中軟國際

2012 Annual Report

ChinaSoft International Limited

中軟國際有限公司*

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code:0354)

* for identification purpose only

Contents

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Chairman of the Board's Report

Dear shareholders,

Year 2012 marked the final year of the Company's first three-year plan (2010-2012). Our service revenue reached RMB2.55 billion, representing an increase of 30.2% as compared to that of the previous year, with the total number of employees approaching 19,000 people. From a complete business statistics perspective, we have achieved 93% of the sales revenue target set out in the first three-year plan and is well-positioned as a leading IT services enterprise in China.

During 2012, even as we faced challenges posed by complex and difficult external economic environment as well as internal organizational restructuring, the Company still achieved stable growth in its operating performance, thanks to the cohesive efforts of all of our employees. Compared to the corresponding period of last year, the service revenue of the professional services business (PSG) increased by 32.7% to RMB1.24 billion; the service revenue of the outsourcing service business (OSG) increased by 27.3% to RMB1.22 billion; while the service revenue of the training business (ETC) increased by 35.0% to RMB93.59 million.

Starting from our listing in 2003, the Company has grown tremendously, achieving a CAGR of 52.3% in service revenue. Through this process we became a large-size player in the our field, setting a solid foundation for rapid growth for years to come. In October 2012, the Company held its fourth "Strategic Day" activity in Xiangshan, Beijing in a bid to capture the significant industrial transformation opportunity for the next three years. The goal is to first "Excel in Today's Business" by realizing the Company's innovative development across multiple disciplines and to firmly establish a strategic POE structure (professional services, outsourcing services and emerging services) and capitalize the robust business development in various industry verticals and building competent capability and a well-established geographical layout. Secondly we will "Practice Tomorrow's Model" by striving to achieve innovation through "co-developing and sharing with customers", while moving up along our customer's value chain.

During the reporting period, the joint venture established by the Company and Huawei officially began and started operation. After a vigorous integration period, the synergistic effects of the joint venture has started to emerge with the business demonstrating steady growth while achieving higher quality standards. During the reporting period, the Company was awarded "2011 Microsoft Preferred Supplier Program Excellence Awards—Value Excellence Award" by Microsoft's headquarter. This was the first time a Chinese supplier had won such a significant award, which further strengthened the strategic relationship with Microsoft.

During the reporting period, the company reached a milestone in electric power IT service business through signing the acquisition agreement to acquire Along Grid's electric power marketing information service business serving State Grid and corresponding assets. This was another major progress in "forming strategic partnership with customers" model in the domestic market.

During the reporting period, the Company was awarded the major tender for the sub-system of China Mobile's Wireless City level I platform services and has become one of the leading suppliers in the China Mobile's internet business.

During the reporting period, the Company's core platform product R1 has made significant progress in respect of cloud computing. The Company entered into a strategic cooperation agreement with AliCloud to jointly develop the PaaS platform, by which both parties will work together to port the R1 products into the Ali Cloud Environment and provide Java-based development services and cloud-based SOA services.

Chairman of the Board's Report

During the reporting period, the Company held a foundation laying ceremony for Chinasoft International Science and Technology Park in Xi'an Software New City, which is expected to commence operation in 2014.

A few more words on Huawei. Year 2012 was a year of integration for the joint venture company with Huawei. We experienced growing-pains in this process of transformation, learned a lot of lessons along the way and also paid a lot of "tuition". Painful? Yes, but happily painful. Our management team learned from Huawei what it means to pursue and execute strategies with unrelenting focus and persistence. Such attributes will have a profound influence on the Company. After a year of hard work, teams from both parties are now well integrated. The JV professionals from Huawei are of very high quality, high competence and strong execution ability. Now with a much stronger recognition of the joint venture, the integrated team will excel in their positions and have unlimited potential in the future. The joint venture achieved top rankings in Huawei's outsourcing suppliers appraisal in the second half of the year, and the lead was especially clear in business volume and customer satisfaction. Such outstanding results laid a solid foundation for achieving the goal of "becoming Huawei's most trusted strategic partner in outsourcing service".

Looking forward to 2013, the Company will formulate a new three-year (2013-2015) development plan. Firstly, the Company will focus on the strategy to realize co-development with our core customers and move up the value chain, realize and accumulate the value in operations support, and increase operational efficiency. Meanwhile, the Company will capture the opportunities of core customers' business transformation to expand further and together into the global IT services market, as well as accelerate the deployment of cloud integration services, mobile BI and other potential businesses.

Year 2013 will be a year worthy of anticipation. We shall adhere to our new corporate philosophy of "striving for excellence, satisfying customers' needs, creating and sharing, and growing together", so as to seize the opportunity of IT industry change and set our own direction firmly, execute our deployment resolutely and persist in our team spirit, with an aim to achieve a solid foundation and an excellent start for the Company's three year development planning for 2013-2015. We would like to call for your continuous support. Thank you for your unceasing support!

Yours sincerely,

Chen Yuhong
Chairman of the Board, CEO

Business Overview

The Group is positioned to provide integrated software and information services, i.e., end-to-end IT services, including consulting services, technical services, outsourcing services and training services. Technical services are mainly involved in IT solutions, and outsourcing services include ITO, BPO, EPO, etc.. The Group has always adhered to the policy of technology innovation with its independent intellectual property rights as the core, and with more than 200 software copyrights and patents, such as ResourceOne (R1), the SOA middleware platform software that provides application support for industry solutions, and TopLink, the software platform product that supports big-data exchange. The Group's customers, which are located in the countries and regions such as China, the United States, Japan, Hong Kong, etc., are mainly distributed in the industries that have high growth potentials in IT services, such as government and manufacturing, finance, telecommunications, hitech and so on. Based on the booming Greater China market and the abundant human resources as its competitive advantages, the Group customises its products to the specifications of each individual client, and provide professional and differentiated IT services to help its customers achieve greater management and business efficiency.

Business Approach

The industries that the Group's business mainly covers include government and enterprises, financial services and banking, insurance and securities, manufacturing and circulation, telecommunications, public services, high technology and energy.

As IT services continue to mature, customers of different industries are looking for IT service providers that can truly understand their business and industry characteristics, and meet their specific business needs. The Group trains business analysts, consultants and engineers, and develop services and solutions that cater for different industries to meet the rapidly changing needs of its customers, thus enhancing their productivity and profitability. The continued improvement of customer satisfaction has brought about the Group's continued growth of revenue. The services that the Group provides mainly include:

- Professional Services Business
    - Software Platform Products
    - Strategy and Business Consulting, IT Consulting
    - Vertical and Cross-industry Application Software and Solution Development
    - System Integration and Services
- Outsourcing Services Business
    - Product Engineering
    - Application Development and Maintenance
    - Enterprise Application Service
    - Business, Engineering and Knowledge Process Outsourcing
- Training Business

Professional Services Business

Professional services business, being the backbone of the Group's business lines, has gradually become our main technical part and development kernel after more than 10 years of development and accumulation, driving the Company into a positive cycle of continuous improvement. It is also the core that differentiates Chinasoft International from its peers. The business covers four main segments, i.e. software platform products, strategy and business consulting and IT consulting, vertical and cross-industry application software and solution development and system integration and services.

