreases of 14.7% and 9.9% compared to the same period last year. The reasons for the decreases of gross profit margin and EBITDA margin were, as mentioned above, on one hand, the large increase in revenue from software and hardware sales with lower gross profit margin, and on the other hand, the increases in costs due to expansion of new industries and nationwide implementation services, resulting in a decrease in our overall gross profit margin. While the simultaneous growth of our selling costs and administrative expenses together with the business scale of revenue from services also led to a fall in the EBITDA margin to a certain extent. Such fall in profit margin was temporary only during our rapid expansion of business scale and the merger and acquisition and integration process, and did not affect our business development model. With the strengthening of our business management and the effects of synergy from merger and acquisition and integration, the profit margin will improve gradually.

With respect to professional personnel, we employed a total of 4,363 staff, representing a large increase of 1,981 from 2,382 of the end of last year. 52% of the growth in headcount was due to the increase in outsourcing personnel, 47% was due to the increase in solutions business personnel.

Regarding the business itself, turnover from solutions business and IT outsourcing, two of our main businesses accounted for 64% and 29% of the overall turnover respectively (2006: approximately 55% and 36%), of which revenue from services for solutions business and IT sourcing accounted for 52% and 44% of the overall revenue from services (2006: approximately 53% and 43%).

The ratio of distribution costs to turnover was 5.6%, representing a decrease of 0.2% from 5.8% of last year; the ratio of administrative expenses excluding depreciation and amortization to turnover was 14.7%, representing a decrease of 5.5% from 20.2% of the same period last year. In view of the large increase in turnover of software and hardware sales in the share of 2007 revenue, the fall in these ratios could not directly reflect our business development. As mentioned above, the sum of distribution costs and administrative expenses of the Group in 2007 increased by 78.2% from last year, which were basically consistent with the percentage growth of 80% of revenue from services, this explained that the increases in these two cost items were reasonable. Moreover, with our further strengthening of management quality of the fast growing IT services as well as further enhancement of integration and interaction, supplementing competitive advantage, resources sharing between the original and newly acquired business teams, the Group still has room for improvement in the areas of distribution costs and administrative expenses.

BUSINESS REVIEW

During the reporting period, the Group's overall business revenue amounted to RMB811,552,000, of which revenue of services business amounted to RMB558,710,000, representing an increase of 128% and 80% compared to the same period last year. The Group's EBITDA amounted to RMB110,921,000, representing an increase of 33% compared to the same period last year.

Year 2007 was the fourth year after our listing, and also a key year of furthering our strategies of globalization and becoming a total IT service provider. During the reporting period, the Group has been dedicated to the building of three main platforms – "Consolidation of resource in leading verticals", "Interaction of advantage in domestic-oversea market " and "human resources supply chain of IT industry".

Management Discussion and Analysis

"Industry integration" and "domestic-oversea interaction" supplementing each other, the main business recording comprehensive and balanced growth

During the reporting period, the Group formulated the core of business development strategy of "Innovative", "Interactive" and "Integrative": supported by an IT training business oriented towards human resources supply chain, aiming at becoming the largest industry consultant whose business is to provide solutions, and working on large ITO and BPO businesses in the international market. On one hand, we continued to deepen those sectors where we had competitive advantage and service business with strategic clients, and further expanded domestic industrial clients and overseas market with strategic clients. On the other hand, with the merger and acquisition and integration with the business of HGR, we achieved the following: firstly, we increased the industry coverage of consultation based solution business – from the original base of government, public utilities and consumer packaged goods industry to financial and banking services industry; secondly we enhanced comprehensive IT services capability of Chinasoft International from BPO to application development and business consultancy; thirdly, we strengthened the front-end office establishment of Chinasoft International in US and Japan, and laid a solid cornerstone for Chinasoft International's overseas business market expansion and IT service delivery as well as furthering the interaction of competitive advantages in domestic and overseas markets.

During the reporting period, the Group's revenue of services business from consultation based solution business with "Competitive advantage industry, IT services integration" as the main model was RMB301,450,000, revenue of services business from IT outsourcing (ITO and BPO) with "domestic-oversea competitive advantage interaction of IT services" as the main model was RMB236,420,000. These two main businesses achieved balanced development with a share of 54%: 43%.

During the reporting period, the Group was awarded an important prize of "China IT Fortune (CEO) Annual Meeting" – "2007 China IT Innovative Enterprise Prize"; the Group's Managing Director and CEO Dr Chen Yuhong was awarded "2006 Outstanding Leader in Information Industry of China" and Outstanding Person Prize in "2006 China Software Export (Outsourcing) Enterprises", the Group was awarded 9 prizes including Person, Enterprise, Product and Solution in "China IT User 2007 Excellent Enterprise and Product Presentation" event.

Industry solution business
Vertical penetration and expansion with competitive advantage

During the reporting period, supported by the strategy of "industry integration" and our capability, we furthered our efforts to become an influential service provider of industry solutions. With the release of the platform product, ResourceOne V4.0, our proprietary intellectual property as a symbol and the setting of a milestone with our own innovative module "application general integration" as the core competitive advantages, we penetrated further into traditional industries where we had competitive advantage, and explored the applications in emerging industries. Also, the three products in our ResourceOne product series: workflow midware software (ResourceOne StarFlow), assembly support environment midware software (ResourceOne Framework) and data exchange midware software (ResourceOne DataExchange) were successfully selected for the midware software list of Agreement on government centralized purchase of information products for central government agencies.

Management Discussion and Analysis

The Group's industry solution business covers financial and banking services industry, government and public utilities industry and consumer packaged goods industry. During the reporting period, revenue from the financial and banking services industry amounted to RMB52,530,000; revenue from the government and public utilities industry amounted to RMB84,110,000; and revenue from the consumer packaged goods industry amounted to RMB164,820,000.

Financial and Banking Services Industry

During the reporting period, we acquired HGR and expanded IT services business to the financial and banking services industry. Its business scope covers the payment domain, settlement domain, exchange domain and the development and application of the card business. With the experience of the past few years and building up of techniques, we possessed competitive advantage in several aspects such as bank card business, peripheral application, internet payment, risk control and inter-bank linkage etc, we provided industry solutions and system assembly services for key clients such as China UnionPay, the head offices and branches of various joint stock commercial banks, various commercial banks at city level, postal banks as well as foreign financial institutions in China.

- Credit card core system and peripheral services: During the reporting period, the Group became the integrated service provider of "The Construction Bank of China credit card collection system" and "The Construction Bank of China credit card anti-fraud system", we successfully set up two credit card peripheral systems of "collection system" and "anti-fraud system" for the Construction Bank of China.

- Credit and audit: Since commercial banks in China put personal asset business development as an important strategy to improve profitability and core competitiveness, the Group adapted to changes in market needs. The Group integrated the original software products to develop the personal loan management system, which was successfully implemented in reputable commercial banks in China such as Bank of Communications, Pudong Development Bank and Industrial Bank etc in 2007. The online success of these projects led to our successful contract signing with Guangdong Development Bank and Chengdu Commercial Bank.

- Payment voucher collection services: 2008 Olympic Games will bring in massive foreign cardholders who will do business, travel and spend money, this represents a severe challenge to China's existing payment environment and the demand for local and foreign currency payment voucher integration will increase. We had been carrying out over 10 years of research and development and product promotion in the payment voucher collection domain. In 2007, we developed and completed the "The Construction Bank of China local and foreign currency integrated payment voucher collection" project.

- Remittance: During the reporting period, the Group signed the contract on "National Postal and Savings Bank Remittance Macro Centralized System" ("國家郵儲銀行滙兑大集中") project and carried out its maintenance and completed on schedule this nationwide important project, the success of this project implementation were highly praised by clients.

Management Discussion and Analysis

- Financial industry value added services: 2007 saw the implementation of the policy of Legal Person Institution of Foreign Banks, which brought a great opportunity for us to explore the provision of value added services in the financial domain. The Company provided services to about 12 foreign banks: localized services such as CNAPS (large and small amount payments), anti-money laundering system, cash management system etc to Tokyo Mitshibusi Bank, ABN Ambros Bank etc, other value added services included debit card system for Agriculture Bank of China , SOA services for Bank of Communications, e-commerce services such as internet payment (支付網關), virtual card, portal management (門戶管理) for China UnionPay, China Mobile, Ministry of Commerce and Postal and Savings Bank.

- Quasi-financial payment domain: The Group's business and technique accumulation of payment, exchange and classification and settlement in the financial industry were successfully expanded to non-financial payment domain, and engaged successively in the projects involving the set up of social security cards and transport cards at provincial (city) levels, including "Shanghai Citizen Card (Social Security Card)", "Guangdong remote settlement exchange platform", "Shanghai City Public Multi-Pass Card (一卡通)", "Harbin public transport IC card system" and "Shanghai railroad transport "One ticket all transit" ("一票換乘") funds classification and settlement system" etc.

Government and public utilities industry

During the reporting period, the Group made great achievement in e-Government business in the government and public utilities domain, revenue of services business for the year amounted to RMB84,110,000, representing an increase of 39% compared to 2006. On the basis of becoming an influential service provider of audit sector for e-Audit project, we effectively explored new strategic sectors and established cooperation relationship with various government supervisory authorities such as State Owned Assets Supervision and Administration Commission, Ministry of Agriculture, Ministry of Labour and Social Security, State Foreign Exchange Administration, State Banking Regulatory Commission, General Administration of Quality Supervision, Inspection & Quarantine, State Food and Drug Administration etc. With the "e-" projects of national informationization and business and technical competitive advantage accumulated over the years in various supervisory domains, the Group will continue to work hard to find out business needs in these newly explored sectors, refine business delivery management to cater for the whole supply chain of the sectors and develop these into new strategic industry.

During the reporting, the main government informationization projects that we won tender and started services included:

National Audit Office and e-Audit Project:

During the reporting period, the Group continued to promote the application, implementation and deployment of the two systems of e-Audit project Phase 1 at the city and district levels. The advanced technology, stability, functions and scale of this system as well as our good services were highly recognized by audit system clients.

As of the end of 2007, the On-site Audit Implementation System (AO) of e-Audit project Phase 1 issued over 74,000 packages to audit authorities in China. Based on the fact that there are 80,000 audit personnel in the audit authorities in China, a situation where each audit personnel has one On-site Audit Implementation System (AO) is nearly reached, and the On-site Audit Implementation System (AO) has become a necessary tool for all audit personnel in China.

Management Discussion and Analysis

During the reporting period, the Group continued to carry out nationwide deployment of Audit Management System (OA), and basically reached the development objective of intensive coverage of OA deployment on a nationwide scale, of which 35 out of the total 37 provincial audit authorities, with a coverage of 95%, 221 out of 329 audit authorities at the district and city level, with a coverage of 67%, and 1,776 out of 2,862 counties, with a coverage rate of 62%.

During the reporting period, the Group started to explore gradually the intranet audit business, we developed intranet audit system for clients such as the Audit Bureau of Nanjing, Chongqing and Shanghai etc. Intranet audit is an important duty of e-Audit Phase 2, it enables auditors to carry out off-site audit based on computer network, its characteristics are high efficiency, across regions and real time. The success of the intranet audit business trial run laid a solid cornerstone for us to maintain a leading position in e-Audit project Phase 2.

Following the gradual improvement of e-Audit project and the comprehensive set up of the state audit system GAIS, with the help of OA and AO systems, audit personnel's audit efficiency was highly increased, the audit operation was standardized, consequently the overall audit standard of China and its reputation on the international scale were enhanced, the audit standard and informationization level of the National Audit Office of China became a world leader.

Ministry of Labour and Social Security and e-Security Project (金保工程)

e-Security – the Supervision of Social Security Fund Project

During the reporting period, the Group made full efforts to foster the development and implementation of "e-Security project under the supervision of Social Security Fund" of the Ministry of Labour and Social Security. Off-site monitoring is an important method of monitoring the work of various local bodies of the fund by the Social Security Fund. It is a distant monitoring made by the Labour Protection Department and Social Security Fund supervisory body who carry out inspection and analysis of the relevant data and information sent manually or by network transmission. They master the management and system operation of the social security fund of the department being monitored, discover problems in time and take preventive measures. With constant development of social insurance services, the complexity of fund monitoring has also increased, and the necessity and advantages of off-site monitoring are becoming more obvious. Consequently, providing full support for off-site monitoring by means of information technology is an important application and realization of e-Security project, this is useful for improving the quality and standard of monitoring, facilitating the change from post-event monitoring to pre-event and monitoring during the event, and meaningful for the improvement of monitoring system of the Social Security Fund. Through the implementation of this project, the data related to social insurance can be collected, statistics be made, enquired, analyzed and forecast, multi-departmental networking, transfer of information, data sharing social security fund monitoring system can be created based on the information network of e-Security, full support of off-site monitoring of social security fund at ministerial, provincial, city and county levels can be made, micro monitoring objectives can be achieved (and the weak areas and doubtful areas are found in time and the management of the fund is strengthened), macro monitoring objectives can be achieved (to understand the situation of operation and support level of the fund in time, to ensure steady operation of the system), effective guarantee for improving the monitoring standard of Labour Protection Departments at all levels and the fund supervisory body is provided

E-Security Remote Business (異地業務) System Application Software development Project

During the reporting period, the Group won and started the "e-Security Remote Business System Application Software development Project" from the Ministry of Labour and Social Security. Based on the policy and measures request to cancel restrictions on the agriculture labour force who go into another city and work in another district during the "Eleventh Five-Year" period motioned by "Labour and Social Security Business Development "Eleventh Five-Year" Plan Outline", and to improve the transfer and continuity of social insurance of the personnel joining the insurance plan, we worked with the Ministry of Labour and Social Security on remote business systems and provided application solutions such as management services for retired person living outside the place of origin, transfer of social insurance relationship across coordinating regions, network settlement of medical consultation/hospitalization outside the place of origin. We made a further step in setting up a national social insurance data centre, creating a statistics monitoring database with nationwide coverage, social insurance interprovincial and remote exchange database and network with connection with data centres at the lower provincial level, monitoring local social security funds, facilitating macro decisions and remote information exchange etc, and laid a solid cornerstone for further expansion in the scope of remote business.

Xinjiang e-Security Project Phase 1 Core Application System

During the reporting period, the Group won the tender of e-Security Project Phase 1 Core Application System development and implementation project from Xinjiang Production and Construction Corps. As the first provincial labour and social security integrated application information system development project created by macro centralized method at provincial level for the e-Security project, we will base on the relevant data and technical standards of the e-Security project of the Ministry of Labour and Social Security, and integrate with the actual situation of the Xinjiang Production and Construction Corps to carry out overall planning and localized development. The core application system will follow the overall objective and design logic of the one core, three platforms of the Ministry of Labour and Social Security, and will comply with the relevant technical and business standards. As the trial of the first national one core, three platforms system, the development of this project will have a symbolic meaning in the e-Security of the Ministry of Labour and Social Security, and this will enable the project to have high degree of promotion and duplication to be applied in similar projects in Xinjiang and other provinces and cities in China.

Ministry of Agriculture and e-Agriculture Project (金農工程)

We won the tender of and started the application support platform set up for the "e-Agriculture" project (phase 1) for the Ministry of Agriculture for a two-tier deployment at both the ministerial and provincial levels for the purpose of creating a uniform agriculture e-Government support environment, standardizing software connection standard, increasing substantially the degree of re-usability of the agriculture business system and the inter-linkage, inter-connection and mutual operation among systems. This platform is not a simple accumulation of components, rather it is a mature commercial software and an organic integration of software of system set up under the overall system structure and restraints of the standard requirements, and it can be expanded, tailor-made, updated and upgraded.

The e-Agriculture project (phase 1) will create a "agriculture e-Government support platform" suitable for agriculture sector application and development characteristics through various technical support system provided by the application support platform, to achieve information exchange and business synergy between the state and local level vertically, and with bodies involved in agriculture horizontally.

Management Discussion and Analysis

State Administration of Foreign Exchange and e-Macro Project

During the reporting period, the Group won the tender of and started the e-Macro Project for the State Administration of Foreign Exchange, with the development and implementation of this project, given the existing operational system of the State Administration of Foreign Exchange, following the uniform standard and standardization, we can set up the International Balance of Payment database and International Balance of Payment common database for sharing, consolidate the information resources of the State Administration of Foreign Exchange, provide information sharing in the International Balance of Payment domain catered for macroeconomic management information system, and form an internal integrated non-on-site supervisory system for the State Administration of Foreign Exchange, to raise the usage level and management standard of foreign exchange management information. At the same time, we can set up the International Balance of Payment management information system, carry out analysis of the International Balance of Payment statistics, make forecast and advanced warning, provide decision making supporting information for the austerity departments, so as to enhance the austerity measures for the economy, manipulate market changes, respond to unexpected economic incidents, increase the capability to control the overall economy, consequently, the implementation of this project has significant impacts.

Since the e-Macro project was led by National Development and Reform Commission, and jointly undertaken by the Ministry of Finance, Ministry of Commerce, People's Bank of China, State Owned Assets Supervision and Administration Commission, China Customs, State Statistics Bureau and State Administration of Foreign Exchange, the successful implementation of this project can also help us to obtain other projects of the e-Macro project.

State Administration of Quality Supervision, Inspection & Quarantine and e-Quality Project (金質工程)

Enterprise quality and credit information database system set up

During the reporting period, the Group successfully won the tender of and started the Enterprise quality and credit information database system set up project for the State Administration of Quality Supervision, Inspection & Quarantine. That database is an important component of the quality inspection business database of the e-Quality project, it is a monitoring management system, filing and approval system and it provides data support for information service system, provides decision support for the supervisory authority, and it also provide services to companies and the general public.

Setting up a national enterprise quality and credit information database system is necessary for providing high quality credit information services to the society, reducing transaction costs for consumers, investors and companies, creating a business environment and faithful operation to facilitate trade activities, providing an informationized protection of a development environment which emphasizes quality. The national enterprise quality and credit information database system includes three parts, namely enterprise quality and credit information exchange (collection), enterprise quality and credit information database and integrated application.

Food Safety Monitoring System Set up

During the reporting year, the Group won the tender of and started the Food Safety Monitoring System set up project for the State Administration of Quality Supervision, Inspection & Quarantine. Its contents include setting up a data platform for applying to the monitoring of food and relevant products, cosmetics in China; developing a food and relevant products basic information management system; supervisory personnel and inspection organization management system; food and relevant product production quality and safety monitoring system; risk control and emergency directing system; supervisory management system. With the setting up of this system, companies can carry out online processing, online feedback, obtain information from the internet; the query and statistic analysis results can be incorporated and presented with electronic map; comprehensive analysis based on the business data of various systems can be made to provide enterprise quality and credit information and quality and security information to the general public.

State Food and Drug Administration

During the reporting period, the Group won the tender and started the administrative management information system project for the State Food and Drug Administration. This is an important project of the e-Government system of the State Food and Drug Administration, it comprises design, development, integration, implementation and services, and is a large scale e-Government application system development and integration project involving both ministerial and provincial levels. We were responsible for the design, development, integration, implementation and services of this project. It will provide permitted entrance to a uniform management platform of projects under administrative permit and one-stop services to users to achieve highly efficient services to and effective monitoring of administrative counterparties; achieve information sharing, inter-connection and inter-linkage, optimized workflow, business synergy of administrative permit work; formulate standard standardization system for Chin's food and drug monitoring management informationization set up; achieve management style by grade with the integration of user and business workflow, reasonable classification of authority, balancing the duties, authorities and workload of management personnel; achieve the transformation from function-based government to service-based government, provide personalized, convenient, real time methods of various informationized services.

State Owned Assets Supervision and Administration

During the reporting period, the Group officially accepted the duty of setting up the "System for management of information system for punishment and prevention of corruption" from State Owned Assets Supervision and Administration. This system is oriented towards the State Owned Assets Supervision and Administration and various central enterprises under its supervision, it provides the setting up of preventive system informationization platform, creation of political party atmosphere and anti-corruption propaganda educational platform, information collection for the setting up of preventive system, statistic platform and analysis and alert of anti-corruption work and informationized tools for performance appraisal and evaluation, creation of an information database for ethical enterprise leaders.