Business Overview

Our Services

The Group has over the years consistently adopted the consulting-driven business model, and based on its independently developed software platform products, has provided end-to-end professional services that combine consulting methodology with the information technology practices of China's enterprises, adhering to the philosophy to focus on the industry, prioritize services and strive for customers' success. In addition, the Group has trained a large number of experts in the industry, and established harmonious reciprocal and win-win business environment with its customers, with a high level of market appeal and customer loyalty, which has effectively established the leading position of the Group in the solutions field in China.

1. Software Platform Products

The Group currently has two series of proprietary software platform products, i.e. ResourceOne and TopLink/TSA+, and integrates the concept that "Products are services and services are products" into the whole structure of these products, which are the edged tools by which the Group provides information technology services of the industry and the fundamental platform for industry solutions, and which also allow the Group to find a balance between stability and changing market demand. The Group has always kept improving its software platform products over a decade to upgrade the technical applicability and performance of the products, thereby continuously enhancing the levels and standards of customer services.

2. Strategy and Business Consulting, IT Consulting

Consulting services lie at the upper end of the business value chain of the Group. The provision of strategy and business consulting services helps the Group to grasp the intrinsic nature of customers' business and understand their real needs, so as to effectively improve the professional level of services and to achieve the business objective of growing with customers. The strategy consulting that the Group provides has specific services including industrial transformation consulting, regional economic consulting, merger and reorganizing consulting, strategy and transformation consulting, group management and control consulting, and organisational design consulting. The business consulting that the Group provides has the specific services including marketing management consulting, e-commerce transition consulting, supply chain management consulting, lean production consulting, logistics management consulting, financial management consulting, risk management consulting, business process consulting, and data analysis consulting.

The Group's IT consulting focuses on helping clients in obtaining greater value through the interaction between what drives the business and IT requirements. The Group's consulting products and services are all based on rigorous and proven scientific methods and frameworks. In the areas of business processes, technology and outsourcing, the Group analyzes and evaluates the existing environment to determine the optimizing opportunity, and provides customers with the strategic development path that can significantly save costs and increase productivity. The specific services the Group provides include information technology planning consulting, IT operation and maintenance consulting, information security consulting, and supervision and management of information technology construction.

3. Vertical and Cross-industry Application Software and Solution Development

The Group provides customers in a variety of industries with End-To-End process services that include vertical and cross-industry application software and solutions. The Group uses ResourceOne application supporting platform to penetrate through the entire project cycle of "Planning – General Design – Development – Overall Integration – Operation and Maintenance," in which the integration methodology of the Group has been incorporated, including:

- In the planning and design phase, the Group dispatches appropriate industry consultants and qualified designers to understand the customer's business needs, in-depth find out the best practices of information technology, and form a business components map that can be assembled using the R1 platform and an integrated business framework.

- In the scale development and testing phase, the Group's on-site team members will work closely with the customer, keeping abreast of the customer's changing needs. At the same time the Group will transfer a large amount of development and testing to the Center of Excellence (COE) to be conducted using different professional expertise which includes Java,.net applications, cloud computing, and mobile solutions. By using the development tool of the R1 platform, COE ensures a unified technological architecture and quality, thus effectively increasing repeat usage as well as reducing development time and costs. As ResourceOne platform has been promoted and become the integration platform for many industries such as government and manufacturing, many other solutions providers in the industry also follow such integration standards in their development.

- In the application integration phase, the Group's implementation engineers will use the integration methodology of ResourceOne as well as the robust, scalable and extensible platform tools to conduct integration tests and assembling on the components of complex business applications according to their levels and categories.

- In the operation and maintenance phase, the Group's platforms, application software and solutions have been adopted in a number of strategic industries nationwide; the Group has simultaneously completed the layout with specialized operation and maintenance teams in all key areas of China. With the more widely adoption of the Group's solutions, its operation and maintenance services are becoming steadier by the year, and the revenues continue to increase.

With years experience and the successful practice of a large number of projects, the Group has gained great industry service capability, customer service capability, regional service capability and large project service capability. Relying upon its R1 platform software, the Group focuses on process control in development and business management, while adhering to standard requirements of quality control systems ISO9001, ISO20000, ISO27001 and CMMI, fully ensuring the service quality and delivery time.

Business Overview

The main solutions and products that the Group provides include:

Category	Solutions and Products
Government Industry Solutions	Auditing and Supervision Management
	Social Insurance and Welfare Management
	State-owned Assets Management
	Food and Drug Administration Management
	Meteorology and Scourge Warning
	Execution Permission Management
	Government Decision Support System
	Online Applications and Approvals
	Office Automation
	Citizen Portal
Manufacturing and Distribution Industry Solutions	Enterprise Resource Planning(ERP)
	Customer Relationship Management (CRM)
	Manufacturing Execution System(MES)
	Logistics Execution System(LES)
	Safety Production Management
	Warehouse Management System(WMS)
	Enterprise Application Integration(EAI)
	Goods Tracking and Tracing

Category	Solutions and Products
Financial Industry Solutions	Payment and Clearing System
	Collection System for Credit Consumption Invoice
	Credit Management System
	Bank Card System
	Credit Card Management System
	Risk Control System
	E-Marketing
	Supply Chain Finance
	Insurance E-Commerce System
	Insurance Exhibition Industry Support System
	Reinsurance Business System
	Image Management System
	Insurance Sales Management System
	Insurance Task Quality Analysis & Monitoring System
	Insurance Audit System
Transportation Industry Solutions	Smart Card
	Automatic Fare Collection (AFC) System
	AFC Clearing Center (ACC)
	Intelligent Transportation
	Airport Operating Management System
Telecom Industry Solutions	Mobile Payment
	Mobile IM
	Mobile SNS
	Enterprise Mini Blog
	Mobile Application Store
	Push to Talk
	Embedded Browser
	Mobile Advertisement Platform

Business Overview

Category	Solutions and Products
Cross-industry Solutions	Customer Relationship Management(CRM)
	Office Automation(OA)
	Business Intelligence(BI)
	Portal Website Sets
	Radio Frequency Identification(RFID)
	Geographic Information System (GIS)
	Electronic Ticket System
Electric Power Solutions	Power Materials Management Solutions
	Power Marketing Management Solutions
Middleware/Platform Software	ResourceOne Series Products
	TopLink/TSA+ Platform

4. System Integration and Services

The Group has extensive experience in services with "A" qualification for system integration, and the major services provided include system integration, system maintenance and system operation, which together with other services cover the entire life cycle of information systems, ensuring smooth construction and operation of medium to large information systems.