Management Discussion and Analysis

Social Public Services System

Urban transport

After the Group accepted the "Urban public transport Communications Card" system of the major project of Shanghai society informationization set up IC card application, this kind of project has been launched successively in different cities in China as civil project. During the reporting period, we implemented "Harbin public transport IC card system", which is a system integration project with the most functions among public transport Communications Card projects, this project has been highly recognized by the Ministry of Construction, and is known as "Harbin model" and has been launched in China. During the reporting period, we also signed the contract of "Hefei Communications Card project".

As the research and development service provider of domestic production railroad transport AFC (railroad transport operation by network automatic ticket sales and inspection system), the Group has invested in the AFC domain for a few years and has successfully developed "railroad transport operation by network automatic fare collection (AFC) system". This system is applied in Shanghai railroad transport Line 6 and was successfully online in December 2007. The successful implementation of Line 6 enabled us to have a successful case of comprehensive smooth completion of implementation of the areas of AFC system set up and implementation, this provides a strong support for our future market expansion in railroad transport AFC domain. "Railroad transport one ticket all transit funds classification and settlement system" provides strong technical support for Shanghai municipal government's implementation of Shanghai railroad transport and public transport transit concessionary fee policy.

Consumer Packaged Goods Industry

For the consumer packaged goods industry, the Group's direction of strategies is positioned at the consumer goods logistics domain, especially in the tobacco industry, we provides full services from management consultancy, business consultation, software development, project implementation to day-to-day system operation maintenance for the tobacco industry in China, our business scope covers ERP, MES, industrial and commercial logistics, industrial and commercial marketing, commercial network set up, data centre, office automation, enterprise application integration etc; given our thorough understanding of the tobacco industry, we participate in the formulation of standard system for the tobacco industry data centre and overall planning of the e-Government of this industry, provide total solutions for e-commerce system, e-Government system and management decision systems for the informationization of tobacco information.

During the reporting period, the Group further fueled the promotion and implementation of the "State Tobacco Monopoly Administration carton–level tobacco track and trace system and purchase order information collecting system" project on a nationwide scale. Leveraging on the thorough development of strategic partnership between the Group and the State Tobacco Monopoly Administration, and the effective utilization of resources and in-depth exploitation of the Group's technical expertise, the Group continued to seek cooperation projects with various large tobacco industrial groups and tobacco companies at provincial level in order to secure its leading position in this field.

"National agency decision making carton-level tobacco track and trace system and purchase order information collecting system project" refers to the method of collecting commercial enterprise sales and inventory data via bar code on packaged cigarettes to carry out logistics follow up and data analysis from the tobacco wholesale to retailing stage, and at the same time collect the order, sales and inventory data of commercial enterprises so that the product tracking and data analysis of tobacco production management decision making system can be more complete. In this way, the purchase, sales and inventory data of commercial enterprises can be collected in a comprehensive, timely and accurate manner, providing more accurate, timely and effective data support for the austerity measures by the state agencies, paving way to arrange procurement according to orders and arrange production according to orders, and providing means for more effective informationization to the monopoly management.

According to the agreement entered into with State Tobacco Monopoly Administration, the Group will provide implementation and deployment services for 375 tobacco companies including 33 tobacco companies at provincial level. As of the end of this reporting period, contracts were signed with 340 tobacco companies and implementation was started on site, the percentage share was 90.7%.

During the reporting period, those other tobacco informationization projects of which the Group won the tender and started services included:

RFID-based tobacco logistics track and trace project for over ten provinces and cities such as Shanghai, Zhejiang and Guangdong

Coupled with the tobacco production and operation decision making system, this project adopted the advanced RFID technology to code and store barcode information of a mound of tobacco, enabling the tobacco factories to perform warehouse exit scanning and the commercial enterprises to perform warehouse entry scanning in whole pallet. With the support of a portable barcode scanner, the scanned barcode data were managed in an integrated manner, by which duplicate barcode scanning and data entry could be effectively avoided. The efficiency and accuracy of the production and operation decision making system and the industrial and commercial logistics system were significantly enhanced.

By applying RFID technology in modern supply chain and logistics management, we help the users to build up an advanced, efficient, sophisticated, flexible, open, integrated and safe logistics management platform in order to satisfy their "uniform management of ongoing business needs", in this way the quality of logistics services and logistics efficiency is raised, the logistics costs are reduced, the control over the market is enhanced, sustainable and steady growth is achieved. At the same time, in order to satisfy the needs of the regional supply centres with well classified clients and reasonable planning, the setting up of this system effectively supports the logistics systems of closely interrelated commercial and industrial sectors, strengthens the capability in regional logistics management and third party logistics business of the tobacco industry.

Management Discussion and Analysis

Completed the project of changes in group format cum decision making system expansion and application for China Tobacco Industry Corporation of Hunan, Jiangsu and Henan etc

The development of this project enables the tobacco production operational decision management system to adapt to the current operational management mode of China Tobacco Industry Corporation at provincial levels, creates and maintains a system of basic information code, basic business standard and basic business indicator consistent with the industry; creates various data collection channels required for project set up, forms a basic platform for the State Tobacco Monopoly Administration No. 1 Project data expansion and application management; masters information on the specifications of various tobacco of China Tobacco Industry Corporation: production volume, sales volume, inventory, price, costs, profit, flow etc in a complete, timely and accurate manner as well as basic data such as contract performance situation, achieves monitoring and analysis of tobacco production and operation, market situation; correctly reflects the performance of the product in the market and market situation, forms better industrial and commercial coordination relationship, strengthens the implementation of procurement according to orders (order-based production), assists the companies to achieve brand strategies, improve core competitiveness.

Hunan China Tobacco Industry Corporation administrative work coordination and gateway integration services project (辦公協同與門戶集成服務項目)

The contents of this project include the administrative work coordination and gateway integration of Hunan China Tobacco Industry Corporation as well production and sales coordination platform, with the setting up and implementation of this project, this helps Hunan China Tobacco Corporation to build up a forward looking, advanced, scalable administration and gateway system for large group company which is in line with its strategic goals and IT overall plan.

Completed Yunnan tobacco data centre project

That project is oriented towards the commercial domain of Yunnan tobacco, it consolidates the information system data of monopoly management, sales management, management of tobacco leaves, financial management etc of the whole Yunnan province. It sets up a data centre for the sector, forms information channel, business channel, management channel and services channel for the accessible by the sector. At present, the project has entered into the trial run stage.

Success of the tobacco leaf logistics project

During the reporting period, due to the State Tobacco Monopoly Administration's view of "reallocation in place of origin" of tobacco leaf, the tobacco leaf logistics system that the Group had developed was launched in 5 pilot points such as Fujian and Sichuan etc, whereby a tobacco logistics management system was formed with the emphasis of reallocation in the place of origin, based on bar code technology, which covered the main stages such as acquisition of tobacco leaf, transport reallocation at stations, centralized warehouse management, reallocation of tobacco leaf, smoking punishment (罰設煙管理) etc.

Achieving nationwide coverage of tobacco basic software

During the reporting period, the Group completed the launching of tobacco basic software usage in 5 provinces including Sichuan, Guizhou, Shandong, Hubei and Inner Mongolia, and achieved nationwide coverage of the basic software in major tobacco production regions in China. On top of guaranteeing the normal operation of the basic software in the original 19 provinces during this year, version 2.0 of the tobacco basic software was completely online in these 5 provinces, symbolizing that the tobacco basic software has completed an important technical improvement.

IT outsourcing services – Domestic-oversea resources interaction & Exploration of strategic accounts

Exploring the IT outsourcing services domain with the interaction of domestic-oversea competitive advantage resources, exploring business while taking into account industry development and strategic key clients are what distinguish us as a group with overall services capability from individual service provider of single outsourcing business.

During the reporting period, the Group's IT outsourcing (ITO and BPO) service business achieves comprehensive and rapid development, completely strengthens the Group's technical service capability through a combination of organic growth and merger and acquisition, the businesses cover a full range of low end to high end technical services such as BPO (including Call Center, Data-entry and CAD), Testing, Localization & Globalization, Products engineering, Application Development and Packaged Software Services. The revenue of IT outsourcing services excluding banking & financial services industry for 2007 arrived at RMB224,620,000, representing an increase of 76% compared to the same period last year.

During the reporting period, the Group continued to strengthen business exploration of overseas strategic clients, and further improved our Dual-shore outsourcing services development strategy and made good business performance.

During the reporting period, the Group obtained substantial development of strategic clients both in terms of number and scale: the number of clients increased to 5 this year from 1 of last year, the revenue of outsourcing services from these 5 strategic clients was 69% of the total revenue of outsourcing services (last year the percentage share of these strategic clients was 43%).

Using the business model of Dual-shore, in 2007 the Group further strengthened the team building with US and Japan front offices, recruited local personnel, enhanced communication with overseas strategic clients in terms of standard, management and culture etc, worked hard to find out business needs, while effectively arranged onsite/near-shore business team to provide proper local IT services to clients, on one hand based on clients' business and technical requirements, prepared in time technical resources in China through effective interaction with the recruitment and training centres of Chinasoft International, on the other hand expanded substantially the scale of offshore outsourcing business, and effectively arranged the submission of overseas client projects by COE organization method. During the reporting period, the percentage share of onsite and offshore outsourcing business revenues were 44% and 56% respectively. Our outsourcing business classified by clients indicated that the main source was from multinational clients, and when classified according to the place of head office, they were mainly in the two main regions of Europe and America and Japan, with a percentage share of 79% and 21% of the outsourcing business revenue respectively.

Management Discussion and Analysis

Regarding Japan IT services market, the Group directly obtained Japanese local companies which had been cooperating for a number of years with the Japanese outsourcing generation clients through the acquisition of 東京信華 under HGR. On one hand, we expanded the business scale of our Japan outsourcing services to reach RMB50,620,000, representing an increase of 156% compared to last year; on the other hand, we made efforts to explore the medium end and high end workflow outsourcing services based on the existing low end and medium end BPO and ITO, and obtained clients' respect with our long term, stable and high quality services, and became reputable China information services company in Japan market, and laid a solid cornerstone for our further development of Japan market, more effective development and management of strategic clients.

Concerning European and American IT services market, the Group obtained an excellent team with years of US local business expansion experience and industry consultation and development experience through our acquisition of Double Bridge located in New Jersey, USA under HGR. It supplemented the competitive advantage of the original business team of Chinasoft International located in Seattle, on one hand this strengthened the business development capability in the local US market, the competitive advantage of human resources in China could be better used, and accelerated the process of developing Europe and American strategic clients; on the other hand the Group thoroughly consolidated the industry experience accumulated by Double Bridge in the pharmaceutical and financial services domains and the competitive resources of Chinasoft International's ITO and domestic solutions, this laid a base for further development of medium end and high end IT services outsourcing business in European and American markets.

The establishment of front office and market development in the overseas market enabled us to narrow the distance with overseas strategic clients (and potential strategic clients), increase our understanding of customer needs, effectively improve the quality of services and develop the ability of making faster feedback of services. At the same time, we directly brought in through our overseas front office several medium end and high end personnel who were familiar with outsourcing business, this strengthened the overall power of the outsourcing operational team.

The Group further improved the delivery quality of IT Offshore outsourcing project through strengthening the recruitment and training of personnel. During the reporting period, we strengthened the set up of offshore outsourcing centre in Beijing, Shanghai, Changsha and Dalian. Focusing on the overseas front office, stressing on strategic clients' business and technical needs, we set up COE (Center of Excellence) team oriented towards strategic client services in China or professional technical capability, in this way, it was helpful for organizing professional resources and ensured the delivery of high quality project, on the other hand it made a good basis for professional and large scale development of future outsourcing business; every COE team was given resource training and protection system of the ETC (Excellence Training Center), this provided basic personnel protection for large scale business exploration and team expansion in the current outsourcing market with keen competition for human resources, and set solid roots for refilling Chinasoft International's human resources and improving their ability.

During the reporting period, with good use of the American business team's domain knowledge, as well as the domestic solution business team's business experience and market advantage of government informationization and general monitoring business domains, we won the tender of "administrative permit management information system project" from the State Food and Drug Administration. This showed clearly the synergy brought by good merger and acquisition and consolidation, and also proved the correctness and effectiveness of setting up the "domestic-oversea interaction" platform by Chinasoft International.

Management Discussion and Analysis

Training Business – "Human resources supply chain" with initial scale:

During the reporting period, the Group further strengthened the setting up of Chinasoft International recruitment and training centre based on the original computer training centre, and interaction was made with the existing IT service business, we continued to expand the scale of the practical training base and strengthen the training of staff's technical ability, created a development platform of Chinasoft International "IT industry human resources supply chain". The "human resources supply chain" is our strategic basic resources and an important competitiveness of our large scale development of IT services.

During the reporting period, the Group established Beijing Excellence Training Center (ETC) and Global Resources Recruitment Beijing Centre to maintain the human resources supply chain for our fast expanding business and contributed talents to the software industry in China as well.

Complete commencement of a series of establishment such as the Excellence Training Center (ETC):

ETC is an important establishment for the idea of creating a "human resources supply chain" platform based on the Practical Training Campus, Chinasoft International emphasized on a nationwide radial extension of the ETC concept from Beijing to duplicate the ever-improving successful model to second and third tier cities, and to develop together with COE of IT services.

In order to meet the demands of the market and group development strategies, Chinasoft International Training Centre continued to maintain the strategy of developing professional training transformation while securing the growth of traditional training business at the same time, and it gradually expanded the scale of Chinasoft Practical Training Campus. As of 31 December 2007, 78 universities already built up cooperation relationship with Chinasoft Practical Training Campus, with approximately a total of 5,000 students participated in the training courses of the Campus.

At the same time, the Training Centre designed more specific courses and made more specific plans according to the Company's existing business structure, with the development of software outsourcing business in particular. This safeguarded the "practise what you have learnt, use it immediately after you have learnt" mentality of students joining the training, and was welcomed by participating students. Not only these measures made Chinasoft International Training Centre become the human resources database within the Group, they also produced massive personnel of high caliber for the society and software industry. Now, "Chinasoft International Training Centre" already built up a good brand image among universities and educational training institutions. During the reporting period, the traditional IT training of the Training Centre obtained rapid development results, in 2007 it offered a total of 209 training classes, and accomplished the training of 7,500 students.

As the training base of the Group, the Centre not only provides a large number of back up personnel for the Group internally, but also improves the existing staff's technical and project management ability through sustainable internal training such that they grow up rapidly to become business key personnel meeting work requirements.

During the reporting period, the Training Centre was granted official authority by CSIP and became one of the authorized training centres of "National 521 Plan" of the National Information Technical Engineers Training Program.

Management Discussion and Analysis

Set up a global resources recruitment centre, supply new blood for the Group's future development:

During the reporting period, the Group set up the Global Resources (Beijing) Recruitment Centre. This centre combines the recruitment departments of Beijing Chinasoft Resource (北京中軟資源) under Chinasoft International and Cyber Resource (北京中軟賽博資源), to be in charge of outsourcing recruitment under the Group. The setting up of the recruitment centre is an important measure of the Group to increase our reserve of personnel, at the same it uses the format of innovative channel panels and independent recruitment panel to further foster recruitment and support the Recruitment Centre by constantly providing new blood to enterprises.

HUMAN RESOURCES

As of 31 December 2007, the Company hired 4,363 staff, of which 3,123 were degree holders. For the year ended 31 December 2007, the total remuneration we paid to staff amounted to approximately RMB167,807,818.

The number of staff of all the departments of the Company as of 31 December 2006 and 2007 were as follows:

Department	2007	2006
Management	267	170
Finance and administration	173	71
Research and development	3,656	2,035
Sales, technical support and marketing	267	106
Total	4,363	2,382

The remuneration level of our staff is reasonable. Staff are rewarded according to our overall salary and bonus policy and their performance, and the salary and bonus policy will be updated every year. The Group will continue to launch mandatory provident fund scheme to its Hong Kong staff pursuant to the stipulations of Hong Kong Ordinance Chapter 485 Mandatory Provident Fund Scheme Ordinance. At the same time we will provide medical insurance plan for our Hong Kong staff. According to the relevant regulations in China, the Group must participate in the staff retirement plan implemented by the local government agencies in China and make contributions for staff qualified for this plan.

PROSPECTS OF PERFORMANCE

We will continue to persist on the existing business model, and on the basis of exploring the existing successful business model, we will convert the idea of "Top Platform of Intelli-ed in China" ("中國智造第一平台") into the strategic goal of the coming years (2008-2010). "Top Platform of Intelli-ed in China" is an action outline covering all our businesses and overall operation, it can be achieved by creating "The Top Platform in Industry IT consolidation", "Top Platform with Domestic-oversea Interaction" and "Top Platform of Human Resources Supply Chain".

For 2008, the Group will further achieve competitive advantage interaction, resource integration through merger and acquisition, and will optimize operational management through fostering standardized personnel management and creation of systems.

Management Discussion and Analysis

In 2008, the Group will further solidify its position in those industries where it has competitive advantage and set up general strategic alliance within the industries to ensure its competitive advantage in those industries and maintain sustainable development of business.

For 2008, the Group will make use of the dual culture, medium end and high end human resources of Singapore and Hong Kong to create consolidated competitive advantage by combining them with the medium end and low end human resource in China under ETC protection; based on the unique advantage in sectors that we possess competitive advantage in China, with the protection of human resources integration, we will focus on exploring certain European and American strategic clients, pave the concrete development path of developing European and American business on large scale, create the strategy of biological environment complete development.

By sharing the industry opportunity of China's fast growing software industry, in 2008, the Group will enrich the meaning of Chinasoft International being "Top Platform of Intelli-ed in China" with the business development strategy of "innovative, interactive, integrative" and will further advance towards the strategy of becoming a total and global IT services provider.

Biographical Details of Directors and Senior Management

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

DIRECTORS

Executive Directors

Dr. Chen Yuhong (陳宇紅), aged 45, is the managing director and the chief executive officer of the Company and is responsible for the overall business development of the Group. He has over 10 years experience in software development and corporate management. Dr. Chen holds a doctorate degree in optics from 北京理工大學 (Beijing Polytechnic University) in 1991. Prior to joining the Group on 25 April 2000, Dr. Chen was the vice president of CS&S in 2000 and was appointed senior vice-president of CNTC (中軟網絡信息技術有限公司) in December 2003. He has also been appointed a director of Chinasoft Resources. He was a manager of the research department from October 1996 to April 2000. He was also a director of 中軟賽博資源軟件技術(天津)有限公司 (CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd.), an associate company of CS&S from 1999 to March 2002. From June 1991 to October 1996, he was the deputy general manager of China Great Wall Computer Software Co., Ltd.

Dr. Tang Zhenming (唐振明), aged 45, is the senior vice president of the Company. He is responsible for the human resources of the Group and our newly acquired Training Centre. Prior to joining the Group on 25 April 2000, Dr. Tang was employed by Beijing Institute of Technology Industrial Company (北京理工大學產業總公司) as deputy general manager from May 1995 to March 2000 and by American W&P Company, Beijing Office (美國W&P公司北京辦事處) as officer from December 1993 to March 1995. Dr. Tang is also a director of Chinasoft Resources and Wuhan Chinasoft International. He holds a bachelor's degree in vehicle engineering from Tsinghua University (清華大學) in 1985 and a doctorate degree in motor electronic control from Beijing Polytechnic University (北京理工大學) in 1994.

Mr. Wang Hui (王暉), aged 35, is the senior vice president and chief technical officer of the Company. He is responsible for the designing of technical solutions and consulting. Mr. Wang graduated from 天津大學 (Tianjin University) in 1995. He has 6 years experience in systems analysis and in the design of system infrastructure. Prior to joining the Group on 25 April 2000, Mr. Wang was a manager of China Greatwall Computer Software Co., Ltd from 1995 to 2000.

Non-executive Directors

Mr. Su Zhenming *(蘇振明)*, aged 55, is the Chairman of the Company. Mr. Su graduated from Tsinghau University in 1978 with a degree in Electronics Engineering and from the Electronics Department of the Managerial College (電子部管理幹部學院) in 1990 specialising in International Trade. He further completed a postgraduate professional course in Systems Engineering at Xian Electronics Technology University (西安電子科技大學) in 1992. Mr. Su is a senior engineer and had been the Head of Northeastern Electronics Technology Research Centre (東北電子技術研究所) and the Deputy General Manager of China Electronics Information Industry Group Company (中國電子信息產業集團公司). Mr. Su is currently the Vice President of the Alliance of Chinese Chamber of Information Industry and Digitization (3C) Industry (中國信息產業商會數字化(3C)產業聯盟); and a council member of the Communications Studies Branch of the Chinese Institute of Electronics (中國電子學會通信學分會) and the Chinese Association of Industrial Design (中國工業設計協會).

Biographical Details of Directors and Senior Management

Mr. Su is currently also the chairman of the board of directors of (i) China National Software and Service Company Limited (中國軟件與技術服務股份有限公司) which is a substantial shareholder of the Company; (ii) Amoi Electronics Co. Ltd. (夏新電子股份有限公司); and (iii) CEC Corecast Corporation Limited (中電廣通股份有限公司), all of which are joint stock limited companies established under the laws of the Peoples' Republic of China and listed on the Shanghai Stock Exchange. He is also a director of China National Computer Software & Information Technology Service Corporation (Hong Kong) Limited, a subsidiary of China National Software and Service Company Limited which directly holds shares in the Company.

Dr. Cui Hui *(崔輝)*, aged 46, is responsible for the financial management of the Group. Dr. Cui has about 20 years experience in corporate management. Dr. Cui graduated from Jilin University (吉林大學) in the PRC in 1983 with a doctorate degree in economics. Prior to joining the Group on 25 April 2000, Dr. Cui worked for CS&S as deputy department head from August 1983 to April 1992, deputy general manager from July 1999 to January 2000 and was the vice president of China National Software & Technology Service Corporation ("CS&S") in 2000. From May 1992 to December 1997, Dr. Cui was the deputy general manager and general manager of Oriental Technology (Beijing) Company Ltd (東方科技(北京)有限公司) . He was the general manager of Chinasoft Tonghe Systems Integration Company Ltd (中軟同和系統集成有限公司) from January 1998 to June 1999. In December 2003, he was appointed senior vice-president of CNTC (中軟網絡信息技術有限公司) (which changed its name to that of CNSS). Dr. Cui currently holds a directorship position in CNSS.

Mr. Duncan Chiu (邱達根), aged 33, has been involved in the management of the Group since joining in January 2000. Mr. Chiu graduated with a bachelor's degree in business administration from Pepperdine University of California in 1996. Mr. Chiu currently serves as vice chairman and treasurer of The Chamber of Hong Kong Listed Companies, vice president of Innovation & Technology Association and is a committee member of All-China Youth Federation. Mr. Chiu is also a director among the Far East Group of companies. He serves as the managing director and chief executive officer of Far East Holdings International Limited ("Far East Holdings") and also a non-executive director of Far East Hotel & Entertainment Limited.

Mr. Liu Zheng (劉征), aged 35, was appointed on 14 June 2002. He has been a general manager of ITG since April 2000. From 1997 to 2000, he was the general manager of DingRong Investment Management Co., Ltd (鼎榮投資管理公司). Mr. Liu worked for China Everbright Bank from 1992 to 1997. Mr. Liu has 10 years experience in the financial industry and graduated from the Finance and Banking Institute of China (中國金融學院) in 1992 with a bachelor's degree in economics.

Mr. Timothy Chen Yung Cheng (陳永正), aged 51, is the corporate vice president of Microsoft Corporation and its chief executive officer of the greater China region. Prior to joining Microsoft Corporation in September 2003, Mr. Chen was the chairman and president of Motorola Corp.'s China subsidiary. He was appointed as corp. vice president of Motorola Inc, chairman and president of Motorola (China) Electronics Ltd in September 2001. From June 2000 to September 2001, Mr. Chen was the chief executive officer of 21CN Cybernet (a listed company in Hong Kong on the Main Board of the Stock Exchange). Before joining 21CN Cybernet, since 1992, Mr. Chen held various positions in Motorola including the general manager of Motorola's Greater China Cellular Infrastructure Division. He worked in Lucent (then AT&T Bell Labs) in U.S.A. as research and development manager and marketing manager prior to 1992. Mr. Chen holds a master's degree in business administration from University of Chicago and two master's degrees in computer science and mathematics.

Biographical Details of Directors and Senior Management

Independent non-executive Directors

Mr. He Ning (何寧), aged 49, was appointed on 2 July 2002. Mr. He has been the chief executive officer of Beijing CCG Technology Co. Ltd. since September 2000. From January 1997 to August 2000, he was the vice president of the Beijing representative office of Merrill Lynch. Mr. He was the assistant officer of the China Stock Exchange Executive Council from July 1993 to December 1996. He also worked for Morgan Stanley as manager from May 1990 to June 1993. Mr. He obtained a master's degree in business administration from the University of Texas in 1984. Mr. He has over 10 years experience in investment banking, direct investment and venture business management in the PRC and the USA.

Mr. Zeng Zhijie (曾之杰), aged 40, was appointed on 21 April 2003. Mr. Zeng obtained a master's degree in business administration from Stanford University in June 2001, and is a vice president of Walden International since October 2001, a global venture capital firm with an investment focus on the communications, electronics, software & IT services, semiconductors and life sciences/healthcare industries.

Dr. Leung Wing Yin Patrick (梁永賢), aged 51, was appointed on 22 March 2006. Dr. Leung holds a doctor's degree in accounting from the University of New South Wales, Australia, and a member of Certified Public Accountants of Australia, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute. He is an Assistant Professor and a Doctor Student Supervisor at the School of Accounting and Finance of the Hong Kong Polytechnic University. Dr. Leung previously worked as a consultant in a firm of Certified Public Accountants and as a Senior Lecturer at Charles Sturt University, Australia and the City University of Hong Kong. He has over three years working experience in internal auditing and corporate finance in banks.

SENIOR MANAGEMENT

Mr. Fok Ming Fuk, William (霍銘福) aged 46, is the qualified accountant and company secretary of the Company. He has over twenty years experience in auditing and financial management. Prior to joining the Group on May 17, 2004, Mr. Fok worked as the chief financial officer of Portolan Commerce Solutions, a software developer engaged in enterprise resources planning in Germany. Mr. Fok got a master's degree in business administration from England and is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants, an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Taxation Institute of Hong Kong.

Mr. Simon Chung (鍾鎮銘) aged 47, is the chief operating officer of the Company and is responsible for the overall daily operation of the Group. He has over 18 years experience in IT professional services covering account management, service delivery management, technical sales, quality assurance and control, project management and customer support operation in the area of public government, telecom and finance sectors. Prior to joining the Group, he was a project director of Atos Origin responsible for the management of large scale projects and service delivery for major clients in Asia Pacific from 1996 to 2005. He was an information technology officer and manager from 1991 to 1995 for the department of defense in Australia (Navy division). He was an IT database leader in the financial department of a government sector from 1989 to 1991. He holds a bachelor's degree in computing science from the University of Wollongong in Australia.

Biographical Details of Directors and Senior Management

Ms. Fanny Chan (孫秀芳), aged 49, is the senior vice president of the Company. She is responsible for the outsourcing business in the Group. Prior to joining the Group in April, 2007, Ms. Chan worked in many global companies such as IBM, Compaq, HP and AMD. Ms. Chan's working experience ranges cover from North America to Asia pacific region with over 20 years experience in sales and marketing. Ms. Chan was working for IBM from 1985 to 1999 for the software group where she worked on many different management positions. She joined Compaq as marketing director for greater China before joining HP as marketing director for HP Services group in China. Her last position prior to joining the Company was with AMD as regional marketing director for AMD Greater China region. Fanny graduated from University of Toronto with a degree in Science.

Mr. Simon Zhang (張崇濱), aged 45, is the senior vice president of the Company. He is responsible for the outsourcing business in the Group. Prior to joining the Group in 1999, Mr. Zhang worked in Shaanxi Provincial Tourism Bureau after graduated from the Department of Economics of Northwest University in 1987. Mr. Zhang was employed as Chief Business Representative in U.S. Phonenix Medical Equipment Company from 1992 to 1994. From 1994 to 1997, he was the Deputy General Manager and General Manager of Northwestern branch in Weijiang Plastics Co. Ltd., which was a Sino-US joint venture. Mr. Zhang was the General Manager of Chongqing Three Gorges Liner Corporation affiliated to Xi'an China International Travel Corporation from 1997 to 1999.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

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

COMPLIANCE OFFICER

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

Report of the Directors

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 50.

The Directors recommend the payment of a final dividend of HK$0.005 per share to the shareholders on the register of members on 2 May 2008, amounting to HK$4,949,192.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past five years, as extracted from the audited financial statements, is set out on page 4. This summary does not form part of the audited financial statements.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders as at 31 December 2007 are RMB343,608,000 approximately.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 31 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the Group's property, plant and equipment are set out in note 14 to the financial statements.

Report of the Directors

DIRECTORS

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

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

Non-executive Directors:

Mr. Su Zhenming	(appointed on 8 June 2007)
Madam Tang Min	(retired on 8 June 2007)
Dr. Cui Hui	
Mr. Duncan Chiu	
Mr. Timothy Chen Yung Cheng	
Mr. Liu Zheng	

Independent non-executive Directors:
Mr. He Ning
Mr. Zeng Zhijie
Dr. Leung Wing Yin Patrick

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 the GEM Listing Rules. The Company considers all of the independent non-executive Directors as independent.

In accordance with article 87 of the Company's Articles of Association, Dr. Cui Hui, Mr. Liu Zheng and Mr. He Ning or Dr. Chen Yuhong (who have been longest in office since their last election) will retire from office by rotation and, being eligible, offer themselves for re-election.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

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

Dr. Tang Zhenming, Mr. Wang Hui, Dr. Leung Wing Yin Patrick and Mr. Su Zhenming have not entered into service agreements with the Group. The annual director's fee for both Mr. He Ning and Mr. Zeng Zhijie is HK$120,000, while the monthly remuneration for Dr. Tang Zhenming, Mr. Wang Hui, Dr. Leung Wing Yin Patrick and Mr. Su Zhenming is RMB23,500, RMB37,500, HK$10,000 and HK$10,000 respectively. Mr. Liu Zheng and Mr. Timothy Chen Yung Cheng receive no remuneration for holding their office as non-executive Director.

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

Report of the Directors

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

Details of the Directors' remuneration are set out in note 11 to the financial statements. Save as disclosed in note 11 to the financial statements, there are no other emoluments, pension and any compensation arrangements for the Directors and past Directors as is specified in Section 161 and 161A of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2007, the following Directors had interests in the shares and underlying shares of the Company and shares in an associated corporation (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) of the Company as set out below and recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules:

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

Name of Director	No. of Shares	Approximate percentage of total issued share capital of the Company
Chen Yuhong	27,617,472	2.79%
Cui Hui	20,500,000	2.07%
Wang Hui	9,517,838	0.96%
Tang Zhenming	11,747,765	1.19%

Report of the Directors

Options to subscribe for Shares

Name of Director	Exercise Price (HK$)	No. of share options outstanding as at 31 December 2007	Percentage of total issued share capital of the Company	No. of underlying Shares interested in	Note
Chen Yuhong (Note1)	0.58	300,000	0.04%	6,550,000	(4)
	0.65	1,250,000	0.15%		(5)
	0.97	1,200,000	0.15%		(6)
	1.78	3,800,000	0.47%		(7)
Cui Hui	0.65	500,000	0.06%	500,000	(5)
Duncan Chiu	0.65	1,000,000	0.12%	1,000,000	(5)
Tang Zhenming (Note2)	0.58	80,000	0.01%	4,180,000	(4)
	0.65	1,300,000	0.16%		(5)
	0.97	800,000	0.10%		(6)
	1.78	2,000,000	0.25%		(7)
Wang Hui (Note 3)	0.58	250,000	0.03%	5,000,000	(4)
	0.65	1,750,000	0.22%		(5)
	0.97	1,000,000	0.12%		(6)
	1.78	2,000,000	0.25%		(7)
Zeng Zhijie	1.78	750,000	0.09%	750,000	(7)

Notes:

(1) An aggregate of 900,000 shares options were exercised by Dr. CHEN Yuhong at the exercise price of HK$0.58 each and an aggregate of 3,750,000 share options were exercised by Dr. CHEN Yuhong at the exercise price of HK$0.65 each. Hence, following the exercise of these share options and the grant of new share options, the number of share options outstanding reduced to 6,550,000 as at 31 December 2007.

(2) An aggregate of 240,000 shares options were exercised by Dr. TANG Zhenming at the exercise price of HK$0.58 each and an aggregate of 1,300,000 share options were exercised by Dr. TANG Zhenming at the exercise price of HK$0.65 each. Hence, following the exercise of these share options and the grant of new share options, the number of share options outstanding reduced to 4,180,000 as at 31 December 2007.

(3) An aggregate of 750,000 shares options were exercised by Mr. WANG Hui at the exercise price of HK$0.58 each and an aggregate of 1,750,000 share options were exercised by Mr. WANG Hui at the exercise price of HK$0.65 each. Hence, following the exercise of these share options and the grant of new share options, the number of share options outstanding reduced to 5,000,000 as at 31 December 2007.

(4) These share options were offered on 13 August 2003 under the share option scheme of the Company adopted on 2 June 2003 (the "Share Option Scheme") and accepted on 27 August 2003. The share options are exercisable for a period of 10 years from the date of offer subject to the following conditions:

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

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

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

(6) These share options were offered on 30 March 2006 under the Share Option Scheme and accepted on 27 April 2006. These share options are exercisable for a period of 10 years from the date of offer, subject to the following conditions:–

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

Report of the Directors

(7) These share options were offered on 10 April 2007 under the Share Option Scheme and accepted on 8 May 2007. These share options are exercisable for a period of 10 years from the date of offer, subject to the following conditions:–

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

Save as disclosed above and so far as was known to the Directors, as at 31 December 2007 none of the Directors or chief executive of the Company had any interests or short positions in the shares, debentures or underlying shares of the Company or its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

As at 31 December 2007, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2007 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by, or leased to the Company or any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at 31 December 2007, none of the Directors were materially interested in any subsisting contract or arrangement which was significant in relation to the business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

During the year ended 31 December 2007, save as disclosed above, none of the Directors was granted any options to subscribe for shares of the Company. As at 31 December 2007, none of the Directors had any rights to acquire shares in the Company save as disclosed above.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the year ended 31 December 2007, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the Directors, the Directors had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the year ended 31 December 2007.

SHARE OPTION SCHEME

As at 31 December 2007, share options allowing for the subscription of an aggregate of 88,926,510 Shares granted to certain directors and employees of the Group pursuant to the Share Option Scheme were outstanding, with terms on the exercise of such share options granted as set out in note 38 to the financial statements and notes 4, 5, 6 and 7 in the section headed "Directors' Interests in Shares" above.

Save as disclosed above, no share options have been granted, exercised or have lapsed pursuant to the Share Option Scheme as at 31 December 2007.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 40 to the financial statements, no contracts of significance in relation to the Group's business to which the Company, any of its subsidiary, its holding company or any subsidiary of its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

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

1. Commercial Agreement with Microsoft

Date of agreement	:	26 September, 2005
Parties	:	the Company Microsoft, which had entered into an agreement to subscribe for convertible preferred shares of the Company and was expected to hold more than 10% of the voting rights at general meetings of the Company and thus a connected person of the Company.

The Company and Microsoft entered into the agreement for a term of three years and agreed to drive revenue associated with delivering software solutions using certain software products of Microsoft to assist the Company in growing its IT service business in the PRC. Under such agreement, the Company will achieve a target revenue of US$3.0 million, US$4.5 million and US$6.75 million respectively for the three years commencing from the closing date for subscription for convertible preferred shares of the Company by Microsoft.

Report of the Directors

The commercial agreement constituted a continuing connected transaction of the Company. The annual cap amounts for the transactions contemplated under the commercial agreement are US$4.18 million, US$5.83 million and US$8.35 million for the three years ending 31 December, 2008.

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

(i) Lease of Rooms 110-113 on 1st Floor, Rooms 202-203, 206-207 and 212-213 on 2nd Floor and Rooms 314-315 and 319 on 3rd Floor in Tower A2 at 18 Changsheng Road, Changping District, Beijing, PRC entered into by CS&S Computer Tech. Training Centre (中軟總公司計算機培訓中心) with CNSS:

Date	: 28 June, 2006 ("CS & S Training Centre")
Floor area of leased premises	: 2,780 square meters in aggregate
Term	: 1 April, 2006 to 31 December, 2007
Monthly rental	: Rent free period from 1 April, 2006 to 31 December, 2006 RMB35,818.34 from 1 January, 2007 to 31 July, 2007 RMB71,636.67 from 1 August, 2007 to 31 December, 2007
User	: as premises for training

(ii) Lease of 3rd Floor of Block C and 3rd Floor of Block B of 55 Xue Yuan Nan Road, Haidian District, Beijing, PRC entered into by CS&S Cyber Resources Software Technology (Tianjin) Co. Ltd. (中軟賽博資源軟件技術(天津)有限公司) with CNSS:

Date	: 26 October, 2006
Floor area of leased premises	: 1,114.47 square meters in aggregate
Term	: 1 September, 2006 to 31 December, 2007
Monthly rental	: Rent free period from 1 September, 2006 to 30 September, 2006 RMB73,555.02 from 1 October, 2006 to 31 December 2007
User	: as office premises

(iii) Lease of 8th, 9th and 10th Floors of Block A and 7th Floor of Block C of 55 Xue Yuan Nan Road, Haidian District, Beijing, PRC entered into by Chinasoft Resources Information Technology Services Limited (北京中軟資源信息科技服務有限公司) with CNSS:

Date	: 5th February, 2007
Floor area of leased premises	: 2,641.3292 square meters in aggregate
Term	: 1 January, 2007 to 31 December, 2007
Monthly rental	: RMB174,327.72
User	: as office premises

Report of the Directors

(iv) Lease of 5th Floor of Block B of 55 Xue Yuan Nan Road, Haidian District, Beijing, PRC entered into by CS&S Training Centre with CNSS:

Date	:	5th February, 2007
Floor area of leased premises	:	991.4491 square meters in aggregate
Term	:	1 January, 2007 to 31 December, 2007
Monthly rental	:	RMB62,135.64
User	:	as office premises

(v) Lease of Rooms 105-108 on 1st Floor in Tower A2 at 18 Changsheng Road, Changping District, Beijing, PRC entered into by Chinasoft International Information Technology Limited (北京中軟國際信息技術有限公司) with CNSS:

Date	:	27 June, 2007
Floor area of leased premises	:	1,328.87 square meters in aggregate
Term	:	1 July, 2007 to 30 June, 2008
Monthly rental	:	RMB59,798.50
User	:	as office premises and storeroom

(vi) Lease of Rooms 201 and 214-219 on 2nd Floor and a cellar in Tower A2 at 18 Changsheng Road, Changping District, Beijing, PRC entered into by Chinasoft International Information Technology Limited (北京中軟國際信息技術有限公司) with CNSS:

Date	:	1 July, 2007
Floor area of leased premises	:	1,323.31 square meters in aggregate
Term	:	1 September, 2007 to 31 August, 2008
Monthly rental	:	RMB60,148.95 (comprising RMB59,548.95 for Rooms 201 and 214-219 and RMB600 for the use of a cellar)
User	:	as office premises and storeroom

(vii) Memorandum between CS&S Training Centre and CNSS for inclusion of additional premises on 5th Floor of Block B of 55 Xue Yuan Nan Road, Haidian District, Beijing, PRC to the lease under item (iv) above:

Date	:	1 July, 2007
Floor area of leased premises	:	84.5509 square metres
Term	:	10 July, 2007 to 31 December, 2007
Monthly rental	:	RMB3,720.24 from 10 July, 2007 to 31 July, 2007 RMB5,580.36 from 1 August, 2007 to 31 December, 2007
User	:	as office premises

The various lease agreements entered into between certain subsidiaries of the Group and CNSS constituted a continuing connected transaction of the Company. The annual cap amounts for the rent payable by the subsidiaries of the Group are RMB5,176,610.42 and RMB839,982.60 respectively for the two years ending 31 December 2008.