Business Description and Progress

1. Government and Enterprises

Over the years, as a pioneer for e-government, the Group, leveraging on its extensive industry experience and its understanding of the intrinsic nature of customers' needs and based on ResourceOne, has undertaken a number of national key technological projects and applied for and obtained more than 10 software copyrights and patent technologies, due to its strong research and development capabilities. As a chief integrator, the Group has achieved outstanding results in a number of national Golden Projects, such as Golden Auditing, Golden Quality, Golden Insurance, Golden Agriculture (Agricultural Management and Service Information System), Golden Macroeconomic Management (Macroeconomic Management Information System) and Golden IC-Card Projects, by which ResourceOne was recognized by CCID as the first brand among e-government application support platform products in China, establishing a comprehensive leading position in e-government. According to IDC market research, the Group has maintained among the top three in the overall rankings in the market of government industry solutions for five consecutive years. The Group provides its government customers with solutions such as auditing and supervision management (an electronic supervision solution with the most domestic users and the most extensive application), social insurance and welfare management, state owned assets management, food and drug administration management, meteorology and scourge warning, execution permission management, government decision support system, online applications and approvals, office automation, citizen portals, etc. The Group has many large customers, including the Ministry of Agriculture, the State Food and Drug Administration, the Ministry of Human Resources and Social Security, the State-owned Assets Supervision & Administration Commission (SASAC), the Ministry of Finance, the Ministry of Housing and Urban-Rural Development, the Ministry of Environmental Protection, the Ministry of Transport, the General Administration of Quality Supervision, Inspection and Quarantine, the General

Administration of Press and Publication, the China Meteorological Administration, the Civil Aviation Administration of China (CAAC), and the State Administration of Foreign Exchange, and is the only strategic partner and overall solution provider of the National Audit Office.

During the reporting period, the Group strengthened and enhanced its leading position as a service provider in the auditing industry. Since the Golden Auditing Project II was fully accepted and received after examination in 29 provinces and 5 cities on the proposal list, the Group has been involved in the preparatory work for the Golden Auditing Project III of the National Audit Office and local audit authorities. The Chief Auditor of the National Audit Office spoke highly of the construction of the Golden Auditing Project II, "the construction of the Golden Auditing Project has played an irreplaceable role in improving efficiency and quality of auditing." The Group was awarded the tender for "Early Warning System for National Public Emergencies", a core application system for the China Meteorological Administration. The system is one of the 12 major projects in the meteorological industry under the 12th Five-Year Plan and it is of high influence in the community. In addition, the Group achieved coordination and connection between national projects and local projects by obtaining the tender for "Early Warning System for Public Emergencies" in Panjin city, which laid a foundation for the promotion of local commercialization nationwide and achieved a leap-forward development in the meteorological industry. The Group successfully tapped into the marine industry by contracting the "Platform Project for Monitoring Ocean Communication Device" with the Marine Environmental Forecasting Center of State Oceanic Administration. The Execution permission and approval project of Environmental Protection Bureau in a province in Central China started its trial run, which materialized extranet reporting, private networking reporting and communication with reporting countries in terms of construction and management and laid a foundation for the future promotion across provinces and cities in the whole nation. In the enterprises market, the Group formed a joint venture company with Shandong Zhaojin Group (山東招金集團), to be committed to mining information product development and solution integration, which has laid a solid foundation for the Group to be a chief integration service provider of mining information in the future.

2. Manufacturing and Circulation

Leveraging on the Group's in-depth understanding of manufacturing and circulation industry and years of accumulation in the industry, combined with its professional IT experience and service capabilities deployed around the country, the Group has made intensive efforts over years in the manufacturing and circulation industry with a number of proprietary softwares such as MES and Logistics Execution Systems (LES), to provide customers with developed "End-to-End" services covering from automation system at the bottom to decision support system at the top, from factories application to group management and from management consulting and IT planning to systems development and IT operation and maintenance, occupying a leading position. In particular, as a strategic partner in tobacco industry information services, the Group has such core strengths as trend holding, leading IT and comprehensive all-rounded capabilities, and is engaged in the establishment of industry application standards, achieving 100% coverage of Chinese cigarette top 100 brands. It also integrates the application services of all providers as an industry platform. The Group provides its customers in the manufacturing industry with application software and solutions development, integration, and operation and maintenance services such as ERP, CRM, Manufacturing Execution Systems (MES), Logistics Execution Systems (LES), Safety Production Management, Enterprise Application Integration, Warehouse Management System, and Goods Tracking and Tracing. The Group's business covers tobacco, machinery, automobile, steel, pharmaceutical, printing, etc., and main clients include China National Tobacco Corporation, SinoSteel, Pfizer Pharmaceuticals Limited, China Banknote Printing and Minting Corporation and Harbin Electric Machinery Company Limited.

Business Overview

During the reporting period, the Group maintained and improved its leading position in the MES (Manufacturing Execution System) area and was awarded the tender for MES system for a tobacco company. The Group also won the tender for MES system construction project of a tobacco redryer in a southeastern coastal city, which was the first MES system construction for tobacco redryers in the country and was the pacesetter in the industry. The Group was also awarded the 12th Five-Year IT Planning Project from another tobacco factory, which showed an unparalleled breakthrough in IT planning at factory level in the tobacco industry and would be a great typical example for promotion. The Group was also awarded the tender for "Equipment Management Information System of Tobacco Industry (Industrial Cigarette Companies)" which will establish a specialized platform for equipment management for the industry covering all secondary entities across the industry, which provides a good opportunity in establishing its position within the industry and promoting the core business application services for industry equipment management. The MES System Project of a banknote printing company was well received after examination, which serves as an important reference and demonstrator for MES establishment and experience output in the banknote printing industry and provides the business development opportunity in the banknote printing industry in the future.