3. Master Services Agreement

Date of agreement	:	27 October 2006
Parties	:	(1) the Company
		(2) Microsoft

The Company and Microsoft entered into the agreement for a term of five years and agreed to provide certain services including but not limited to the development and/or delivery of any materials, inventories, ideas, designs, concepts, techniques, discoveries, or improvements. The expected annual fee income generated from the provision of the services will not exceed US$7.2 million, US$9.4 million, US$12.2 million, US$15.9 million, US$20.7 million and US$20.2 million respectively for the six years ending 31 December 2011.

The Master Service Agreement constituted a continuing connected transaction of the Company. The annual cap amounts for the transactions contemplated under the Master Service Agreement are US$7.2 million, US$9.4 million, US$12.2 million, US$15.9 million, US$20.7 million and US$20.2 million respectively for the six years ending 31 December 2011.

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

The Company has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules in respect of the above transactions.

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers accounted for less than 23% of the Group's total turnover and the Group's largest customer accounted for approximately 7% of the Group's total turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 39% of the Group's total purchases and the Group's largest supplier accounted for approximately 17% of the Group's total purchases.

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in Shares

Name	**Nature of interest**	**Approximate number of Shares** (million)	**Approximate percentage of total issued share capital of the Company**
China National Computer Software & Information Technology Service Corporation (Hong Kong) Limited ("CS&S (HK)") (Note 1)	Beneficial interest	199.01	20.11%
Chinasoft National Software and Service Company Limited ("CNSS") (Note 1)	Interest of controlled corporation	199.01	20.11%
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)") (Note 2)	Interest of persons acting in concert	199.01	20.11%
Far East Holdings International Limited ("Far East Holdings") (Note 3)	Beneficial interest	130.42	13.18%
Greater Pacific Capital Partners, LP ("GPC") (Note 4)	Beneficial interest	99.27	10.03%
International Finance Corporation ("IFC") (Note 5)	Beneficial interest	97.25	9.82%
Microsoft Corporation ("Microsoft") (Note 5)	Beneficial interest	97.25	9.82%
ABN AMRO Holding N.V. (Note 6)	Beneficial interest	59.26	5.99%

Notes:

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

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

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

4. Greater Pacific Capital Partners, LP was interested in 99,268,639 Shares.

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

6. ABN AMRO Holding N.V. was interested in 59,260,000 Shares.

Save as disclosed above, as at 31 December, 2007, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

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

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

PRE-EMPTIVE RIGHTS

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

COMPETING INTERESTS

As at 31 December 2007, Dr. Cui Hui, an non-executive Director, was interested in approximately 1.34% of the issued share capital of CNSS. Dr. Cui Hui also served as a director of CNSS. In addition, Mr. Su Zhenming (an non-executive Director) and Dr. Chen Yuhong (an executive Director) had been appointed as directors of CNSS since September 2006 and April 2004 respectively. Although the Directors are of the view that the principal activities of CNSS do not directly compete with those of the Group currently, the Group and CNSS however are both engaged in the provision of information technology outsourcing.

Save as disclosed above, as at 31 December 2007, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

POST BALANCE SHEET EVENTS

A list of events which happened after the date of the consolidated balance sheet of the Group of 31 December 2007 are set out in note 41 to the financial statements.

AUDITORS

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

On behalf of the Board

Dr. Chen Yuhong
Managing Director

Beijing, 1 April 2008

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. The code provisions in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules (the "Code on Corporate Governance Practices") have served as guideposts for the Company to follow in its implementation of corporate governance measures. The Company complied with all the code provisions in the Code on Corporate Governance Practices during the year under review, particularly with respect to the management of the board of directors, financial reporting, communication with shareholders and the procedures for conduct of shareholders' meetings.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all the Directors, the Directors complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2007.

BOARD OF DIRECTORS

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

Executive directors:
Dr. Chen Yuhong
Mr. Wang Hui
Dr. Tang Zhenming

Non-executive directors:

Mr. Su Zhenming (Chairman)	(appointed on 8 June 2007)
Madam Tang Min (Chairman)	(retired on 8 June 2007)
Dr. Cui Hui	
Mr. Duncan Chiu	
Mr. Liu Zheng	
Mr. Timothy Chen Yung Cheng	

Independent non-executive directors:
Mr. He Ning
Mr. Zeng Zhijie
Dr. Leung Wing Yin Patrick

Corporate Governance Report

During the year ended 31 December 2007, four full board meetings were held on 20 March, 27 April, 23 July & 29 October and the attendance of each director is set out as follows:

Name of Director	Number of board meetings attended in 2006	Attendance rate
Executive Directors:		
Dr. Chen Yuhong	4	100%
Mr. Wang Hui	4	100%
Dr. Tang Zhenming	4	100%
Non-executive Directors:		
Mr. Su Zhenming (appointed on 8 June 2007)	2	100%
Dr. Cui Hui	4	100%
Mr. Duncan Chiu	4	100%
Mr. Timothy Chen Yung Cheng	4	100%
Mr. Liu Zheng	4	100%
Madam Tang Min (retired on 8 June 2007)	2	100%
Independent non-executive Directors:		
Mr. He Ning	4	100%
Mr. Zeng Zhijie	4	100%
Dr. Leung Wing Yin Patrick	4	100%

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

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

Mr. Su Zhenming, Dr Chen Yuhong and Dr. Cui Hui are directors of CNSS, a substantial shareholder of the Company. Dr. Chen Yuhong and Dr. Cui Hui have been appointed as senior vice presidents of CNSS since December, 2003. Mr. Duncan Chiu is the brother of Mr. David Chiu, a non-executive Director who resigned on 22 March 2006. Both Mr. Duncan Chiu and Mr. David Chiu are directors of Far East Holdings, a substantial shareholder of the Company. Save as aforesaid, there are no other relationships among the members of the Board.

Corporate Governance Report

The three independent non-executive Directors appointed by the Company have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers these Directors to be independent under Rule 5.09 of the GEM Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The post of the chairman of the board (held by Madam Tang Min until her replacement by Mr. Su Zhenming on 8 June 2007) and the post of the chief executive officer (held by Dr. Chen Yuhong, the Managing Director) are segregated. Mr. Su Zhenming is responsible for leadership and organization of the board of directors, whereas Dr. Chen Yuhong is in charge of management of the overall business operations of the Group.

APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Dr. Cui Hui and Mr. Duncan Chiu were re-designated as non-executive Directors for a term of two years from 22 March 2006 and are subject to termination by one month's notice by the Company or himself or herself. Mr. Timothy Chen Yung Cheng was appointed as a non-executive Director for two years from 22 March 2006, subject to termination by one month's notice by the Company or himself. The term of appointment of Mr. Liu Zheng as a non-executive Director expired on 20 June 2005 and has continued subject to termination by one month's notice by the Company or himself. Madam Tang Min resigned as non-executive Director with effect from 8 June 2007.

REMUNERATION COMMITTEE

The remuneration committee was established on 28 June 2005. During the year under review, the chairman of the committee was Madam Tang Min until her replacement by Mr. Su Zhenming on 8 June 2007, and other members included Mr. He Ning, Dr. Chen Yuhong Mr. Zeng Zhijie and Dr. Leung Wing Yin Patrick. Dr. Chen Yuhong is executive Director, Mr. Su Zhenming is non-executive Director and the remaining three members are independent non-executive Directors.

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

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

Name of Director	Number of Meetings attended in 2007	Attendance rate
Madam Tang Min	1	100%
Dr. Chen Yuhong	1	100%
Mr. He Ning	1	100%
Mr. Zeng Zhijie	1	100%
Dr. Leung Wing Yin Patrick	1	100%
Mr. Su Zhenming	1	100%

The board of Directors considered that the existing terms of appointment and levels of remuneration of the Directors are fair and reasonable, and resolved that a review be carried out again in the year ending 31 December 2008.

The Company adopted a share option scheme on 2 June 2003, which serves as an incentive to attract, retain and motivate talented eligible staff, including the Directors. Details of the share option scheme are set out in note 38 to the financial statements. The emolument payable to Directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 11 to the financial statements.

NOMINATION OF DIRECTORS

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

Name of member	Number of meetings attended in 2007	Attendance rate
Madam Tang Min	1	100%
Dr. Chen Yuhong	1	100%
Mr. Duncan Chiu	1	100%
Dr. Leung Wing Yin Patrick	1	100%

Prior to the convening of the annual general meeting of the Company in May 2007, the board of Directors resolved that Dr. Cui Hui, Mr. Liu Zheng and Dr. Chen Yuhong or Mr. He Ning should retire and stand for re-election at the annual general meeting in accordance with the requirements under the Articles of Association of the Company.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of accounts for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2007, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

THE AUDIT COMMITTEE

The Company established an audit committee on 2 June 2003 and amended its written terms of reference to comply with the requirements in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules. The primary duties of the audit committee are to review and to supervise the financial reporting process and internal control system of the Group. During the year ended 31 December 2007, the audit committee comprised of three independent non-executive Directors, Mr. He Ning, Mr. Zeng Zhijie and Dr. Leung Wing Yin Patrick. Dr. Leung Wing Yin Patrick is the Chairman of the audit committee. The audit committee met on a quarterly basis during the year ended 31 December 2007.

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2007 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

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

Name of member	Number of meetings attended in 2006	Attendance rate
Mr. He Ning	4	100%
Mr. Zeng Zhijie	4	100%
Dr. Leung Wing Yin Patrick	4	100%

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group was required to pay an aggregate of approximately HK$5.5 million to the external auditors for their services including audit, due diligence and other advisory services.

INTERNAL CONTROL

During the year under review, the Company periodically conducted reviews of its system of internal control to ensure its effectiveness and adequacy. The Company periodically convened meetings to discuss financial, operational and risk management control.

INVESTORS RELATIONS

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

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of Chinasoft International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 142, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

Independent Auditor's Report

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
1 April 2008

Consolidated Income Statement

for the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Turnover	7	**811,552**	355,236
Cost of sales		**(545,157)**	(186,338)
Gross profit		**266,395**	168,898
Other income, gains and losses		**11,714**	9,147
Selling and distribution costs		**(45,456)**	(20,631)
Administrative expenses		**(131,028)**	(78,082)
Allowance for doubtful debts		**(2,820)**	(2,033)
Amortisation of intangible assets and prepaid lease payments		**(14,514)**	(8,364)
Impairment loss recognised in respect of technical expertise		**(1,735)**	(1,087)
Impairment loss recognised in respect of available-for-sale investment		**(59)**	–
Impairment loss recognised in respect of goodwill	33(c)	**–**	(988)
Discount on acquisition of additional interests in a subsidiary		**–**	1
Profit from operations		**82,497**	66,861
Finance costs	8	**(474)**	–
Share of results of associates		**3,323**	2,489
Gain (loss) arising from changes in fair value of redeemable convertible preferred shares	30	**46,102**	(110,558)
Redeemable convertible preferred shares issue expenses	30	**–**	(10,764)
Profit (loss) before taxation		**131,448**	(51,972)
Taxation	9	**(8,908)**	(11,881)
Profit (loss) for the year	10	**122,540**	(63,853)
Attributable to:			
Equity holders of the Company		**115,445**	(66,593)
Minority interests		**7,095**	2,740
		122,540	(63,853)
Dividend	12	**797**	18,309
Earnings (loss) per share	13		
Basic		**RMB0.1344**	RMB(0.0891)
Diluted		**RMB0.0492**	N/A

Consolidated Balance Sheet

at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	14	**68,723**	42,326
Intangible assets	15	**76,155**	48,894
Goodwill	16	**445,005**	140,157
Interests in associates	17	**11,591**	8,452
Available-for-sale investment	18	**109**	–
Prepaid lease payments	19 & 40(ii)	**1,276**	1,550
Payment for acquisition of software		**–**	3,654
Deferred tax assets	29	**1,806**	–
		604,665	245,033
Current assets			
Inventories	20	**51,713**	32,437
Trade and other receivables	21	**432,553**	246,346
Prepaid lease payments	19 & 40(ii)	**177**	189
Amounts due from customers for contract work	22	**36,701**	1,670
Held-for-trading investment	23	**–**	501
Amounts due from related companies	26	**1,524**	–
Pledged deposits	24	**4,504**	1,474
Bank balances and cash	24	**230,435**	133,571
		757,607	416,188
Current liabilities			
Amounts due to customers for contract work	22	**10,428**	–
Trade and other payables	25	**286,530**	107,865
Bills payable	27	**35,132**	24,252
Amounts due to related companies	26	**14,031**	501
Dividend payable to shareholders		**238**	74
Taxation payable		**4,528**	4,715
Borrowings	28	**10,000**	–
Deferred consideration	34(b)	**–**	15,600
Consideration payable on acquisition of technical expertise	34(a)	**731**	780
Consideration payable on acquisition of subsidiaries	33	**2,923**	2,711
		364,541	156,498
Net current assets		**393,066**	259,690
Total assets less current liabilities		**997,731**	504,723

Consolidated Balance Sheet

at 31 December 2007

	Notes	**2007** **RMB'000**	2006 RMB'000
Non-current liabilities			
Deferred tax liabilities	29	**7,170**	2,588
Borrowings	28	**16,814**	–
Redeemable convertible preferred shares	30	**199,059**	268,480
		223,043	271,068
		774,688	233,655
Capital and reserves			
Share capital	31	**51,398**	40,184
Share premium	32	**505,483**	128,899
Reserves	32	**178,788**	43,752
Equity attributable to equity holders of the Company		**735,669**	212,835
Minority interests		**39,019**	20,820
Total equity		**774,688**	233,655

The consolidated financial statements on pages 58 to 142 were approved and authorised for issue by the board of directors on 1 April 2008 and are signed on its behalf by:

Dr. Chen Yuhong
DIRECTOR

Mr. Duncan Chiu
DIRECTOR

Consolidated Statement of Changes in Equity

for the year ended 31 December 2007

	Attributable to the equity holders of the Company												
	Share capital RMB'000	Share premium RMB'000 (note 32)	Issuable shares RMB'000	Translation reserve RMB'000	Share options reserve RMB'000	General reserve fund RMB'000 (note 32)	Statutory enterprise expansion fund RMB'000 (note 32)	Statutory surplus reserve fund RMB'000 (note 32)	Statutory public welfare fund RMB'000 (note 32)	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2006	38,816	120,672	24,420	(2,047)	7,098	1,573	728	63	32	103,648	295,003	14,032	309,035
Exchange differences arising from translation of foreign operations and net loss recognised directly in equity	–	–	–	(4,895)	–	–	–	–	–	–	(4,895)	–	(4,895)
(Loss) profit for the year	–	–	–	–	–	–	–	–	–	(66,593)	(66,593)	2,740	(63,853)
Total recognised (expense) income for the year	–	–	–	(4,895)	–	–	–	–	–	(66,593)	(71,488)	2,740	(68,748)
New issue of shares (see note 31(a))	1,368	26,536	(24,420)	–	–	–	–	–	–	–	3,484	–	3,484
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	2,215	2,215
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(12,867)	(12,867)
Capital contribution from a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	14,700	14,700
Recognition of equity-settled share-based payments	–	–	–	–	4,145	–	–	–	–	–	4,145	–	4,145
Appropriations	–	–	–	–	–	8,141	8,140	246	–	(16,527)	–	–	–
Transfer (see note 32)	–	–	–	–	–	–	–	32	(32)	–	–	–	–
Dividend recognised as distribution	–	(18,309)	–	–	–	–	–	–	–	–	(18,309)	–	(18,309)
At 31 December 2006	40,184	128,899	–	(6,942)	11,243	9,714	8,868	341	–	20,528	212,835	20,820	233,655
Exchange differences arising from translation of foreign operations and net gain recognised directly in equity	–	–	–	5,718	–	–	–	–	–	–	5,718	–	5,718
Profit for the year	–	–	–	–	–	–	–	–	–	115,445	115,445	7,095	122,540
Total recognised income for the year	–	–	–	5,718	–	–	–	–	–	115,445	121,163	7,095	128,258
New issue of shares (see note 31(b))	10,237	364,674	–	–	–	–	–	–	–	–	374,911	–	374,911
Expenses on issue of shares	–	(807)	–	–	–	–	–	–	–	–	(807)	–	(807)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	11,104	11,104
Recognition of equity-settled share-based payments	–	–	–	–	15,779	–	–	–	–	–	15,779	–	15,779
New issue of shares upon exercise of share options	977	13,514	–	–	(1,906)	–	–	–	–	–	12,585	–	12,585
Appropriations	–	–	–	–	–	6,079	–	164	–	(6,243)	–	–	–
Dividend recognised as distribution	–	(797)	–	–	–	–	–	–	–	–	(797)	–	(797)
At 31 December 2007	51,398	505,483	–	(1,224)	25,116	15,793	8,868	505	–	129,730	735,669	39,019	774,688

Consolidated Cash Flow Statement

for the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
Operating activities		
Profit (loss) before taxation	**131,448**	(51,972)
Adjustments for:		
Finance Costs	**474**	–
Share of results of associates	**(3,323)**	(2,489)
Interest income	**(1,338)**	(3,676)
Dividend income from held-for-trading investment	**(5)**	–
Research and development costs expensed	**4,155**	4,153
Amortisation of intangible assets and prepaid lease payments	**14,514**	8,364
Impairment loss recognised in respect of technical expertise	**1,735**	1,087
Impairment loss recognised in respect of available-for-sale investment	**59**	–
Impairment loss recognised in respect of goodwill	**–**	988
Discount on acquisition of additional interests in a subsidiary	**–**	(1)
(Gain) loss arising from changes in fair value of redeemable convertible preferred shares	**(46,102)**	110,558
Expenses on issue of redeemable convertible preferred shares	**–**	10,764
Net foreign exchange gain	**(2,082)**	–
Depreciation of property, plant and equipment	**12,116**	6,496
Loss (gain) on disposal of property, plant and equipment	**509**	(2)
Allowance for doubtful debts	**2,820**	2,033
Allowance for inventories	**1,735**	138
Share option expenses	**15,779**	4,114
Operating cash flows before movements in working capital	**132,494**	90,555
Increase in inventories	**(16,649)**	(9,946)
Increase in trade and other receivables	**(118,159)**	(58,237)
Decrease in amounts due from customers for contract work	**13,258**	–
Decrease (increase) in held-for-trading investment	**501**	(501)
Decrease in amounts due from related companies	**2,654**	–
Increase in amounts due to customers for contract work	**7,012**	–
Increase in trade and other payables	**104,036**	1,685
Increase (decrease) in bills payable	**10,880**	(2,529)
Decrease in amounts due to related companies	**(3,923)**	–
Cash generated from operations	**132,104**	21,027
Income taxes paid	**(8,493)**	(9,446)
Net cash from operating activities	**123,611**	11,581

Consolidated Cash Flow Statement

for the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Investing activities			
Interest received		**1,338**	3,676
Dividend income from held-for-trading investment		**5**	–
Dividend income from an associate		**184**	–
Acquisition of subsidiaries, net of cash and cash equivalents acquired	33	**(44,682)**	(27,811)
Acquisition of additional interests in subsidiaries		**–**	(41,892)
Acquisition of contract-based customer-related intangible and technical expertise	34	**–**	(10,920)
Research and development costs paid		**(13,934)**	(13,563)
Payment for acquisition of software		**(1,196)**	(3,654)
Proceeds from disposal of property, plant and equipment		**219**	116
Purchases of property, plant and equipment		**(20,765)**	(24,014)
(Increase) decrease in pledged deposits		**(3,030)**	179
Payment for acquisition of a subsidiary in prior year	33(b)	**(2,711)**	–
Net cash used in investing activities		**(84,572)**	(117,883)
Financing activities			
New bank loan raised		**10,000**	–
Proceeds from issue of shares		**53,804**	–
Expenses on issue of shares		**(807)**	–
Proceeds from exercise of share options		**12,585**	–
Interest paid on redeemable convertible preferred shares		**(10,162)**	–
Proceeds from issue of redeemable convertible preferred shares		**–**	161,824
Expenses on issue of redeemable convertible preferred shares		**–**	(10,764)
Dividend paid		**(633)**	(18,235)
Advances to related companies		**–**	(2,840)
Capital contribution from a minority shareholder of a subsidiary		**–**	14,700
Repayment to a shareholder		**–**	(9)
Net cash from financing activities		**64,787**	144,676
Net increase in cash and cash equivalents		**103,826**	38,374
Cash and cash equivalents at beginning of the year		**133,571**	100,086
Effect of foreign exchange rate changes		**(6,962)**	(4,889)
Cash and cash equivalents at end of the year, representing bank balances and cash		**230,435**	133,571

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

1. GENERAL INFORMATION OF THE COMPANY

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

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

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

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

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

Particulars of the Company's subsidiaries at 31 December 2007 and 2006 are set out as follows:

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2007 %	2006 %	2007 %	2006 %	
Chinasoft International Holdings Limited*	Samoa/ Hong Kong ("HK")	US$1	100	100	–	–	Investment holding
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)")**	HK	HK$100	–	–	100	100	Investment holding and trading of standalone software products
Chinasoft International Treasury Management (Hong Kong) Limited**	HK	HK$1	–	–	100	100	Securities trading
Chinasoft Resource (International) Limited**	HK	HK$100,000	–	–	100	100	Provision of IT outsourcing services

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION OF THE COMPANY – Continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2007	2006	2007	2006	
			%	%	%	%	
Chinasoft International Inc.	United States of America ("USA")	US$0.01	–	–	100	100	Provision of IT outsourcing services
北京中軟國際信息技術有限公司 Chinasoft International Information Technology Limited ("Chinasoft Beijing")***	People's Republic of China ("PRC")	RMB50,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services, software development and trading of standalone software and hardware products
中軟國際(廣州)信息技術有限公司 Chinasoft International (Guang Zhou) Information Technology Limited ("Chinasoft Guangzhou")***	PRC	HK$5,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟國際(杭州)信息技術有限公司 Chinasoft International (Hang Zhou) Information Technology Limited ("Chinasoft Hangzhou")***	PRC	HK$5,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟總公司計算機培訓中心****	PRC	RMB500,000	–	–	100	100	Provision of IT consultancy and training services
中軟國際(昆明)信息技術有限公司 Chinasoft International (Kunming) Information Technology Limited ("Chinasoft Kunming")***	PRC	HK$8,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

1. GENERAL INFORMATION OF THE COMPANY – Continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2007	2006	2007	2006	
			%	%	%	%	
中軟國際(湖南)信息技術有限公司 Chinasoft International (Hunan) Information Technology Limited ("Chinasoft Hunan")***	PRC	US$1,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟賽博資源軟件技術(天津)有限公司 CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd. ("Cyber Resources")*****	PRC	RMB5,000,000	–	–	76	76	Provision of IT outsourcing services
廈門中軟海晟信息技術有限公司******	PRC	RMB30,000,000	–	–	51	51	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
北京中軟資源信息科技服務有限公司 Chinasoft Resources Information Technology Services Limited*** ("Chinasoft Resources Beijing")	PRC	US$800,000	–	–	100	100	Provision of IT outsourcing services
深圳市中軟資源技術服務有限公司 Shenzhen Chinasoft Resources Information Technology Services Limited*** ("Chinasoft Resources Shenzhen")	PRC	RMB5,000,000	–	–	100	100	Provision of IT outsourcing services

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

1. GENERAL INFORMATION OF THE COMPANY – Continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2007 %	2006 %	2007 %	2006 %	
上海中軟資源技術服務有限公司 Shanghai Chinasoft Resources Information Technology Services Limited****** ("Chinasoft Resources Shanghai")	PRC	RMB3,000,000	–	–	–	60	Provision of IT outsourcing services
Hinge Global Resources Inc. ("HGR")	Cayman Islands/PRC	US$3,956,000	97.35	–	–	–	Investment holding and provision of IT outsourcing services
上海華騰軟件系統有限公司 Shanghai Huateng Software Systems Co., Ltd. ("Shanghai Huateng")*****	PRC	US$8,000,000	–	–	86.43	–	Development and provision of IT system
大連全數科技有限公司 Dalian Digitall Technology Co., Ltd. ("Dalian Digitall")***	PRC	JPY25,000,000	–	–	58.41 (Note)	–	Provision of IT outsourcing services
和勤信華信息技術(大連)有限公司 Hinge Xinhua Information & Technology (Dalian) Co., Ltd. ("Hinge Xinhua")***	PRC	US$150,000	–	–	97.35	–	Dormant
大連信華信息技術有限公司 Dalian Xinhua Infotech Co., Ltd. ("Dalian Xinhua")***	PRC	US$250,000	–	–	97.35	–	Provision of IT outsourcing services

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

1. GENERAL INFORMATION OF THE COMPANY – Continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2007	2006	2007	2006	
			%	%	%	%	
株式會社東京信華 Kabushiki Kaisha Tokyo Xinhua ("Tokyo Xinhua")	Japan	JPY10,000,000	–	–	97.35	–	Provision of IT outsourcing services
DoubleBridge Technologies, Inc. ("DoubleBridge")	USA	US$2,204,400	–	–	97.35	–	Provision of IT outsourcing services
北京道達技術有限公司 Beijing Daoda Technology Co., Ltd. ("Beijing Daoda")***	PRC	US$1,300,000	–	–	97.35	–	Provision of IT outsourcing services
DoubleBridge Technologies Hong Kong ("DoubleBridge HK")**	HK	HK$1,000,000	–	–	97.35	–	Dormant

*	International company
**	Limited liability company
***	Wholly foreign-owned enterprise
****	中華人民共和國事業單位
*****	Sino-foreign equity joint venture enterprise
******	Sino foreign-owned enterprise

None of the subsidiaries had any debt securities subsisting at 31 December 2007 or at any time during the year.

Note:

HGR holds 60% equity interest in the registered capital of Dalian Digitall. According to the Articles of Association of Dalian Digitall, the 40% minority shareholder is only entitled to the initial contributed capital and is not entitled to share the profit or loss and net assets of Dalian Digitall in excess of the initial contributed capital.

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-INT 8	Scope of HKFRS 2
HK(IFRIC)-INT 9	Reassessment of embedded derivatives
HK(IFRIC)-INT 10	Interim financial reporting and impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required. The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information based on the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and separate financial statements[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[1]
HKFRS 3 (Revised)	Business combinations[2]
HKFRS 8	Operating segments[1]
HK(IFRIC)-Int 11	HKFRS 2: Group and treasury share transactions[3]
HK(IFRIC)-Int 12	Service concession arranagements[4]
HK(IFRIC)-Int 13	Customer loyalty programmes[5]
HK(IFRIC)-Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 July 2009.
[3] Effective for annual periods beginning on or after 1 March 2007.
[4] Effective for annual periods beginning on or after 1 January 2008.
[5] Effective for annual periods beginning on or after 1 July 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group except for the adoption of HKFRS 3 (Revised) Business Combinations and HKAS 27 (Revised) Consolidation and Separate Financial Statements. HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment on changes in parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

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

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

Basis of consolidation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Business combinations

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

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

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

Acquisition of additional interests in subsidiaries

Goodwill arising on acquisition of additional interest in subsidiaries represents the excess of the cost of the acquisition over the fair value of the net assets attributable to the additional interest in the subsidiaries. The Group continues to measure the assets and liabilities of the subsidiaries at the respective carrying values and the difference between the fair values and the carrying values of the underlying assets and liabilities attributable to the additional interests in subsidiaries is debited directly to special reserve.

Revenue recognition

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

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenue recognition – Continued

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

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

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

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

Project-based IT development contracts

Where the outcome of a contract for project-based IT development can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total costs for each contract, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. Contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Government grants

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

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expense.

Tax incentive subsidies are recognised when they becomes receivable.

Leasing

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

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

Retirement benefit costs

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

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Taxation – Continued

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

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

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

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

Property, plant and equipment

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

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

Leasehold improvements	19% – $33^1/_3$%
Furniture, fixtures and equipment	9% – 20%
Motor vehicles	9% – 20%

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

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Intangible assets

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

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date. Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

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

Research and development expenditures

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

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

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

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

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

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

Goodwill arising on acquisitions on or after 1 January 2005

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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

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

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

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

Prepaid lease payments

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

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Inventories

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

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

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

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

Financial instruments

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

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale ("AFS") financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Financial instruments – Continued

Financial assets – Continued

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments.

The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

The Group's financial assets at FVTPL comprise of held-for-trading investment.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend earned on the financial assets.

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Financial instruments – Continued

Financial assets – Continued

Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an AFS equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, trade receivable from an associate and trade receivables from related companies, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 90 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flow discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Financial instruments – Continued

Impairment of financial assets – Continued

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Financial instruments – Continued

Financial liabilities and equity – Continued

Financial liabilities at fair value through profit or loss

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

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

Other financial liabilities

Other financial liabilities including trade and other payables, bills payable, amounts due to related companies, dividend payable to shareholders, borrowings, deferred consideration, consideration payable on acquisition of technical expertise and subsidiaries are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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

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

Equity-settled share-based payment transactions

Share options granted to employees and customers of the Group

The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted after 7 November 2002 and vested before 1 January 2005, the financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Equity-settled share-based payment transactions – Continued

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

The Group has applied HKFRS 2 to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in share options reserve.

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Allowance for doubtful debts

In determining whether there is objective evidence of allowance for doubtful debts, the Group takes into consideration the collectability, aging analysis of trade receivables and estimation of future cash flows. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. The amount of the allowance for doubtful debts is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, an allowance for doubtful debts may arise. As at 31 December 2007, the carrying amount of trade receivables is RMB382,921,000 (2006: RMB220,656,000 (net of allowance for doubtful debts of RMB17,984,000 (2006: RMB15,764,000).

Estimated impairment of goodwill of HGR and its subsidiaries

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of goodwill is RMB304,848,000 (2006: nil). Details of the recoverable amount calculation are disclosed in note 16.

Notes to the Consolidated Financial Statements

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – Continued

Estimated impairment of goodwill (other than HGR and its subsidiaries)

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated. The Group has obtained business valuations of the relevant CGUs prepared by independent professional valuers for the purpose of goodwill impairment testing. The valuations are based on an estimation of a weighted average of market multiples as determined by comparable companies in the relevant industry. As at 31 December 2007, the carrying amount of goodwill was RMB140,157,000 (2006: RMB140,157,000). Details of the business valuations are disclosed in note 16. Should there be any change in the market conditions, it may lead to a change in the results of the valuations and an impairment to goodwill may be required.

Fair value of redeemable convertible preferred shares

The fair value of the financial liability component of the redeemable convertible preferred shares is calculated using the effective interest method. The amount is estimated by using a discounted cash flow model with assumptions on estimating the discount rate. The fair value of the derivative component of the redeemable convertible preferred shares is calculated using the binomial option pricing model. The model involves estimates on the Company's share price, exercise price, time to maturity, risk free rate, share price volatility and others. As at 31 December 2007, the carrying amount of the redeemable convertible preferred shares is RMB201,085,000 (2006: RMB272,382,000).

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

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 28, redeemable convertible preferred shares disclosed in note 30 and equity attributable to equity holders of the Company, comprising issued share capital, share premium, reserves and accumulated profits.

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

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2007 RMB'000	2006 RMB'000
Financial assets		
FVTPL		
Held for trading	**–**	501
Loans and receivables (including cash and cash equivalents)	**619,384**	355,701
AFS financial assets	**109**	–
Financial liabilities		
FVTPL		
Designated as at FVTPL (see below)	**201,085**	272,382
Amortised cost	**232,595**	108,692
Redeemable convertible preferred shares		
Cumulative gain in fair value attributable to changes in credit risk (note)	**2,227**	–
Gain in fair value attributable to changes in credit risk recognised during the year (note)	**2,227**	–
Difference between carrying amount and maturity amount of the principal amount of HK$155,600,000		
At fair value	**117,591**	129,455
Amount payable at maturity	**(145,782)**	(155,600)
	(28,191)	(26,145)

Note: The redeemable convertible preferred shares of the Company contain the financial liability and embedded derivatives and the entire instrument is designated as financial liability at FVTPL on initial recognition. With respect to the liability component, the gain in fair value attributable to change in credit risk is calculated as the difference between total change in fair value of the liability component of RMB3,833,000 (2006: RMB9,529,000) and the change in fair value of the liability component due to change in market conditions alone amounting to RMB1,606,000 (2006: RMB9,529,000). The change in fair value of the liability component due to market conditions was calculated using benchmark interest yield curves as at the balance sheet date holding credit risk rate constant. The fair value of the liability component was estimated by discounting future cash flows using quoted benchmark interest yield curves as at the balance sheet date and by obtaining lender quotes for borrowing of similar maturity to estimate credit risk margin.

Notes to the Consolidated Financial Statements

6. FINANCIAL INSTRUMENTS – Continued

Financial risk management objectives and policies

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Company have bank balances and cash and provision of services denominated in foreign currencies, which expose the Group to foreign currency risk. Approximately 9.2% of the Group's provision of services are denominated in currencies other than the functional currency of the group entity providing the services. In addition, redeemable convertible preferred shares and an interest-free shareholder's loan of the Group are denominated in Hong Kong dollars and US dollars respectively, being foreign currencies of the group entities.

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

	Liabilities		Assets	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong dollars	**201,085**	272,382	**4,633**	30,714
US dollars	**16,814**	–	**16,849**	5,296

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

6. FINANCIAL INSTRUMENTS – Continued

Financial risk management objectives and policies – Continued

Market risk – Continued

Sensitivity analysis

The Group is mainly exposed to Hong Kong dollars and US dollars.

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

	Hong Kong dollars impact			**US dollars impact**		
	2007	2006		**2007**	2006	
	RMB'000	RMB'000		**RMB'000**	RMB'000	
Profit (loss) for the year	**9,823**	12,083	(a)	**(2)**	(265)	(b)

(a) This is mainly attributable to the exposure outstanding on Hong Kong dollars redeemable convertible preferred shares at the year end.

(b) This is mainly attributable to the exposure outstanding on US dollars trade receivables, bank balances and shareholder's loan at year end.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to redeemable convertible preferred shares (see note 30 for details) and fixed-rate borrowings (see note 28 for details).

The Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short-term bank deposits at market rates.

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

Notes to the Consolidated Financial Statements

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6. FINANCIAL INSTRUMENTS – Continued

Financial risk management objectives and policies – Continued

Market risk – Continued

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both the liability component of the redeemable convertible preferred shares and short-term bank deposits at the balance sheet date. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

In respect of the liability component of the redeemable convertible preferred shares, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would increase by RMB2,023,000 (2006: increase by RMB2,534,000). If interest rates had been 50 basis points lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease by RMB2,064,000 (2006: decrease by RMB2,597,000). This is attributable to the Group's exposure to fair value change on the liability component of the its redeemable convertible preferred shares.

In respect of short-term bank deposits, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would increase/decrease by RMB1,224,000 (2006: increase/decrease by RMB675,000). This is attributable to the Group's exposure to interest rates on its short-term bank deposits.

(iii) Other price risk

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

Sensitivity analysis

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

If the Company's share price had been 5% higher/lower and all other variables were held constant, the Group's profit for the year (as a result of changes in fair value of conversion option component of redeemable convertible preferred shares) would decrease/increase by RMB9,741,000 and (2006: decrease/increase by RMB12,455,000).

6. FINANCIAL INSTRUMENTS – Continued

Financial risk management objectives and policies – Continued

Market risk – Continued

Sensitivity analysis – Continued

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

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses, if necessary, are made for irrecoverable amounts.

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

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

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 92% (2006: 98%) of the total trade receivable as at 31 December 2007. Trade receivables consist of a large number of customers, spread across diverse industries. In addition, there is concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings. Other than the above, the Group does not have any other significant concentration of credit risk.

Liquidity risk

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

As at 31 December 2007, the Group has available unutilised general borrowing facilities of approximately RMB10,000,000 (2006: RMB20,000,000). Details of which are set out in note 28.

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

Notes to the Consolidated Financial Statements

6. FINANCIAL INSTRUMENTS – Continued

Financial risk management objectives and policies – Continued

Market risk – Continued

Liquidity tables

	Less than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	1-2 years RMB'000	2+ years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2007 RMB'000
2007						
Trade and other payables	152,726	–	–	–	152,726	152,726
Bills payable	35,132	–	–	–	35,132	35,132
Amounts due to related companies	14,031	–	–	–	14,031	14,031
Dividend payable to shareholders	238	–	–	–	238	238
Fixed-rate borrowing	–	10,000	–	–	10,000	10,000
Consideration payables	3,654	–	–	–	3,654	3,654
Interest-free shareholder's loan	–	–	18,262	–	18,262	16,814
Redeemable convertible preferred shares	4,009	4,009	8,018	161,818	177,854	199,059
	209,790	14,009	26,280	161,818	411,897	431,654

	Less than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	1-2 years RMB'000	2+ years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2007 RMB'000
2006						
Trade and other payables	64,774	–	–	–	64,774	64,774
Bills payable	24,252	–	–	–	24,252	24,252
Amounts due to related companies	501	–	–	–	501	501
Dividend payable to shareholders	74	–	–	–	74	74
Deferred consideration	–	15,600	–	–	15,600	15,600
Consideration payables	3,491	–	–	–	3,491	3,491
Redeemable convertible preferred shares	4,279	4,279	8,558	181,274	198,390	268,480
	97,371	19,879	8,558	181,274	307,082	337,172

6. FINANCIAL INSTRUMENTS – Continued

Fair value

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

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

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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

7. TURNOVER AND SEGMENT INFORMATION

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

Business segments

For management purposes, the Group is currently organised into four operating divisions-solutions, IT outsourcing, IT consulting and training services, and sale of standalone software and hardware products. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented as follows:

INCOME STATEMENT
For the year ended 31 December 2007

	Solutions RMB'000	IT outsourcing RMB'000	IT consulting and training services RMB'000	Sale of standalone software and hardware products RMB'000	Consolidated RMB'000
Turnover	515,947	236,420	19,691	39,494	811,552
Segment result	45,717	13,186	1,155	35,801	95,859
Unallocated other income, gains and losses					11,714
Unallocated corporate expenses					(25,076)
Finance costs					(474)
Share of results of associates					3,323
Gain arising from changes in fair value of redeemable convertible preferred shares					46,102
Profit before taxation					131,448
Taxation					(8,908)
Profit for the year					122,540

7. TURNOVER AND SEGMENT INFORMATION – Continued

Business segments – Continued

BALANCE SHEET

As at 31 December 2007

	IT solutions RMB'000	IT outsourcing RMB'000	IT consulting and training services RMB'000	Sale of standalone software and hardware products RMB'000	Consolidated RMB'000
ASSETS					
Segment assets	673,992	440,472	1,874	246	1,116,584
Interests in associates	11,591	–	–	–	11,591
Unallocated corporate assets					234,097
Consolidated total assets					1,362,272
LIABILITIES					
Segment liabilities	282,514	47,952	3,081	9,582	343,129
Unallocated corporate liabilities					244,455
Consolidated total liabilities					587,584

OTHER INFORMATION

For the year ended 31 December 2007

	IT solutions RMB'000	IT outsourcing RMB'000	IT consulting and training services RMB'000	Sale of standalone software and hardware product RMB'000	Unallocated RMB'000	Consolidated RMB'000
Capital additions	45,581	30,820	6,086	–	–	82,487
Depreciation of property, plant and equipment	6,441	5,022	598	55	–	12,116
Amortisation of intangible assets	6,956	7,248	310	–	–	14,514
Impairment of intangible assets	–	1,735	–	–	–	1,735
Loss on disposal of property, plant and equipment	6	503	–	–	–	509

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

7. TURNOVER AND SEGMENT INFORMATION – Continued

Business segments – Continued

INCOME STATEMENT

For the year ended 31 December 2006

	Solutions RMB'000	IT outsourcing RMB'000	IT consulting and training services RMB'000	Sale of standalone software and hardware products RMB'000	Consolidated RMB'000
Turnover	193,513	127,821	12,184	21,718	355,236
Segment result	49,537	22,892	4,068	3,084	79,581
Unallocated other income, gains and losses					9,147
Unallocated corporate expenses					(21,868)
Discount on acquisition of additional interests in a subsidiary					1
Share of net results of associates					2,489
Loss arising from changes in fair value of redeemable convertible preferred shares					(110,558)
Redeemable convertible preferred shares issue expenses					(10,764)
Loss before taxation					(51,972)
Taxation					(11,881)
Loss for the year					(63,853)

7. TURNOVER AND SEGMENT INFORMATION – Continued

Business segments – Continued

BALANCE SHEET

As at 31 December 2006

	IT solutions RMB'000	IT outsourcing RMB'000	IT consulting and training services RMB'000	Sale of standalone software and hardware products RMB'000	Consolidated RMB'000
ASSETS					
Segment assets	330,921	176,326	1,406	4,751	513,404
Interests in associates	8,452	–	–	–	8,452
Unallocated corporate assets					139,365
Consolidated total assets					661,221
LIABILITIES					
Segment liabilities	101,496	20,183	1,345	19,657	142,681
Unallocated corporate liabilities					284,885
Consolidated total liabilities					427,566

OTHER INFORMATION

For the year ended 31 December 2006

	IT solutions RMB'000	IT outsourcing RMB'000	IT consulting and training services RMB'000	Sale of standalone software and hardware product RMB'000	Unallocated RMB'000	Consolidated RMB'000
Capital additions	23,594	42,231	–	23	–	65,848
Depreciation of property, plant and equipment	3,619	2,497	322	58	–	6,496
Amortisation of intangible assets	5,142	3,193	29	–	–	8,364
Impairment of intangible assets	–	1,087	–	–	–	1,087
Gain on disposal of property, plant and equipment	(2)	–	–	–	–	(2)

Notes to the Consolidated Financial Statements

7. TURNOVER AND SEGMENT INFORMATION – Continued

Geographical segments

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

8. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest on borrowings wholly repayable within five years:		
Bank loan	158	–
Imputed interest expense on non-current interest-free shareholder's loan of the Company	316	–
	474	–

9. TAXATION

	THE GROUP 2007 RMB'000	2006 RMB'000
The charge comprises:		
PRC Enterprise Income Tax		
Current year	11,267	11,098
Overprovision in prior year	(2,960)	–
	8,307	11,098
Hong Kong Profits Tax	(7)	19
The US Federal and State Income taxes	6	–
	8,306	11,117
Deferred tax (note 29)	602	764
	8,908	11,881

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the year.