3. Financial Services and Banking

The Group provides its customers in the financial and banking industry with personalized financial services based on secure payment through its professional services and proprietary payment platform product – TopLink. Over the years, the Group has provided industry solutions, system integration services and related high-end services for its key customers including four major state-owned banks, postal savings banks, a number of joint-stock commercial banks and city commercial banks, as well as foreign-invested financial institutions in China, accumulating extensive experience in industry application and achieving "Three Firsts" in China – the first inter-bank bankcard payment network system, the first financial IC card payment and clearing system and the first e-commerce online payment and settlement system. In particular, the "electronic funds transfer and retail banking application system" was recognized as one of the outstanding projects of the fifteenth National Torch Program. The Group offers customers in the finance industry solutions such as payment and clearing system, credit management system, bank card system, credit card management system, risk control system, electronic marketing, business intelligence, and professional financial IT services, while the Group possessed unique competitive advantage in several aspects such as bank card business and the peripheral applications, online payment, risk control, credit financing and inter-bank linkage etc. According to IDC market research, the Group was ranked among the top five for many years in the payment and clearing solutions market of the banking industry, and had been ranked first in bank card system market in 2010. The Group's major customers include China Construction Bank, Agricultural Bank of China, Postal Savings Bank, Bank of Communications, China CITIC Bank, China Guangfa Bank, China Minsheng Bank, Ping An Bank, Shanghai Pudong Development Bank, Industrial Bank, many joint-stock commercial banks, city commercial banks, and foreign financial institutions in China.

During the reporting period, the Group executed contracts with Guangfa Bank, Ping An Bank and a dozen of urban commercial banks for the Group's financial IC Card business, maintaining it superior position by accounting for the largest market presence. Regarding the key supply chain financial platform products among emerging credit products, the Group was awarded tender from and signed contracts with Pufa Bank and Minsheng Bank after signing contracts with Bank of Communications and Guangfa Bank, which further strengthened the leading position of the Group in the trading and financial market. The relocation of credit card core system of China Everbright Bank was successfully launched, which made the Group be highly recognized by customers and the industry for its superior integration capabilities in the credit card sector and further strengthened its leading position in the sector.

4. Insurance and Securities

With strong technical strength and extensive experience in the financial industry, the Group has already secured many prestigious customers in the insurance and securities industry, and is highly recognized by the customers for its service practices. In addition, it has established leading technical position in high-end insurance sectors, including core business operations, channels management and marketing support, back-desk management, business intelligent (BI) and insurance/securities content and knowledge management, by which it has penetrated into the core business and high-end business and become a key market player in the insurance and securities industry to help the customers to secure more competitive advantages.

During the reporting period, the Group signed a strategic cooperation agreement with a world-leading insurance core application software provider and jointly secured the implementation and service on core system projects from a number of clients. The Group also signed a strategic framework agreement with a life insurance company in China and became strategic partners. Leveraging on the professional capability on BPM in the insurance industry, the Group successfully became a major service provider for another life insurance company in China. The Group won the tender for the service bus project of a life insurer, which laid a foundation for subsequent marketing across the insurance industry. Based on its strength in respect of the payment and clearing in the financial industry and with a good brand effect, the Group carried out in-depth cooperation with China Securities Depository & Clearing Corp. Ltd. Shanghai Branch in the development and maintenance of the depository and clearing system, which marked the Group's successful entry into the core business area in the securities industry and laid a solid foundation for our deployment in the securities industry.

5. Telecommunications

The Group is one of the early service providers in wireless internet platform design, development and operation, also one of the largest professional service providers in application development and adaptation for mobile clients. As a trusted partner of China's telecommunications operators and equipment makers, the Group provides its customers with product design & development and operation & promotion services such as mobile payment, mobile instant messaging, mobile SNS, enterprise mini blog, mobile application stores, PTT (push to talk intercom phones), embedded browser, mobile advertising platform, etc. The Group's industry experience covers the entire industry chain, with major customers include a global leading telecommunications equipment provider in China, China Mobile, China Unicom, and China Telecom etc; these clients fully recognise the Group's service capabilities, attitude and quality; they have awarded the Group with more cooperation projects while they are experiencing rapid growth in their own business. At the same time, the Group has worked closely with its customers to develop overseas markets by using their resources.

During the reporting period, the Group was awarded the "Mobile Business Travel Project" of China Mobile Design Institute, which established an internal e-commerce platform for business travel and developed a client terminal for the entire China Mobile Group and its supplier. This product will also be promoted to public users. The Group cooperated with a global leading information and communication solution provider on product collaboration, so that telecommunication operators worldwide will be provided with mobile internet and communication-integrated platform and mobile client products. Through CCTV5+ project, the mutual development based cooperation with AliCloud was accomplished; through the cooperation with different business units of Ali Group in respect of mobile terminals development and testing, the Group started the collaboration of scale with Ali Group. The Group was awarded the tender for the "Wireless City Service System Project of China Mobile", which laid a solid foundation for ChinaSoft International in the IT construction for mobile groups, and provided preferential access to subsequent connection to this wireless city project.

6. Public Service

After years of accumulating professional experiences, the Group is in a leading position in the public transportation areas such as public transport, rail transit and airport management, and has established three “First System in China” – the nation’s first smart card payment and settlement system in urban transport, the nation’s first one-ticket-transfer payment system in urban rail transit, and the nation’s first Automatic Fare Collection system (AFC) with independent intellectual property rights. The Group provides customers in the transportation industry with solutions and professional application integration, operation and maintenance services such as Smart Card, Automatic Fare Collection system (AFC), AFC Clearing Centre (ACC), intelligent transportation, and airport operation management system. The Group’s smart-card-type solutions enjoy the largest market share in China, which have been adopted by nearly 30 cities. More than 100 million cards have been issued throughout the network systems and stood up well to the test of huge customer traffic. Currently, these solutions and services have been successfully exported to other countries. The Group’s major customers include China UnionPay, the payment company of China Telecom, Shanghai Metro, Tianjin Metro, Guangzhou Metro, Shenzhen Metro, Suzhou Rail Transit, Chongqing Rail Transit, Ningbo Rail Transit, Wuxi Metro and Shanghai Pudong Airport etc.

During the reporting period, the Group secured a contract for Automatic Fare Collection System for Bus Rapid Transit in an eastern coastal city, and acted as the integrator and core software provider of the project. Solutions and experience from the project can apply to various provinces and developed places and cities, which showed a favourable prospect and great market development potential. The Group continued to make new progress in areas where smart cards applied, and signed contracts with two provincial capital cities which further expand the market share of smart cards. The core system/frontline system of an e-payment card operation company in a major city in Southeast China was successfully launched. The Group provided services to facilitate smooth operation of the fare collection system for the intercity railway in an eastern city, being the first railway supporting both tickets and transportation cards in China, so that suburban railways and rail transit and buses were integrated and real “public transportation convenience” materialized, which was a pioneer for domestic railway ticketing system. The Group secured a contract with the largest off-line acquirer in China for its new generation of core system which has been successfully launched, further strengthening its leading position in the bank card acquiring/exchange system market in China.