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

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

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

9. TAXATION – Continued

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% from 1 January 2008.

Pursuant to an approval document issued by the State Bureau of Beijing Haidian District dated 21 November 2000, Chinasoft Beijing, a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Beijing was entitled to the three year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2000. As a result, Chinasoft Beijing is subject to the income tax computed at the rate of 7.5% for the three years ended 31 December 2005 and at the rate of 15% on its taxable profit up to year 2007. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulation of the New Law.

Pursuant to an approval document issued by the Guangzhou Science and Technology Bureau dated 31 March 2004, Chinasoft Guangzhou, a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, pursuant to another approval document issued by the Guangzhou National Tax Bureau dated 2 June 2004, Chinasoft Guangzhou was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2003. The tax rate with effect from 2008, is 25% under the New Law.

Pursuant to an approval document issued by the State Bureau of Kunming City, Yunnan Province dated 15 June 2007, Chinasoft Kunming, a subsidiary of the Company, had been designated as a technology development enterprise. As a result, Chinasoft Kunming was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2006. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulation of the New Law.

Pursuant to an approval document issued by the Hunan Science and Technology Bureau dated 13 June 2006, Chinasoft Hunan, a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Hunan was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2006. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulation of the New Law.

Pursuant to an approval document issued by the State Bureau of Tianjin Economic and Technology Development Zone dated 20 February 2003, Cyber Resources, a subsidiary of the Company, was established before the end of the year 1995 and was approved as an production enterprise and its income tax rate was reduced from 33% to 15%. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulation of the New Law.

Notes to the Consolidated Financial Statements

9. TAXATION – Continued

Pursuant to an approval document issued by the Beijing Science and Technology Commission dated 25 June 2004, Chinasoft Resources Beijing, a subsidiary of the Company, had been designated as an advanced technology enterprise and its income tax rate was reduced from 33% to 15%. Moreover, Chinasoft Resources Beijing was entitled to the three year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2004. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulations of the New Law.

Pursuant to an approval document issued by the State Bureau of Shenzhen Nanshan District dated 1 March 2005, Chinasoft Resources Shenzhen, a subsidiary of the Company, had been designated as a newly established software enterprise. As a result, Chinasoft Resources Shenzhen was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2004. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulations of the New Law.

Pursuant to an approval document issued by the Shanghai City District Bureau dated 27 February 2007, Chinasoft Resources Shanghai, a subsidiary of the Company, was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction with effect from 2006. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulations of the New Law.

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

	2007 **RMB'000**	2006 RMB'000
Profit (loss) before taxation	**131,448**	(51,972)
Tax at PRC Enterprise Income Tax rate of 33%	**43,378**	(17,151)
Tax effect of share of results of associates	**(1,097)**	(821)
Tax effect attributable to tax exemptions and concessions granted to PRC subsidiaries	**(31,616)**	(19,609)
Tax effect of expenses not deductible for tax purpose	**20,495**	49,268
Tax effect of income not taxable for tax purpose	**(21,839)**	(947)
Overprovision in prior years	**(2,960)**	–
Tax effect of utilisation of tax losses previously not recognised	**(430)**	(612)
Tax effect of tax losses not recognised	**3,009**	1,240
Effect of different tax rate of subsidiaries	**(32)**	513
Tax charge for the year	**8,908**	11,881

Notes to the Consolidated Financial Statements

10. PROFIT (LOSS) FOR THE YEAR

	2007 **RMB'000**	2006 RMB'000
Profit (loss) for the year has been arrived at after charging:		
Directors' remuneration (note 11)	**6,480**	3,636
Other staff costs	**227,888**	89,956
Retirement benefit costs	**15,467**	6,856
Share option expenses	**12,145**	2,907
Total staff costs	**261,980**	103,355
Less: Staff costs capitalised as development costs	**(9,449)**	(9,053)
	252,531	94,302
Share option expenses		
-granted to employees of an associate	**–**	31
-granted to customers	**57**	224
	57	255
Allowance for inventories	**1,735**	138
Research and development costs expensed	**5,070**	4,153
Less: Government grants	**(915)**	–
	4,155	4,153
Auditor's remuneration	**5,187**	2,288
Cost of inventories recognised as an expense	**242,521**	55,880
Depreciation of property, plant and equipment	**12,116**	6,496
Loss on disposal of property plant and equipment	**509**	–
Minimum lease payments in respect of land and buildings	**31,830**	8,997
and after crediting:		
Dividend income from held-for-trading investment	**5**	–
Gain on fain value change on held-for-trading investment	**29**	150
Interest income from bank balances and cash	**1,338**	3,676
Government grants	**3,198**	4,422
Gain on disposal of property, plant and equipment	**–**	2
Net foreign exchange gain	**1,059**	410
Tax incentive subsidies	**3,428**	394

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

Details of emoluments to the directors of the Company for the year ended 31 December 2007 are as follows:

	Executive director			Non-executive director						Independent non-executive director			
	Chen Yuhong RMB'000	Wang Hui RMB'000	Tang Zhenming RMB'000	Duncan Chiu RMB'000	Cui Hui RMB'000	Tang Min RMB'000	Liu Zheng RMB'000	Chen Yung Cheng RMB'000	Su Zhenming RMB'000	He Ning RMB'000	Zeng Zhijie RMB'000	Leung Wing Yin Patrick RMB'000	Total RMB'000
Fees for:													
Executive directors	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executive directors	–	–	–	–	–	–	–	–	–	–	–	–	–
Independent non-executive directors	–	–	–	–	–	–	–	–	–	117	117	117	351
Other emoluments for executive directors:													
Salaries and other benefits	886	629	471	–	–	–	–	–	–	–	–	–	1,986
Share option expense	1,505	860	815	–	–	–	–	–	–	–	–	–	3,180
Retirement benefit costs	31	31	31	–	–	–	–	–	–	–	–	–	93
	2,422	1,520	1,317	–	–	–	–	–	–	117	117	117	5,610
Other emoluments for non-executive directors:													
Salaries and other benefits	–	–	–	117	117	60	–	–	–	–	–	–	294
Share option expense	–	–	–	7	3	–	–	137	–	–	–	–	147
Retirement benefit cost	–	–	–	–	–	–	–	–	–	–	–	–	–
Discretionary bonus (note)	–	–	–	–	179	–	–	–	–	–	–	–	179
	–	–	–	124	299	60	–	137	–	–	–	–	620
Other emoluments for independent non-executive directors:													
Share option expense	–	–	–	–	–	–	–	–	–	–	250	–	250
	–	–	–	–	–	–	–	–	–	–	250	–	250
Total directors' remuneration	2,422	1,520	1,317	124	299	60	–	137	–	117	367	117	6,480

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – Continued

Directors' emoluments – Continued

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

	Executive director				Non-executive director						Independent non-executive director				
	Chen Yuhong RMB'000	Peng Jiang RMB'000	Wang Hui RMB'000	Tang Zhenming RMB'000	Duncan Chiu RMB'000	Cui Hui RMB'000	Tang Min RMB'000	David Chiu RMB'000	Liu Zheng RMB'000	Timothy Chen Yung Cheng RMB'000	He Ning RMB'000	Zeng Zhijie RMB'000	Au Yeung Shiu Kau Peter RMB'000	Leung Wing Yin Patrick RMB'000	Total RMB'000
Fees for:															
Executive directors	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executive directors	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Independent non-executive directors	–	–	–	–	–	–	–	–	–	–	105	105	15	–	225
Other emoluments for executive directors:															
Salaries and other benefits	772	99	629	413	–	–	–	–	–	–	–	–	–	–	2,261
Share option expense	356	99	278	208	–	–	–	–	–	–	–	–	–	–	983
Retirement benefit costs	26	5	26	18	–	–	–	–	–	–	–	–	–	–	75
	1,154	203	933	639	–	–	–	–	–	–	105	105	15	–	3,544
Other emoluments for non-executive directors:															
Salaries and other benefits	–	–	–	–	116	116	116	–	–	–	–	–	–	–	348
Share option expense	–	–	–	–	28	14	–	–	–	–	–	–	–	–	42
	–	–	–	–	144	130	116	–	–	–	–	–	–	–	390
Other emoluments for independent non-executive directors															
Salaries and other benefits	–	–	–	–	–	–	–	–	–	–	–	–	–	92	92
	–	–	–	–	–	–	–	–	–	–	–	–	–	92	92
Total directors' remuneration	1,154	203	933	639	144	130	116	–	–	–	105	105	15	92	3,636

Note: After a review by the board of directors ("BOD") on 31 December 2007, the BOD resolved to pay a special bonus of RMB179,000 to Mr. Cui Hui in recognition of his duties, responsibilities and satisfactory performance.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – Continued

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2006: two) was director of the Company whose emolument was included above. The emoluments of the remaining four (2006: three) highest paid individuals were as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other benefits	3,021	2,193
Share option expenses	516	261
Retirement benefit costs	63	50
Discretionary bonus	427	189
	4,027	2,693

Their emoluments were within the following bands:

	No. of employees 2007	2006
HK$Nil to HK$1,000,000 (equivalent to RMB937,000 (2006: RMB1,000,000))	4	2
HK$1,000,001 to HK$1,500,000 (equivalent to RMB1,405,000 (2006: RMB1,500,000))	–	1
	4	3

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

None of the directors waived any emoluments during both years.

12. DIVIDEND

	2007 RMB'000	2006 RMB'000
Dividend recognised as distribution during the year:		
Final paid in respect of prior year - HK0.1 cents per share (2006: HK2.5 cents), equivalent to RMB0.1 cents per share (2006: RMB2.6 cents)	797	18,309

A final dividend of HK$0.005 (equivalent to RMB0.005) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

13. EARNINGS (LOSS) PER SHARE

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

	2007 RMB'000	2006 RMB'000
Earnings (loss) for the purposes of calculating basic earnings (loss) per share	**115,445**	(66,593)
Effect of dilutive potential ordinary shares:		
Exchange adjustment	**(15,033)**	
Gain arising from changes in fair value of redeemable convertible preferred shares	**(46,102)**	
Earnings for the purposes of calculating diluted earnings per share	**54,310**	

	Number of shares 2007	2006
Weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share	**858,956,125**	747,120,005
Effect of dilutive potential ordinary shares:		
Issuable under the Company's share option scheme	**49,368,226**	
Conversion of the redeemable convertible preferred shares	**194,500,000**	
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,102,824,351**	

The diluted loss per share for the year ended 31 December 2006 was not presented as the exercise of the share options and conversion of the redeemable convertible preferred shares outstanding would result in a decrease in loss per share.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
COST				
At 1 January 2006	5,218	20,384	6,576	32,178
Exchange adjustments	(7)	(4)	–	(11)
Additions	1,720	20,122	2,172	24,014
Acquired on acquisition of subsidiaries (note 33 (b) & (c))	–	1,491	149	1,640
Disposals	(3)	–	(145)	(148)
At 31 December 2006	6,928	41,993	8,752	57,673
Exchange adjustments	(13)	(88)	(1)	(102)
Additions	3,764	15,617	1,384	20,765
Acquired on acquisition of subsidiaries (note 33 (a))	3,618	13,916	964	18,498
Disposals	–	(1,091)	–	(1,091)
At 31 December 2007	14,297	70,347	11,099	95,743
DEPRECIATION				
At 1 January 2006	2,378	5,701	811	8,890
Exchange adjustments	(4)	(1)	–	(5)
Provided for the year	943	4,860	693	6,496
Eliminated on disposals	–	–	(34)	(34)
At 31 December 2006	3,317	10,560	1,470	15,347
Exchange adjustments	(13)	(67)	–	(80)
Provided for the year	1,967	9,109	1,040	12,116
Eliminated on disposals	–	(363)	–	(363)
At 31 December 2007	5,271	19,239	2,510	27,020
CARRYING VALUES				
At 31 December 2007	9,026	51,108	8,589	68,723
At 31 December 2006	3,611	31,433	7,282	42,326

15. INTANGIBLE ASSETS

	Development costs RMB'000	Technical knowhow RMB'000	Software RMB'000	Contract-based customer-related intangible RMB'000	Technical expertise RMB'000	Customer relationship RMB'000	Patent RMB'000	Total RMB'000
COST								
At 1 January 2006	15,052	6,722	120	–	–	–	–	21,894
Acquired on acquisitions (note 34 (a) & (b))	–	–	–	19,704	11,080	–	–	30,784
Additions	9,410	–	–	–	–	–	–	9,410
At 31 December 2006	24,462	6,722	120	19,704	11,080	–	–	62,088
Acquired on acquisitions (note 33(a))	–	–	–	–	1,414	26,464	717	28,595
Additions	9,779	–	4,850	–	–	–	–	14,629
At 31 December 2007	34,241	6,722	4,970	19,704	12,494	26,464	717	105,312
AMORTISATION/IMPAIRMENT								
At 1 January 2006	2,889	1,002	–	–	–	–	–	3,891
Impairment loss recognised for the year	–	–	–	–	1,087	–	–	1,087
Provided for the year	4,322	672	29	1,970	1,223	–	–	8,216
At 31 December 2006	7,211	1,674	29	1,970	2,310	–	–	13,194
Impairment loss recognised for the year	–	–	–	–	1,735	–	–	1,735
Provided for the year	5,251	872	23	3,941	2,310	1,764	67	14,228
At 31 December 2007	12,462	2,546	52	5,911	6,355	1,764	67	29,157
CARRYING VALUES								
At 31 December 2007	21,779	4,176	4,918	13,793	6,139	24,700	650	76,155
At 31 December 2006	17,251	5,048	91	17,734	8,770	–	–	48,894

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

15. INTANGIBLE ASSETS – Continued

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

Development costs and software	3-5 years
Technical knowhow	10 years
Contract-based customer-related intangible	5 years
Technical expertise	5 years
Customer relationship	5 years
Patent	3.6 years

16. GOODWILL

	RMB'000
COST	
At 1 January 2006	79,168
Arising on acquisition of subsidiaries (note 33 (b) and (c))	32,951
Arising on acquisition of additional interests in a subsidiary	29,026
At 31 December 2006	141,145
Arising on acquisition of subsidiaries (note 33 (a))	304,848
At 31 December 2007	445,993
IMPAIRMENT	
At 1 January 2006	–
Impairment loss recognised for the year	(988)
At 31 December 2006 and 2007	(988)
CARRYING VALUES	
At 31 December 2007	445,005
At 31 December 2006	140,157

16. GOODWILL – Continued

Impairment testing on goodwill

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, the carrying amount of goodwill (net of impairment loss) as at 31 December 2007 and 2006 has been allocated as follows:

	2007 RMB'000	2006 RMB'000
Solutions		
– HGR and its subsidiaries (note 1)	134,188	–
IT outsourcing		
– Cyber Resources	31,963	31,963
– Chinasoft Resources Beijing	80,968	80,968
– HGR and its subsidiaries (note 1)	170,660	–
	283,591	112,931
IT consulting and training services	830	830
Chinasoft Beijing (note 2)	26,396	26,396
	445,005	140,157

Notes:

(1) The total carrying amount of goodwill of RMB304,848,000 was resulted from the acquisition of HGR and its subsidiaries in the current year. The goodwill contributes to the cash flows of both the solutions and IT outsourcing business segments.

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

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

16. GOODWILL – Continued

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

IT outsourcing (other than HGR and its subsidiaries)

The recoverable amount of this CGU is fair value less costs to sell and has been determined based on the valuation at 31 December 2007 and 2006 prepared by independent professional valuers. The valuation is based on the management's 2007 financial information and a weighted average of market value of invested capital over earnings before taxation of 26 (2006: 14) and that over earnings of 29 (2006: 17) based on comparable companies in the relevant industry.

IT consulting and training services

The recoverable amount of this CGU is fair value less costs to sell and has been determined based on the valuation at 31 December 2007 and 2006 prepared by independent professional valuers. The valuation is based on the management's 2007 financial information and a weighted average of market value of invested capital over earnings before taxation of 26 (2006: 14) and that over earnings of 29 (2006: 17) based on comparable companies in the relevant industry.

Chinasoft Beijing

The recoverable amount of this CGU is fair value less costs to sell and has been determined based on the valuation at 31 December 2007 and 2006 prepared by independent professional valuers. The valuation is based on the management's 2007 financial information and a weighted average of market value of invested capital over earnings before taxation of 26 (2006: 14) and that over earnings of 29 (2006: 17) based on comparable companies in the relevant industry.

HGR and its subsidiaries

The recoverable amounts of HGR and its subsidiaries (the "HGR Group"), representing that for the CGUs of solution and IT outsourcing business segments, have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 17.6%. The cash flows of HGR Group beyond the five-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Since the HGR Group specialises in the solutions and IT outsourcing businesses, management of the Group believes that the projected growth rates are reasonable. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the HRG Group past performance of the HRG Group and management's expectations for the market development.

17. INTERESTS IN ASSOCIATES

	2007 RMB'000	2006 RMB'000
Unlisted cost of investments in associates	**6,500**	6,500
Share of post-acquisition profits, net of dividend received	**5,091**	1,952
	11,591	8,452

Particulars of the Group's associates at 31 December 2007 and 2006 are as follows:

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

Included in the unlisted cost of investments in associates is goodwill of RMB3,052,000 (2006: RMB3,052,000) arising on acquisition of China Tobacco in 2005.