7. Electric Power

Through years of experience in corporate control, ERP, supply chain management, management services, etc., the Group targets at strengthening the macro-management of enterprises engaging in the provision of electricity and oil in the energy industry, enhancing the overall requirement on corporate control, which allows it to partially enter into the core business system and management information system in the energy industry. Regarding the energy industry, the Group insists on its philosophy of “enhancing customer’s value” and established cooperation with five major enterprises in segmented industries, such as electricity generation, electricity grid and oil field, together with related cooperative partners, and involved in providing special IT solutions, corporate project management, management service IT solutions, etc. Leveraging on its “end-to end” service capability and continuously making use of the overall requirement for the industry in the macro economy, the Group laid a solid foundation for the systematization of its customers in the energy industry with the support of a professional team and an excellent operation system. Currently, the Group signed cooperative agreements with two IT solution partners and commenced overall design and development works for a dozen of projects with its customers.

During the reporting period, the Group tapped fully into the electric power industry, and made a breakthrough by engaging in the projects including system development, system execution and application operation and maintenance for materials business of the State Grid Corporation and a number of its grid companies at provincial level, upon which it has become one of the major suppliers of the state grid companies. As the principal for operational monitoring (control) over the project design, development, execution and maintenance of the State Grid Corporation, the Group has stepped into the core business segment of power industry, gradually reflecting the characteristics and advantages of its End-to-End services. By acquiring the state grid marketing information service business and related assets of Along Grid, the Group's service capabilities will be further supplemented and enhanced after the completion of acquisition, which has laid the foundation for the Group to be a key supplier of the State Grid Corporation in the field of marketing. The initial expected target for the electric power industry was accomplished, achieving general success in a new industry for "Strategy-driven" measures.

Outsourcing Services Business

Our Services

The Group is committed to provide global customers with complete, flexible, and scalable high quality IT outsourcing services. With experienced management and technology specialists as well as a variety of delivery models, the Group is able to adapt to the changing business and technologies. At the same time, with the help of the extensive training resources at its Excellence Training Centers (ETCs), the Group can integrate the needs for skilled consultants across customers of various industries, so as to provide customers with high-quality, low cost outsourcing services. The Group's outsourcing services typically take the pricing model based on time and raw material cost.

1. Product Engineering

The Group provides product engineering services to technology product development companies, including independent software vendors and telecommunications equipment developers. The Group's capability of fast delivery can help customers improve the speed of product development, save development costs, thus gaining the time advantage in marketing their products.

The products that related to the service the Group has undertaken include operating system, database, middleware, network protocol, speech recognition and human-machine interface, telecom value-added applications and other software products. The Group can also provide specialised products and services, including product design, development, and quality assurance and testing.

2. Application Development and Maintenance

To specific customers the Group offers application development and management services such as application software development, system maintenance and system optimisation, based on the needs of industry customers. The Group's ADM services were designed to help customers realise the scientific management of IT outsource spending, enabling customers to focus more on their core competencies.

The Group has experienced and well-structured ADM service teams in application environments such as mainframe computers, client/server, internet and mobile internet, as well as a variety of platform software programs including various mainframe system, Windows series, Linux/Unix and Android, Symbian, IPhone OS, etc. The Group can deliver the ADM services in its Centers of Excellence (COE) or at customer sites.

3. Enterprise Application Service

The Group provides enterprise application services based on consultation. While keeping standard functions of system application unchanged, the Group takes into consideration of differences in needs for personalisation of enterprises, considers managerial needs, proposes an application service solution meeting their needs, and enhances management quality of enterprises, allowing customers to realise goals of supporting business of enterprises.

The Group's enterprise application services cover a number of mainstream ERP systems and e-business packages, including enterprise resource planning (ERP) systems, customer relationship management (CRM), supply chain management (SCM), enterprise application integration (EAI), etc. Specific services provided by the Group include: packaged software implementation, customised development, maintenance and product upgrades, business intelligence (BI)/data warehouse (DW).

4. BPO, EPO and KPO

The Group offers BPO, EPO and KPO services from different fields including finance, manufacturing, medical and healthcare, transportation and logistics, targeting markets in Japan, Europe, America and the Greater China regions. The Group controls and manages service quality and costs through synchronised integration of technology, personnel and processes. The Group's very experienced operation management personnel customise service processes for enterprises, effectively helping the customers improving their competitiveness, saving time and reducing costs.

The Group provides customers with multilingual BPO, EPO, KPO services, including back office processing, shared service centers, data processing, desktop publishing (DTP), CAD, Call Centers, business intelligence and data mining.

Business Description and Progress

The outsourcing business of the Group serves clients from the Europe, the U.S., Japan, Korea and Greater China with comprehensive and personal services. Its Centers of Excellence (COE) all over the world have realised flow-line standardised delivery. Accordingly to IDC, the Group is among the top four for the overall market of off-shore outsourcing in China, among the top two in the market segments in Europe and America. The Group was awarded "Top 100 Outsourcing Service Providers in the World" for four consecutive years by IAOP (International Association of Outsourcing Professionals). The Group provides its customers in the hi-tech industry with services including product engineering, application development and maintenance (ADM), enterprise application services (EAS), and BPO and KPO services. The Group main customers are Microsoft, IBM, Pfizer (from the Europe and the U.S.), NEC, Hitachi, and Panasonic (from Japan and Korea), Huawei, Tencent, Pingan (from Greater China). The Group serves as the first "Global Premier Vendor" of Microsoft Corporation in China.

During the reporting period, the joint venture with Huawei officially began and started operation, and its results achieved stable growth. Initial signs of synergies in the joint venture have emerged. By deploying the business segments including customization, platform, process and IT in all respects and making breakthroughs, the Group has laid a sound foundation for capturing market by differential performance during the integration of suppliers to achieve rapid business growth. In order to closely follow the deployment of business segments of clients, the Group has responsively intensified the expansion in the west and in the cities including Xiamen, Shijiazhuang, Suzhou, Shenyang, Yinchuan and Changsha. In particular, it recorded a 100% growth in Xi'an and Chengdu. The strategy of deployment in the third-tier cities was effectively implemented. The establishment of the joint venture will quicken the pace to create an environment for service outsourcing industry nationwide, enhancing competitiveness of China's software service outsourcing industry in international market.

During the reporting period, the Company was awarded "2011 Microsoft Preferred Supplier Program Excellence Awards – Value Excellence Award" by Microsoft's headquarter. The award is one of the most authoritative, challenging and powerful, which represented the recognition by Microsoft's headquarter and their intention to maintain a long-term strategic partnership with outstanding providers. In addition to qualifying for a preferred supplier of Microsoft, the Group secured another framework contract with Microsoft for a term of three years. The business of a well-known Japanese mobile communication company has grown steadily and achieved the first rank in KPI assessment for providers.

During the reporting period, the Group provided comprehensive services to a top Chinese e-commerce enterprise. This was a remarkable breakthrough in the internet and e-commerce area that laid a foundation for core providers within the e-commerce industry chain. The Group also deepened its cooperation with a premier online travelling service company to establish internet solution capability in the tourism vertical. The Group conducted local test and engineering for an important product for a major IT product company, covering 20+ dominant languages and 60+ LIP languages. The Group provided 24*7 online technical support services for the cloud product of a client. The Group's business at a well-known Japanese housing constructor also recorded a steady growth with a bright prospect going forward. In the backdrop of a steady business growth of a personnel recruitment magazine enterprise, it provided new personnel services, which represented an important milestone in the expansion of high to mid-end BPO business. As a milestone of financial outsourcing business, the Group successfully signed a contract with Seven Bank of Japan.

Training Business

The Group's Excellence Training Center (ETC) is a practical training base of computer technology for college students, as certified by the Ministry of Education of China. It is one of the industry's leading brands for mid- to high-end IT training. Through cooperation with colleges and universities, practical training based on real positions and projects are provided for college students with majors in computer sciences or other related areas. Practical training courses for these prospective employees adopt the 5R (Real Working Environment, Real Project Managers, Real Training Projects, Real Work Pressure, Real Job Opportunities) curriculum as the platform, including practical training in technical projects and professional quality training, striving to turn the trainees into practical IT talents through tests and assessments in the shortest possible time. So far, the Group has established training centers in Beijing, Tianjin, Dalian, Changsha, Wuxi, Chongqing, Xiamen, and Nanjing.

As a human resources supply platform, based on many years experiences of providing customised training to employees for large enterprises, ETC's business model has become increasingly mature. With its excellent partnerships with colleges and universities, a large number of student resources, and the recruiting channels that cover the entire country, the Group is able to quickly customise a human resources pool according to the needs of the customer. Meanwhile, in order to quickly respond to and meet the Group's clients' requirements for customised training, ETC has achieved the capability of delivery upon confirmed orders by employers through the construction of menu-style standardised customised curriculum system consisting of the business characteristic module, the practical virtualization module, and the vocational skills and quality module.

During the reporting period, the Group signed on with 9 additional colleges (accumulative total of 61), of which 9 institutes/professional colleges were jointly built (accumulative total of 45). Regarding the Internet of things and mobile internet, the Group constructed and jointly built laboratories, technology R&D centers with 16 colleges, including Beijing Jiaotong University, Tianjin University, Taiyuan University of Technology and Nanjing University of Aeronautics and Astronautics in order to start collaboration on new profession approval and jointly-built projects. Regarding this area, the Group jointly organized training for "young backbone tutors" nationwide with Office of National Demonstration School of Software of Ministry of Education. During the reporting period, Chinasoft International was one of the first elite batch of companies that were granted a jointly signed approval from 23 China government ministries and departments to build the "State-level Project Practice Education Center" with 18 colleges. The participating ministries include the Ministry of Education, Ministry of Commerce, and Ministry of Industry and Information Technology, and the participating colleges include Beijing Jiaotong University, Beijing Industrial University, Harbin Institute of Technology and University of Electronic Science and Technology of China. The Group had the largest number of cooperated colleges among this elite batch of companies. In the teaching area, the Group was approved as the cooperative enterprise of "2012 National Tutor Training for Vocational Education" and participated in national training program on the Internet of things and mobile internet for tutors of higher technical and vocational education.

Competition and Core Strength

1. Highly Competitive Industry Experience

The Group has many years of accumulated experiences in consulting, technology services and outsourcing services, and deep-level expertise in serving the main industries such as government and manufacturing, finance, telecommunications, hi-tech, which more heavily rely on IT services. The Group has formed more than 50 standardised industry solutions, with over 200 software copyrights and a variety of patents, all of which helped to establish its leading position in the industries and areas.

2. End-to-end Service Model

The foundation for the Group's continued and steady business growth was formed with the end-to-end business model that has integrated consulting, technology services, outsourcing and training into a single system. The Group offers customers consulting services combined with its industry experience, seek to have breakthroughs driven by consulting, help customers truly solve their problems through technology services, and provide outsourcing services according to customer needs. Cross-selling of different services to the same customer improves customer loyalty.

3. Global Delivery Capability

The Group has the ability for global service, with a quick response mechanism in place for business deliveries in different parts of the world such as China, the United States and Japan. Fully leveraging the industry knowledge and experiences gained from serving its global customers, the Group also achieves its business development in domestic market, while helping overseas customers to enter the market in China. Through the enhanced interaction of markets at home and abroad, the Group also increases the rate of successful contract signing and its capabilities of industry service, further consolidating its relationship with customers, leading to strategic partnerships with a variety of customers.

4. Strengths in Technology Innovations

The Group's R1 platform product benefited from many years of practical experiences in the industry's information technology, integrating CMMI, ISO9000, RUP, and agile development theory, using SOA architecture and technologies (including PaaS and SaaS), supported by cloud computing applications. It is an excellent tool for industry managers' to perform business application integration and IT system expansion when they are faced with complex management targets. The R1 platform has three tiers of capabilities: the first tier is its structuring capabilities consisting of complete platform-based integration of middleware components; the second tier are the R1's project management methods and tools; and the third tier is the capability for rapid development as represented by R1 BizFoundation. Through these three-tiered capabilities, component reuse is strongly supported and development cost is reduced, while the Group's gradual accumulation of the ability to turn out ERP software and form application products can be obtained through the R1 platform.

Significant progress has been achieved for R1 in respect of cloud computing. Through the cooperation with AliCoud to jointly develop PaaS platform, both parties will work together to embed R1 products (including FramePortal, SOA Suite and BizFoundation) in Ali OS, and will provide Java-based development services and cloud-based SOA services.

As one of the industry's most widely used support platforms, R1 enjoys a wide range of applications and a great number of successful cases in government, manufacturing and other fields and industries. A number of national and industry level projects that have been successfully implemented are proof that, overall consulting/design, separate development and overall integration using the R1 platform can ensure success and good results of the construction of an entire large engineering system.

5. Excellent, Stable Workforce and Strong Platform for Talent Supply

As of 31 December 2012, the Group had 18,946 employees, mainly distributed in regions such as China, Hong Kong, Japan, the United States, and the United Kingdom. Among which, project managers, senior technicians and consultants accounted for one tenth (1/10) of the total number of technicians. This elite group has outstanding IT skills, extensive management experience, deep industry knowledge, and most of them had worked in the Group for more than five years, fully identifying themselves with its corporate culture. Meanwhile, in order to maintain the stability of the Group's core staff, the Group has developed a clear mechanism for talent promotion, and also incentive and training programs.

The Group collaborates with 400 universities and educational institutions, with its ETCs established in Beijing, Tianjin, Dalian, Changsha, Wuxi, Chongqing, Xiamen, Nanjing, and Xi' an. The Group also developed practical training courses customised to the specifics of the Group's business department. The business department can participate in course design, process tracking and evaluation, select high-quality students from the large training resource pool to ensure a steady stream of practical talent supply.