18. AVAILABLE-FOR-SALE INVESTMENT

The Group's AFS investment represents a 15% investment in unlisted equity securities issued by 上海意達電子商務有限公司, a private entity incorporated in the PRC. It is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably. There is no active market for trading the equity securities. At the balance sheet date, the directors of the Company have no intention to dispose of the equity securities.

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19. PREPAID LEASE PAYMENTS

COST	RMB'000
Additions and at 31 December 2006 and 2007	1,887
AMORTISATION	
Provided for the year and balance at 31 December 2006	148
Provided for the year	286
At 31 December 2007	434
CARRYING VALUES	
At 31 December 2007	1,453
At 31 December 2006	1,739

	2007 **RMB'000**	2006 RMB'000
Analysed for reporting purposes as:		
Non-current assets	**1,276**	1,550
Current assets	**177**	189
	1,453	1,739

Prepaid lease payments are amortised on a straight-line basis over 10 years.

20. INVENTORIES

	2007 **RMB'000**	2006 RMB'000
Computer hardware, equipment and software products	**51,713**	32,437

21. TRADE AND OTHER RECEIVABLES

	2007 RMB'000	2006 RMB'000
Trade receivables	**373,490**	224,037
Less: Allowance for doubtful debts	**(17,984)**	(15,764)
	355,506	208,273
Trade receivable from an associate	**491**	1,091
Trade receivables from related companies	**26,924**	11,292
	382,921	220,656
Advances to suppliers	**8,187**	6,929
Deposits, prepayments and other receivables	**41,445**	18,761
	432,553	246,346

The average credit terms of the Group range from 30 to 90 days. An aged analysis of trade receivables (net of allowance for doubtful debts) is as follows:

	2007 RMB'000	2006 RMB'000
Within 90 days	**152,256**	125,627
Between 91-180 days	**87,884**	27,796
Between 181-365 days	**96,747**	33,966
Between 1-2 years	**40,669**	27,362
Over 2 years	**5,365**	5,905
	382,921	220,656

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed each time when sales are made. 25% (2006: 40%) of the trade receivables that are neither past due nor impaired have the best credit quality assessed by the Group.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB324,302,000 (2006: RMB158,916,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 259 days (2006: 188 days).

21. TRADE AND OTHER RECEIVABLES – Continued

Ageing of trade receivables which are past due but not impaired

	2007	2006
Within 90 days	**93,637**	63,887
Between 91-180 days	**87,884**	27,796
Between 181-365 days	**96,747**	33,966
Between 1-2 years	**40,669**	27,362
Over 2 years	**5,365**	5,905
Total	**324,302**	158,916

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

Movement in the allowance for doubtful debts

	2007 RMB'000	2006 RMB'000
Balance at beginning of the year	**15,764**	14,274
Impairment losses recognised on receivables	**2,820**	2,033
Amounts written off as uncollectible	**(590)**	(522)
Impairment losses reversed	**(10)**	(21)
Balance at end of the year	**17,984**	15,764

22. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2007 RMB'000	2006 RMB'000
Contracts in progress at the balance sheet date		
Contract costs incurred plus recognised profits less recognised losses	188,129	1,670
Less: progress billings	(161,856)	–
	26,273	1,670
Analysed for reporting purposes as		
Amounts due from contract customers	36,701	1,670
Amounts due to contract customers	(10,428)	–
	26,273	1,670

At 31 December 2007, retentions held by customers for contract works amounted to RMB147,000 (2006: nil). Advances received from customers for contract work amounted to RMB800,000 (2006: nil).

23. HELD-FOR-TRADING INVESTMENT

	2007 RMB'000	2006 RMB'000
Equity securities listed in Hong Kong, at quoted market price	–	501

24. PLEDGED DEPOSITS/BANK BALANCES

Pledged deposits

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

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

Bank balances

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

At the balance sheet date, included in bank balances are the following amounts denominated in currencies other than the functional currency of the relevant group entity to which they relate.

	2007 **RMB'000**	2006 RMB'000
Hong Kong Dollars	**4,633**	30,714
United States Dollars	**1,342**	3,560

25. TRADE AND OTHER PAYABLES

	2007 RMB'000	2006 RMB'000
Trade payables	**151,649**	64,579
Trade payable to a related company	**–**	195
Deposits received from customers	**38,315**	2,593
Other payables and accrued charges	**96,566**	40,498
	286,530	107,865

An aged analysis of trade payables is as follows:

	2007 RMB'000	2006 RMB'000
Within 90 days	**67,079**	17,910
Between 91-180 days	**23,508**	7,193
Between 181-365 days	**30,131**	14,443
Between 1-2 years	**23,147**	13,453
Over 2 years	**7,784**	11,775
	151,649	64,774

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

26. AMOUNTS DUE FROM/TO RELATED COMPANIES

The amounts due from/to related companies are unsecured, non-interest bearing and repayable on demand.

27. BILLS PAYABLE

An aged analysis of bills payable is as follows:

	2007 RMB'000	2006 RMB'000
Within 90 days	29,292	22,771
Between 91-180 days	5,840	1,481
	35,132	24,252

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

28. BORROWINGS

	2007 RMB'000	2006 RMB'000
Bank loan, secured	10,000	–
Shareholder's loan, unsecured	16,814	–
	26,814	–
Carrying amount repayable:		
On demand or within one year	10,000	–
More than one year, but not exceeding two years	16,814	–
	26,814	–
Less: Amounts due within one year shown under current liabilities	(10,000)	–
	16,814	–

28. BORROWINGS – Continued

Borrowings comprise:

	Maturity date	Effective interest rate	Carrying amount 2007 RMB'000	2006 RMB'000
Fixed-rate bank loan:				
6.56% secured RMB bank loan of RMB10,000,000 [(1)]	24 August 2008	6.56%	**10,000**	–
Interest-free shareholder's loan:				
Unsecured USD loan of USD2,500,000 [(2)]	5 February 2009	5.26%	**16,814**	–
Total borrowings			**26,814**	–

(1) Secured by corporate guarantee of the Company and repayable in full on 24 August 2008.

(2) Repayable in full on 5 February 2009.

At the balance sheet date, the Group has the following undrawn general borrowing facilities:

	2007 RMB'000	2006 RMB'000
Expiring within one year	**10,000**	20,000

29. DEFERRED TAXATION

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

	Deferred development costs RMB'000	Technical expertise RMB'000	Customer relationship RMB'000	Accrued expenses RMB'000	Total RMB'000
At 1 January 2006	(1,824)	–	–	–	(1,824)
Charge to the consolidated income statement	(764)	–	–	–	(764)
At 31 December 2006	(2,588)	–	–	–	(2,588)
Arising from acquisition of subsidiaries (note 33(a))	–	(212)	(3,970)	2,008	(2,174)
(Charge)/credit to the consolidated income statement	(680)	14	266	(202)	(602)
At 31 December 2007	**(3,268)**	**(198)**	**(3,704)**	**1,806**	**(5,364)**

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

	2007 RMB'000	2006 RMB'000
Deferred tax assets	**1,806**	–
Deferred tax liabilities	**(7,170)**	(2,588)
	(5,364)	(2,588)

At the balance sheet date, the Group had unused tax losses available for offset against future profits of approximately RMB13,513,000 (2006: RMB5,697,000) which may be carried forward indefinitely except losses of approximately RMB1,716,000 (2006: RMB1,674,000) which will expire in 2012. No deferred tax asset has been recognised in respect of such deductible temporary difference due to the unpredictability of future profit streams.

30. REDEEMABLE CONVERTIBLE PREFERRED SHARES

	Number of shares	Nominal amount HK$'000
Redeemable convertible preferred shares (the "Series A Preferred Shares") of HK$0.05 each:		
Authorised		
Balance at 1 January 2006, 31 December 2006 and 2007	625,000,000	31,250
Issued and fully paid		
Issued during the year and balance at 31 December 2006 and 2007	194,500,000	9,725

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

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

If the Company fails to complete the baseline amount of US$2,000,000 (equivalent to RMB14,616,000) as set forth in the commercial agreement dated 26 September 2005 entered into between Microsoft and the Company prior to the first anniversary of 6 January 2006, upon receipt of a written notice by Microsoft, the Company shall redeem in cash such number of the Series A Preferred Shares then held by Microsoft plus the accrued and unpaid dividends thereon at any time with an aggregate amount of up to US$5,000,000 (equivalent to RMB36,540,000). If all the Series A Preferred Shares then held by Microsoft are redeemed by the Company, IFC shall have a right, to require the Company, to redeem the Series A Preferred Shares held by it in an aggregate amount of not more than US$5,000,000 (equivalent to RMB36,540,000). All accrued and unpaid dividends payable on the Series A Preferred Shares held by IFC shall also be payable by the Company at that time.

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30. REDEEMABLE CONVERTIBLE PREFERRED SHARES – Continued

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

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

The Group incurred expenses of RMB10,764,000 for the issuance of the Series A Preferred Shares. Such expenses have been recognised in the consolidated income statement for the year ended 31 December 2006.

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

At 31 December 2007 and 2006, the fair value of the financial liability of the Series A Preferred Shares was estimated by using market interest rates of 11.59% and 9.79% respectively. The fair value of the embedded derivatives is calculated using the binomial option pricing model. The inputs into the model were as follows:

	2007	2006
Share price	**HK$1.40**	HK$1.73
Exercise price	**HK$0.8**	HK$0.8
Time to maturity	**4 years**	5 years
Risk free rate	**2.94%**	3.69%
Share price volatility	**41.99%**	52.09%

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

30. REDEEMABLE CONVERTIBLE PREFERRED SHARES – Continued

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

	RMB'000
Carrying amount at 6 January 2006	161,824
Loss arising on changes in fair value	110,558
As at 31 December 2006	272,382
Exchange adjustment	(15,033)
Gain arising on changes in fair value	(46,102)
Interest paid	(10,162)
As at 31 December 2007	**201,085**

Included in the gain/loss arising from changes of fair value is an interest expense of RMB8,286,000 (2006: RMB3,902,000) determined using the effective interest method. As at 31 December 2007, interest accured to preferred shareholders of RMB2,026,000 (2006: RMB3,902,000) payable with twelve months after the balance sheet date was included in trade and other payables in the consolidated balance sheet.

31 SHARE CAPITAL

	Number of shares	**Nominal amount** HK$'000
Ordinary shares of HK$0.05 each:		
Authorised:		
At 1 January 2006, 31 December 2006 and 2007	1,500,000,000	75,000

Issued and fully paid	Notes	**Number of shares**	**Amount** HK$	**Amount shown in the financial statements** RMB'000
At 1 January 2006		732,372,453	36,618,623	38,816
Issue of new shares	(a)	26,445,023	1,322,251	1,368
At 31 December 2006		758,817,476	37,940,874	40,184
Issue of new shares	(b)	211,087,399	10,554,370	10,237
Exercise of share options		19,933,500	996,675	977
At 31 December 2007		989,838,375	49,491,919	51,398

31 SHARE CAPITAL – Continued

Notes:

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

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

(b) On 19 April 2007, the Company entered into a subscription agreement with ABN AMRO Bank N.V., London Branch ("ABN AMRO"). Under the Subscription Agreement, ABN AMRO has conditionally agreed to subscribe for a total of 32,300,000 new shares of the Company of HK$0.05 each at the price of HK$1.70 per share. The new shares were allotted and issued as fully paid to ABN AMRO on 30 April 2007.

Pursuant to a resolution passed by the directors of the Company on 4 July 2006 and after the achievement of the revenue and the entering into a master contract with Microsoft as described in the announcement of the Company dated 4 July 2006, 7,918,782 new shares of the Company of HK$0.05 each were allotted and issued on 6 November 2007 as fully paid to Opportune Technology as the second portion of consideration shares of HK$1.97 each for the acquisition of the Mobile and Embedded Division of Opportune Technology (see note 34 (b)).

Pursuant to an ordinary resolution passed by the shareholders of the Company on 9 July 2007, 170,868,617 new shares of the Company of HK$0.05 each were allotted and issued as fully paid to the shareholders of HGR as the consideration shares of HK$1.44 each for the acquisition of approximately 97.35% equity interest of HGR (see note 33(a)).

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

32. SHARE PREMIUM AND RESERVES

Share premium

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

Pursuant to an ordinary resolution passed by the shareholders of the Company on 16 May 2007, dividend for 2007 in the amount of RMB797,000 (2006: RMB18,309,000) was paid and distributed out of the share premium account.

General reserve fund and statutory enterprise expansion fund

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

Statutory surplus reserve fund and statutory public welfare fund

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

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

33 ACQUISITION OF SUBSIDIARIES

(a) In August 2007, the Group acquired 97.35% equity interest of HGR for a total consideration of RMB396,093,000, comprising of both a cash consideration and the issuance of consideration shares. HGR and its subsidiaries are engaged in the business of development and provision of IT system. Acquisition of the subsidiary was accounted for by the purchase method.

The net assets acquired in the transaction, representing the acquiree's carrying amount and fair value, fair value adjustments and the goodwill arising, are as follows:

	Acquiree's carrying amount RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	18,498	–	18,498
Intangible assets			
– technical expertise	–	1,414	1,414
– customer relationship	–	26,464	26,464
– patent	717	–	717
Available-for-sale investment	168	–	168
Deferred tax assets	2,008	–	2,008
Inventories	4,362	–	4,362
Trade and other receivables	74,428	–	74,428
Amounts due from customers for contract work	48,289	–	48,289
Amounts due from related companies	4,178	–	4,178
Bank balances and cash	38,801	–	38,801
Amounts due to customers for contract work	(3,416)	–	(3,416)
Trade and other payables	(74,629)	–	(74,629)
Amounts due to related companies	(17,453)	–	(17,453)
Borrowing	(17,298)	–	(17,298)
Deferred tax liabilities	–	(4,182)	(4,182)
	78,653	23,696	102,349
Minority interests			(11,104)
Goodwill on acquisition			304,848
Total consideration			396,093

33 ACQUISITION OF SUBSIDIARIES – Continued

	Acquiree's carrying amount RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Satisfied by:			
Cash			83,483
Settlement of other receivable			3,560
Consideration payable			2,923
Shares issued (note)			306,127
			396,093
Net cash outflow arising on acquisition:			
Cash consideration paid			83,483
Bank balances and cash acquired			(38,801)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			(44,682)

Note:

The consideration for the acquisition of HGR was satisfied partly by the issuance of 170,868,617 ordinary shares of the Company with nominal value per share of HK$0.05 each during the year and the earn-out payment of approximately US$5,500,000 (equivalent to approximately RMB40,194,000) subject to the achievement of the 2007 net profit as described in the circular of the Company dated 13 June 2007. The directors are of the opinion that the 2007 net profit will not be achieved and hence the earn-out payment is not recognised as part of the consideration for the acquisition. The fair value of the consideration shares, determined using the published price available at the date of acquisition at HK$1.85, amounted to RMB296,160,000 (equivalent to HK$316,107,000).

The goodwill arising on the acquisition of HGR is attributable to the anticipated profitability of the provision of the Group's services in the IT solutions market and the anticipated future operating synergies from the combination.

HGR contributed RMB122,427,000 to the Group's turnover and profit of RMB11,343,000 to the Group's profit for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2007, total Group turnover for the year would have been RMB1,004,238,000, and profit for the year would have been RMB107,989,000. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

33 ACQUISITION OF SUBSIDIARIES – Continued

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

The fair values of the identifiable assets and liabilities of the subsidiary acquired during the year ended 31 December 2006 have no significant differences from their respective carrying amounts. The net assets acquired in the transaction, representing the acquiree's carrying amount and fair value, and the goodwill arising, are as follows:

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

33 ACQUISITION OF SUBSIDIARIES – Continued

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

The fair values of the identifiable assets and liabilities of the subsidiary acquired during the year ended 31 December 2006 have no significant differences from their respective carrying amounts. The net liabilities assumed in the transaction, representing the acquiree's carrying amount and fair value, and the goodwill arising, are as follows:

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

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

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

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

Notes to the Consolidated Financial Statements

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

(a) In May 2006, the Group acquired the technical expertise of Powerise International Software Co., Ltd. and Powerise Japan Co., Ltd., representing employees with experience in enterprise resource planning system and in the Japanese market, for a cash consideration of US$1,000,000 (equivalent to RMB7,800,000). The acquisition of the technical expertise enhanced the Group's advantageous position in Microsoft business and rapid expansion into the Japanese market. Acquisition of the technical expertise was accounted for as an intangible asset (see note 15) and represented the cash consideration of US$1,000,000 (equivalent to RMB7,800,000). The outflow of cash and cash equivalents in respect of the acquisition of technical expertise was US$900,000 (equivalent to RMB7,020,000) and the remaining US$100,000 (equivalent to RMB731,000 (2006: RMB780,000)) was included in consideration payable on acquisition of technical expertise. At 31 December 2007, the amount has not yet been settled.

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

The total consideration of the acquisition is US$3,000,000 (equivalent to RMB23,400,000), comprising a cash consideration of US$500,000 (equivalent to RMB3,900,000) and the issuance of consideration shares which amounted to a maximum of US$2,500,000 (equivalent to RMB19,500,000). During the year ended 31 December 2006, the Company issued 3,196,721 ordinary shares with nominal value per share of HK$0.05 each (the "first portion of consideration shares") for the acquisition and the remaining ordinary shares (the "second portion of consideration shares") would be issued after 1 July 2007 subject to the achievement of the revenue and the entering into a master contract with Microsoft as described in the announcement of the Company dated 4 July 2006. The directors were of the opinion that the revenue would be achieved in 2007. The fair value of the first and second portion of consideration shares, determined using the published price available at the date of the acquisition at HK$1.09, amounted to RMB3,484,000 (equivalent to HK$3,484,000) and RMB15,600,000 (equivalent to HK$15,600,000) respectively. The amount of the second portion of consideration shares of RMB15,600,000 was presented as deferred consideration in the consolidated balance sheet at 31 December 2006. During the year, the conditions for the issuance of the second portion of consideration shares were satisfied and the deferred consideration was discharged by issue of shares of the Company (see note 31(b)).

Acquisition of the contract-based customer-related intangible and technical expertise was accounted for as intangible assets (see note 15) and represented the total consideration of RMB22,984,000. The outflow of cash and cash equivalents in respect of the acquisition was US$500,000 (equivalent to RMB3,900,000).

35. MAJOR NON-CASH TRANSACTIONS

Pursuant to a resolution passed by the directors of the Company and after the achievement of the revenue and the entering into a master contract with Microsoft, the issuance of the second portion of consideration shares of the Company for the acquisition of the Mobile and Embedded Division of Opportune Technology was effected (see note 31(b)).

Pursuant to an ordinary resolution passed by the shareholders of the Company, the Company acquired HGR. Part of the consideration was satisfied by the issuance of news shares of the Company (see note 31(b)).

During the year ended 31 December 2006, pursuant to an ordinary resolution passed and after the achievement of the Performance Hurdle, the issuance of the second portion of consideration shares of the Company for the acquisition of 51% equity interest in the registered capital of Chinasoft Resources Beijing by Chinasoft (HK), a subsidiary of the Group from CS&S (HK) was effected (see note 31(a)).

Pursuant to a resolution passed by the directors of the Company, Chinasoft (HK) acquired the Mobile and Embedded Division of Opportune Technology. Part of the consideration was satisfied by the issuance of new shares of the Company (see note 34(b)).

36. OPERATING LEASE COMMITMENTS

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

	2007 **RMB'000**	2006 RMB'000
Within one year	**21,588**	13,512
In the second to fifth year inclusive	**34,867**	15,554
	56,455	29,066

Operating lease payments represent rentals payable by the Group for certain premises for training office properties and storeroom. Certain lease agreements for offices properties were replaced by new agreements entered into during the year. Leases are negotiated for lease terms ranging from a half year to two years (2006: a half year to three years) for the Group and rentals are normally fixed during the lease period.