6. A Win-Win strategic cooperation

The Group established a comprehensive cooperation on various aspects, such as investment and business, with a number of world-class strategic partners. This has allowed the partners to share client resources and finally achieve a win-win situation. In the middle of 2011, Legend Group's Hony Capital became a substantial shareholder of the Group. As a major commercial source for information technology to Hony Capital and its invested enterprises, the Group will become the core enterprise and act as an integrated platform for Hony Capital to make investments in the information technology area in the future; in the same year, the Group and Huawei entered into a strategic cooperation agreement, pursuant that both parties would establish a joint venture company in 2012, aiming at building a business process and IT outsourcing service company that will get a foothold in the PRC and serve the globe.

Business Overview

Business Strategies

The Group's goals are to maximise shareholder value, and constantly consolidate and enhance its leading position as a provider of consulting and technology services, and outsourcing services. To achieve these goals, the Group implements the following core strategies:

1. Focus on Future High-Growth Areas and Continued to Increase Revenue.

Develop key directions in the "Twelfth Five-Year Plan" to expand service directory, and increase regional distribution. The Group will continue to make investment in the knowledge-intensive services and areas with IT high-growth potentials, such as social security, agriculture, electricity, insurance, high speed rail and large state-owned enterprises, as set forth by the Twelfth Five-Year Plan (2010-2015) of the national economic and social development. The Group's business revenues will continue to grow based on the strengths of its existing layout. The existing revenue structure will be further optimised and revenues will increase through the construction of the capacities of high-end ITO (e.g. Managed Service) and high-end BPO services, and further development in the Asia Pacific region.

Provide software services to the world through the increase in market shares in telecom industry. According to IDC's "China Telecom IT Solution 2011-2015 Forecast and Analysis" the compound annual growth rate of telecom industry IT solutions will increase at 12.3% during 2011-2015, and by 2015 will reach a scale of more than RMB21.58 billion. Meanwhile, with the rapid development of mobile applications and telecom carriers continuing to increase network bandwidth, telecom value-added services and mobile internet market have brought huge business opportunities. As an IT services provider for China's major telecommunication operators, telecommunication equipment manufacturers and internet companies, the Group focuses on developing telecom value-added services and mobile internet business, in order to obtain the scale growth of revenue in this area. Meanwhile, the Group continues to expand the software outsourcing and solutions business globally in the industry by cooperating with major enterprises that engage in the telecom field.

Seek strategic acquisitions, joint ventures, alliances to improve business deployment and enhance competitiveness. The Group believes that selective strategic acquisitions can help expand its business coverage amid the rapid growth in the demand for IT services in the PRC and all over the world to improve its business deployment, enhance its competitiveness and capture opportunities in the market.

2. Explore business potential, strengthen enterprise management, reduce operating costs, and further improve profitability.

Expand the ratio of services with higher gross profit margins. The Group believes that consulting and technology services are high value-added business, and the Group will continue to concentrate and improve its strength in these areas, and increase the Group's gross profit margin by improving the repeat usage of its solutions. Meanwhile, the Group's gross profit margin can also be increased through improvement of business ratio of its high-margin customers.

Enhance the Group's operation. The implementation of ERP (enterprise resources planning) systems will improve the Group's human resources, finance, sales and procurement processes, increase efficiency, improve the Group's operations and management, and save administrative costs.

Establish delivery centers in third-tier cities. As the number of customer grows, the Group plans to set up delivery centers in third-tier cities in China in order to lower labor costs.

Business Overview

Business Development History

The Group was incorporated in February 2000, headquartered in Beijing. The Group's main business was to provide government customers with system integration and customised software development services. In the same year, the Group introduced its proprietary application support platform ResourceOne V1.0. In 2002, Chinasoft International was awarded as the sole service provider of the e-government construction projects in China's top five Economic and Technological Development Zones (Tianjin, Dalian, Harbin, Beijing and Guangzhou), and later was contracted for the construction of office automation projects for the National Audit Office, the Ministry of Transport, the Ministry of Agriculture, the Ministry of Civil Affairs, the Ministry of Construction, and many more.

In 2003, the Group became a public company with its IPO on the Growth Enterprise Market of the Hong Kong Stock Exchange. Supported by the capital platform, the Group adopted a new development model of organic growth together with growth through mergers and acquisitions, leading to rapid growth in both performance and size. The Group's service industries expanded from government to government-led large-scale manufacturing, and the Group gradually underwent a transformation from a traditional distributor and integrator of hardware and software to a solutions provider. At the same time, it adhered to independent research and development, upgraded ResourceOne to V3.0 based on the SOA architecture, and successfully promoted it to multiple vertical industries.

In 2005, the Group kept pace with the changing times by entering the IT outsourcing area with enormous efforts, successfully purchased and integrated Chinasoft Resources Information Technology Services Limited, established strategic partnerships with top international enterprises such as Microsoft, and set up its front companies in the United States. Later the Group also acquired Powerise International Software Co., Ltd., extending its ITO business to the Japanese market. With the booming ITO business, the Group took a big stride from the domestic market toward the broader overseas market.

In 2007, the Group completed the acquisition and integration of Hinge Global Resources, thus extended its service industries to financial, transportation and other important areas and adding specialised BPO services. With its comprehensively developed technique advantages and industry position, the Group became a top SOA partner of International Business Machines Corporation (IBM), and together to build the Group's SOA Innovation Center. The Group's Excellence Training Centers (ETCs) set up practical training bases, in Beijing, Changsha, Dalian, Wuxi, Chongqing, Xiamen, Tianjin, and Nanjing, each with an area of 1000-5000 M2, with the annual training capacity reaching over 10,000 people. In 2008, the Group successfully switched its listing from the GEM to the Hong Kong Stock Exchange Main Board (stock code: HKSE.354).

In 2010, Han Consulting joined us, significantly strengthening the Group's front-end consulting capabilities. So far, the Group has initially completed its end-to-end layout under which IT consulting, technology services, outsourcing services, and training have been unified. In the same year, the Group entered the telecom and mobile internet industries through acquisition of MMIM Technologies, Inc. This emerging market will become a key engine for the strategic transformation of its business.

In 2011, the Group introduced Hony Capital as a strategic investor and formed a strategic partnership. the Group will carry out integration in the information service business as an enterprise that is used as a platform. This made the Group being a world-class leading enterprise with a rapid growth in the information technology services area. In the same year, the Ten-Thousand-Staff Base of the Group is located at Software New City in Xi'an High-Tech Zone. The Group will continue to build a platform for the enterprise and strive for being the industrial integrator in the information technology and software services area in China in the future.