37. CAPITAL COMMITMENT

	2007 RMB'000	2006 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of software	**13,096**	1,196
Commitment to acquire 100% equity interest in a subsidiary (see note 41)	**15,909**	–

38. SHARE OPTION SCHEME

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

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

38. SHARE OPTION SCHEME – Continued

The movements of the share options granted to the directors and employees of the Group during the year ended 31 December 2007 are as follows:

					Number of share options				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2007	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31.12.2007
Directors:									
Dr. Chen Yuhong	13.8.2003	HK$0.58	13.8.2003-12.8.2004	13.8.2004-12.8.2013	300,000	–	(300,000)	–	–
			13.8.2003-12.8.2005	13.8.2005-12.8.2013	300,000	–	(300,000)	–	–
			13.8.2003-12.8.2006	13.8.2006-12.8.2013	300,000	–	(300,000)	–	–
			13.8.2003-12.8.2007	13.8.2007-12.8.2013	300,000	–	–	–	300,000
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	1,250,000	–	(1,250,000)	–	–
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	1,250,000	–	(1,250,000)	–	–
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	1,250,000	–	(1,250,000)	–	–
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	1,250,000	–	–	–	1,250,000
	30.3.2006	HK$0.97	Nil	30.3.2006-29.3.2016	300,000	–	–	–	300,000
			30.3.2006-29.3.2007	30.3.2007-29.3.2016	300,000	–	–	–	300,000
			30.3.2006-29.3.2008	30.3.2008-29.3.2016	300,000	–	–	–	300,000
			30.3.2006-29.3.2009	30.3.2009-29.3.2016	300,000	–	–	–	300,000
	10.4.2007	HK$1.78	Nil	10.4.2007-9.4.2017	–	950,000	–	–	950,000
			10.4.2007-9.4.2008	10.4.2008-9.4.2017	–	950,000	–	–	950,000
			10.4.2008-9.4.2009	10.4.2009-9.4.2017	–	950,000	–	–	950,000
			10.4.2009-9.4.2010	10.4.2010-9.4.2017	–	950,000	–	–	950,000
Mr. Duncan Chiu	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	250,000	–	–	–	250,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	250,000	–	–	–	250,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	250,000	–	–	–	250,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	250,000	–	–	–	250,000
Dr. Cui Hui	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	125,000	–	–	–	125,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	125,000	–	–	–	125,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	125,000	–	–	–	125,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	125,000	–	–	–	125,000
Mr. Wang Hui	13.8.2003	HK$0.58	13.8.2003-12.8.2004	13.8.2004-12.8.2013	250,000	–	(250,000)	–	–
			13.8.2003-12.8.2005	13.8.2005-12.8.2013	250,000	–	(250,000)	–	–
			13.8.2003-12.8.2006	13.8.2006-12.8.2013	250,000	–	(250,000)	–	–
			13.8.2003-12.8.2007	13.8.2007-12.8.2013	250,000	–	–	–	250,000
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	875,000	–	(875,000)	–	–
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	875,000	–	(875,000)	–	–
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	875,000	–	–	–	875,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	875,000	–	–	–	875,000
	30.3.2006	HK$0.97	Nil	30.3.2006-29.3.2016	250,000	–	–	–	250,000
			30.3.2006-29.3.2007	30.3.2007-29.3.2016	250,000	–	–	–	250,000
			30.3.2006-29.3.2008	30.3.2008-29.3.2016	250,000	–	–	–	250,000
			30.3.2006-29.3.2009	30.3.2009-29.3.2016	250,000	–	–	–	250,000

38. SHARE OPTION SCHEME – Continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2007	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31.12.2007
	10.4.2007	HK$1.78	Nil	10.4.2007-9.4.2017	–	500,000	–	–	500,000
			10.4.2007-9.4.2008	10.4.2008-9.4.2017	–	500,000	–	–	500,000
			10.4.2008-9.4.2009	10.4.2009-9.4.2017	–	500,000	–	–	500,000
			10.4.2009-9.4.2010	10.4.2010-9.4.2017	–	500,000	–	–	500,000
Dr. Tang Zhenming	13.8.2003	HK$0.58	13.8.2003-12.8.2004	13.8.2004-12.8.2013	80,000	–	(80,000)	–	–
			13.8.2003-12.8.2005	13.8.2005-12.8.2013	80,000	–	(80,000)	–	–
			13.8.2003-12.8.2006	13.8.2006-12.8.2013	80,000	–	(80,000)	–	–
			13.8.2003-12.8.2007	13.8.2007-12.8.2013	80,000	–	–	–	80,000
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	650,000	–	(650,000)	–	–
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	650,000	–	(650,000)	–	–
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	650,000	–	–	–	650,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	650,000	–	–	–	650,000
	30.3.2006	HK$0.97	Nil	30.3.2006-29.3.2016	200,000	–	–	–	200,000
			30.3.2006-29.3.2007	30.3.2007-29.3.2016	200,000	–	–	–	200,000
			30.3.2006-29.3.2008	30.3.2008-29.3.2016	200,000	–	–	–	200,000
			30.3.2006-29.3.2009	30.3.2009-29.3.2016	200,000	–	–	–	200,000
	10.4.2007	HK$1.78	Nil	10.4.2007-9.4.2017	–	500,000	–	–	500,000
			10.4.2007-9.4.2008	10.4.2008-9.4.2017	–	500,000	–	–	500,000
			10.4.2008-9.4.2009	10.4.2009-9.4.2017	–	500,000	–	–	500,000
			10.4.2009-9.4.2010	10.4.2010-9.4.2017	–	500,000	–	–	500,000
Mr. Zeng Zhijie	10.4.2007	HK$1.78	Nil	10.4.2007-9.4.2017	–	187,500	–	–	187,500
			10.4.2007-9.4.2008	10.4.2008-9.4.2017	–	187,500	–	–	187,500
			10.4.2008-9.4.2009	10.4.2009-9.4.2017	–	187,500	–	–	187,500
			10.4.2009-9.4.2010	10.4.2010-9.4.2017	–	187,500	–	–	187,500
Mr. Timothy Chen Yung Cheng	10.4.2007	HK$1.78	Nil	10.4.2007-9.4.2007	–	250,000	–	(250,000)	–
			10.4.2007-9.4.2008	10.4.2008-9.4.2017	–	250,000	–	(250,000)	–
			10.4.2008-9.4.2009	10.4.2009-9.4.2017	–	250,000	–	(250,000)	–
			10.4.2009-9.4.2010	10.4.2010-9.4.2017	–	250,000	–	(250,000)	–
					18,120,000	9,550,000	(8,690,000)	(1,000,000)	17,980,000

38. SHARE OPTION SCHEME – Continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2007	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31.12.2007
Other employees	13.8.2003	HK$0.58	13.8.2003-12.8.2004	13.8.2004-12.8.2013	1,897,500	–	(1,897,500)		–
			13.8.2003-12.8.2005	13.8.2005-12.8.2013	1,897,500	–	(180,000)		1,717,500
			13.8.2003-12.8.2006	13.8.2006-12.8.2013	1,897,500	–	–		1,897,500
			13.8.2003-12.8.2007	13.8.2007-12.8.2013	1,897,500	–	–		1,897,500
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	8,025,000	–	(8,025,000)		–
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	8,025,000	–	(591,000)		7,434,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	8,025,000	–	–		8,025,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	8,025,000	–	–		8,025,000
	30.3.2006	HK$0.97	Nil	30.3.2006-29.3.2016	3,100,000	–	(550,000)		2,550,000
			30.3.2006-29.3.2007	30.3.2007-29.3.2016	3,100,000	–	–		3,100,000
			30.3.2006-29.3.2008	30.3.2008-29.3.2016	3,100,000	–	–		3,100,000
			30.3.2006-29.3.2009	30.3.2009-29.3.2016	3,100,000	–	–		3,100,000
	10.4.2007	HK$1.78	Nil	10.4.2007-9.4.2017	–	10,887,500	–	(5,362,500)	5,525,000
			10.4.2007-9.4.2008	10.4.2008-9.4.2017	–	10,887,500	–	(5,362,500)	5,525,000
			10.4.2008-9.4.2009	10.4.2009-9.4.2017	–	10,887,500	–	(5,362,500)	5,525,000
			10.4.2009-9.4.2010	10.4.2010-9.4.2017	–	10,887,500	–	(5,362,500)	5,525,000
Customers	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	2,000,000	–	–	–	2,000,000
					78,210,000	53,100,000	(19,933,500)	(22,450,000)	88,926,500
Exercisable at the end of the year									58,319,000
Weigjhted average exercise price					0.70	1.78	0.64	1.78	1.09

38. SHARE OPTION SCHEME – Continued

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

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

38. SHARE OPTION SCHEME – Continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2006	Granted during the year	Reclassificaton during the year	Outstanding at 31.12.2006
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	875,000	–	–	875,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	875,000	–	–	875,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	875,000	–	–	875,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	875,000	–	–	875,000
	30.3.2006	HK$0.97	Nil	30.3.2006-29.3.2016	–	250,000	–	250,000
			30.3.2006-29.3.2007	30.3.2007-29.3.2016	–	250,000	–	250,000
			30.3.2006-29.3.2008	30.3.2008-29.3.2016	–	250,000	–	250,000
			30.3.2006-29.3.2009	30.3.2009-29.3.2016	–	250,000	–	250,000
Dr. Tang Zhenming	13.8.2003	HK$0.58	13.8.2003-12.8.2004	13.8.2004-12.8.2013	80,000	–	–	80,000
			13.8.2003-12.8.2005	13.8.2005-12.8.2013	80,000	–	–	80,000
			13.8.2003-12.8.2006	13.8.2006-12.8.2013	80,000	–	–	80,000
			13.8.2003-12.8.2007	13.8.2007-12.8.2013	80,000	–	–	80,000
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	650,000	–	–	650,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	650,000	–	–	650,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	650,000	–	–	650,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	650,000	–	–	650,000
	30.3.2006	HK$0.97	Nil	30.3.2006-29.3.2016	–	200,000	–	200,000
			30.3.2006-29.3.2007	30.3.2007-29.3.2016	–	200,000	–	200,000
			30.3.2006-29.3.2008	30.3.2008-29.3.2016	–	200,000	–	200,000
			30.3.2006-29.3.2009	30.3.2009-29.3.2016	–	200,000	–	200,000
					18,920,000	3,000,000	(3,800,000)	18,120,000
Other employees	13.8.2003	HK$0.58	13.8.2003-12.8.2004	13.8.2004-12.8.2013	1,697,500	–	200,000	1,897,500
			13.8.2003-12.8.2005	13.8.2005-12.8.2013	1,697,500	–	200,000	1,897,500
			13.8.2003-12.8.2006	13.8.2006-12.8.2013	1,697,500	–	200,000	1,897,500
			13.8.2003-12.8.2007	13.8.2007-12.8.2013	1,697,500	–	200,000	1,897,500
	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	7,275,000	–	750,000	8,025,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	7,275,000	–	750,000	8,025,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	7,275,000	–	750,000	8,025,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	7,275,000	–	750,000	8,025,000
	30.3.2006	HK$0.97	Nil	30.3.2006-29.3.2016	–	3,100,000	–	3,100,000
			30.3.2006-29.3.2007	30.3.2007-29.3.2016	–	3,100,000	–	3,100,000
			30.3.2006-29.3.2008	30.3.2008-29.3.2016	–	3,100,000	–	3,100,000
			30.3.2006-29.3.2009	30.3.2009-29.3.2016	–	3,100,000	–	3,100,000
Customers	13.5.2004	HK$0.65	Nil	13.5.2004-12.5.2014	2,000,000	–	–	2,000,000
			13.5.2004-12.5.2005	13.5.2005-12.5.2014	2,000,000	–	–	2,000,000
			13.5.2004-12.5.2006	13.5.2006-12.5.2014	2,000,000	–	–	2,000,000
			13.5.2004-12.5.2007	13.5.2007-12.5.2014	2,000,000	–	–	2,000,000
					62,810,000	15,400,000	–	78,210,000
Exercisable at the end of the year								50,957,500

38. SHARE OPTION SCHEME – Continued

No share options have been exercised and cancelled for the year ended 31 December 2006.

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$1.87 (2006: nil).

The estimated fair values of the share options granted on 10 April 2007 ranged from HK$0.55 to HK$0.73. During the year ended 31 December 2006, the estimated fair values of the share options granted on 30 March 2006 ranged from HK$0.34 to HK$0.41. They were calculated using the Binomial model. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

	2007	2006
Share price on grant date	**HK$1.78**	HK$0.97
Exercise price	**HK$1.78**	HK$0.97
Expected volatility	**42.03%**	41.55%
Time to maturity	**10 years**	10 years
Risk-free rate	**4.23%**	4.53%
Expected dividend yield	**1.1%**	1.3%

Expected volatility was determined by using the historical volatility of the Company's share price over a period of 1,040 days (2006: 260 days).

The Group recognised a total expense of RMB15,779,000 for the year ended 31 December 2007 (2006: RMB4,114,000) in relation to share options granted by the Company.

39. RETIREMENT BENEFIT SCHEMES

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

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

39. RETIREMENT BENEFIT SCHEMES – Continued

During the year, the total cost of retirement benefit contributions charged to the consolidated income statement of RMB15,560,000 (2006: RMB6,931,000) represents contributions to the schemes made by the Group at rates specified in the rules of the respective schemes. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

40. RELATED PARTY TRANSACTIONS

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

	Notes	2007 RMB'000	2006 RMB'000
Provision of IT outsourcing services			
– Microsoft	(a) & (iv)	**44,625**	4,775
– Microsoft (China) Co., Ltd.	(a) & (iv)	**56,206**	49,707
– 日本國株式會社 CDI	(b) & (ix)	**3,728**	–
– Viador Inc.	(c) & (ix)	**2,075**	–
Rental expenses			
– CNSS	(d), (e) & (viii)	**4,659**	4,364
– 上海和勤軟件技術有限公司	(f) & (x)	**327**	–
Subcontracting costs			
– 鄭州中軟信息技術有限公司 (Zhengzhou Chinasoft Information Technology Co., Ltd. ("Chinasoft Zhengzhou"))	(g)	**–**	10
– Chinasoft Wuhan	(h)	**800**	800
– 山東中軟信息技術有限公司 (Shandong Chinasoft Information Technology Co., Ltd. ("Shandong Chinasoft"))	(g)	**–**	97
Provision of software and installation services for a management system software development and technology project			
– Chinasoft Zhengzhou	(g) & (vi)	**–**	190
– Chinasoft Wuhan	(h)	**–**	1,768
Provision of technical development services			
– CNSS	(d), (e) & (vii)	**1,369**	1,711
– CS&S(HK)	(i) & (vii)	**–**	320

40. RELATED PARTY TRANSACTIONS – Continued

Notes:

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

(b) 日本國株式會社 CDI is a shareholder of Tokyo Xinhua, a subsidiary of the Group.

(c) Mr. Xi Wang, a common director of HGR and Viador Inc.

(d) CNSS is a holding company of a shareholder of the Company.

(e) Mr. Cui Hui and Mr. Su Zhenming, directors of the Company, are also directors of CNSS.

(f) 上海和勤軟件技術有限公司 is a holding company of Scube Systems Limited, a shareholder of the Company.

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

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

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

(ii) Pursuant to a trademark license agreement ("Trademark Licence Agreement") entered into between CNSS and the Company on 20 December 2003, CNSS granted to the Company an exclusive right to use a trademark of 中軟總公司計算機培訓中心 as defined on the Trademark Licence Agreement for a period of 25 years for a consideration of RMB2,000,000. During the year ended 31 December 2006, CNSS obtained the trademark registration certificate from the Trademark Bureau of the PRC and the Company recognised the amount as prepaid lease payments in the consolidated balance sheet. The effective period of the registration is from 21 March 2006 to 20 March 2016. At 31 December 2007, the prepaid lease payments were analysed for reporting purposes as a non-current asset of RMB1,276,000 and current asset of RMB177,000 in the consolidated balance sheet.

(iii) In September 2005, the Company entered into a Commercial Agreement with Microsoft for a period of three years. Pursuant to the Commercial Agreement, the Company and Microsoft agreed to drive revenue associated with delivering software solutions using certain Microsoft software products and to assist the Company in growing its IT service business in the PRC. The transactions under the Commercial Agreement constitute non-exempt continuing connected transactions for the Company under the GEM Listing Rules as Microsoft is a connected person (as defined under the GEM Listing Rules) of the Company after subscription of the Series A Preferred Shares on 6 January 2006.

40. RELATED PARTY TRANSACTIONS – Continued

(iv) During the year ended 31 December 2006, the Company entered into a Global Master Services Agreement ("the GMS Agreement") with Microsoft for a term of five years to provide a framework of the agreed general terms and conditions for the provision of the IT outsourcing services by subsidiaries of the Group. Each project to be undertaken by subsidiaries of the Group for Microsoft under the GMS Agreement would be subject to specific terms on the amount of fee, particulars of the project and expected timetable. The entering into the GMS Agreement, and the projects undertaken by subsidiaries of the Group thereunder, constituted non-exempt continuing connected transactions for the Company under the GEM Listing Rules as Microsoft was a connected person (as defined under the GEM Listing Rules) of the Company. The above were approved by the independent shareholders at an extraordinary general meeting held by the Company on 27 October 2006. During the year, Microsoft ceased to be a connected person of the Company as its interest in the shares of the Company dropped below 10% by dilution. At 31 December 2007, an amount of RMB24,017,000 (2006: RMB9,381,000) was included in trade and other receivables in the consolidated balance sheet in respect of provision of IT outsourcing services to Microsoft and Microsoft (China) Co., Ltd..

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

(vi) During the year ended 31 December 2006, Chinasoft Zhengzhou, a subsidiary of CNSS, provided subcontracting service of RMB190,000 to Chinasoft Beijing. At 31 December 2006, the amount was included in trade and other payable in the consolidated balance sheet.

(vii) During the year ended 31 December 2007, Chinasoft Guangzhou and Chinasoft Resource (International) Limited provided technical development services of RMB1,369,000 (2006: RMB1,711,000) and nil (2006: (RMB320,000) to CNSS and CS&S (HK) respectively. At 31 December 2007, the amount of RMB2,396,000 (2006: RMB1,711,000) was included in trade and other receivables in the consolidated balance sheet.

40. RELATED PARTY TRANSACTIONS – Continued

(viii) During both years, 中軟總公司計算機培訓中心, Cyber Resources, Chinasoft Resources Beijing and Chinasoft Beijing, subsidiaries of the Company, entered into rental agreements with CNSS ranging from 6 months to 21 months. Pursuant to the rental agreements, 中軟總公司計算機培訓中心, Cyber Resources, Chinasoft Resources Beijing and Chinasoft Beijing rented the premises from CNSS for training, as office and storeroom. The transactions under the rental agreements constituted non-exempt continuing connected transactions for the Company under the GEM Listing Rules as CNSS is a connected person (as defined under the GEM Listing Rules) of the Company. At 31 December 2007, an amount of RMB126,000 (2006: RMB126,000) was included in amounts due to related companies in the consolidated balance sheet.

(ix) During the year, Dalian Digitall and HGR provided IT outsourcing services of RMB3,728,000 and RMB2,075,000 to 日本國株式會社 CDI and Viador Inc. respectively. At 31 December 2007, an amount of RMB1,465,000 and RMB467,000 was included in trade and other receivables in the consolidated balance sheet.

(x) During the year, Shanghai Huateng rented an office premise from 上海和勤軟件技術有限公司. At 31 December 2007, an amount of RMB136,000 was included in amounts due to related companies.

Compensation of key management personnel

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

	2007 **RMB'000**	2006 RMB'000
Short-term employee benefits	**6,077**	4,961
Retirement benefit costs	**158**	124
Share option expenses	**3,692**	1,244
	9,927	6,329

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

41. POST BALANCE SHEET EVENT

On 1 February 2008, Chinasoft (HK), a wholly-owned subsidiary of the Company, paid HK$3,002,000 (equivalent to approximately RMB2,813,000) to Sino Speed International Limited as part of the consideration for the acquisition of 100% equity interest in 日本創智株式會社. Details of the above are set out in a circular dated 6 December 2007 issued by the Company. The acquisition has yet to be completed at the date of approval of the consolidated financial statements.