Business Overview

In 2012, the joint venture with Huawei officially began and started operation, and its results achieved stable growth. Since the market share of Huawei business is higher than other suppliers, initial signs of synergies in the joint venture has emerged. The Group entered the electricity industry and acquired a breakthrough achievement. Industry service capability has fully upgraded through the acquisition of a certain State Grid electric power information service company. As of 2012, the Group employed almost 19,000 people, with business extended to Central America, South America, UK, India, Africa, Southeast Asia and the Middle East. The Group also set up branch companies or offices in more than 20 cities in the world, including mainland China, Hong Kong, the United States, Japan, and Europe, forming a global delivery capacity.

KEY OPERATING DATA

The key operating data of the consolidated statement of comprehensive income of the Group are set out as follows:

	2012 RMB'000	2011 RMB'000	Year-on-year increase %
Revenue	**2,768,171**	**2,243,754**	**23.4%**
Service revenue*	**2,551,395**	**1,959,885**	**30.2%**
Cost of sales	**(1,852,830)**	(1,514,263)	22.4%
Gross profit	**915,341**	**729,491**	**25.5%**
Other income, gains and losses	**55,235**	46,036	20.0%
Selling and distribution costs	**(160,692)**	(148,706)	8.1%
Administrative expenses	**(454,761)**	(309,278)	47.0%
Research and development cost expensed	**(57,055)**	(45,989)	24.1%
Allowance for doubtful debts	**(15,807)**	(17,417)	(9.2%)
Amortisation of intangible assets and prepaid lease payments	**(42,967)**	(47,514)	(9.6%)
Finance costs	**(31,111)**	(23,898)	30.2%
Share of results of associates	**2,030**	2,618	(22.5%)
Profit before taxation	**210,213**	**185,343**	**13.4%**
Taxation	**(37,574)**	(29,611)	26.9%
Profit for the year***	**172,639**	**155,732**	**10.9%**
+Taxation	**37,574**	29,611	26.9%
+Finance costs	**31,111**	23,898	30.2%
+Depreciation of property, plant and equipment	**46,577**	39,047	19.3%
+Amortisation of intangible assets and prepaid lease payments	**42,967**	47,514	(9.6%)
–Share of results of associates	**2,030**	2,618	(22.5%)
EBITDA**	**328,838**	**293,184**	**12.2%**
+Share option expenses	**11,544**	24,861	(53.6%)
–Net foreign exchange gain	**(72)**	12,082	(100.6%)
+Allowance for doubtful debts	**15,807**	17,417	(9.2%)
Business contribution profit**	**356,261**	**323,380**	**10.2%**

The key operating data above has excluded the loss arising from changes in fair value of redeemable convertible preferred shares which are considered to be derivative financial instruments (2012: nil; 2011: RMB37,287,000), the gain arising from changes in fair value of contingent consideration payable on acquisition of business (2012: RMB5,557,000; 2011: RMB71,718,000), impairment loss in respect of goodwill (2012: RMB28,054,000; 2011: RMB68,982,000) and loss on disposal of associates (2012: nil; 2011: RMB105,000).

Note*: The service revenue is extracted from note 5 to the consolidated financial statements. Please refer to the section headed "Revenue" under the "Operating Results" below for detailed analysis.

Note**: EBITDA and business contribution profit (EBITDA excluding share option expenses, net foreign exchange gain and provision for doubtful debts) are the true reflection of business profitability. Please refer to the section headed "Earnings Capability" below for detailed analysis.

Note***: Profit for the year means net profit excluding the gain arising from changes in fair value of contingent consideration payable on acquisition of business, impairment loss recognised in respect of goodwill, loss on disposal of associates, and the loss arising from changes in fair value of redeemable convertible preferred shares.

GENERAL OVERVIEW

The growth in key operating data of the Group for 2012 is set out as follows:

	2012	2011	Growth rate
	RMB'000	RMB'000	
Revenue	**2,768,171**	2,243,754	23.4%
Service revenue	**2,551,395**	1,959,885	30.2%
EBITDA	**328,838**	293,184	12.2%
Business contribution profit	**356,261**	323,380	10.2%

In 2012, the growth in revenue, service revenue and results by business lines of the Group is set out as follows:

	Revenue			Service revenue			Results		
	2012 RMB'000	2011 RMB'000	Growth rate	**2012 RMB'000**	2011 RMB'000	Growth rate	**2012 RMB'000**	2011 RMB'000	Growth rate
Professional Services Business (PSG)	**1,452,782**	1,214,957	19.6%	**1,236,006**	931,088	32.7%	**120,502**	98,201	22.7%
Outsourcing Services Business (OSG)	**1,221,800**	959,458	27.3%	**1,221,800**	959,458	27.3%	**113,699**	110,609	2.8%
Training Business	**93,589**	69,339	35.0%	**93,589**	69,339	35.0%	**12,813**	9,779	31.0%
Total	**2,768,171**	2,243,754	23.4%	**2,551,395**	1,959,885	30.2%	**247,014**	218,589	13.0%

Note: "Results" refer to the profit earned/loss incurred before the allocation of impairment loss recognised on goodwill, corporate expenses, share option expenses and loss arising from changes in fair value of redeemable convertible preferred shares, gain arising from changes in fair value of contingent consideration payable on acquisition of business, effective interests of convertible loan notes, and other income, gains and losses recorded at the Company level. (Extracted from note 5 of the consolidated financial statements)

One may see that there was a relatively substantial growth in revenue, service revenue and results of the Group's business lines as compared with that of the previous year. The growth of results was mainly contributed by the professional services business.

The Group's major business growth drivers in 2012 were as follows:

All of the Group's main business sectors achieved strong results and simultaneous rapid growth, of which:

1. The Professional Services Business achieved a year-on-year increase of 19.6% in revenue and 32.7% in revenue from service respectively.

   During the reporting period, the Group maintained its leading position as a service provider in the auditing industry. Since the Golden Auditing Project II was fully accepted and received after examination in 29 provinces and 5 cities on the proposal list, the Group has been involved in the preparatory work for the Golden Auditing Project III of the National Audit Office and local audit authorities. The Chief Auditor of the National Audit Office spoke highly of the construction of the Golden Auditing Project II, "the construction of the Golden Auditing Project has played an irreplaceable role in improving efficiency and quality of auditing." The Group was awarded the tender for "Early Warning System for National Public Emergencies", a core application system for the China Meteorological Administration. The system is one of the 12 major projects in the meteorological industry under the 12th Five-Year Plan and it is of high influence in the community. In addition, the Group achieved coordination and connection between national projects and local projects by obtaining the tender for "Early Warning System for Public Emergencies" in Panjin city, which laid a foundation for the promotion of local commercialization nationwide. The Group made a breakthrough in its first project in marine industry by contracting the "Platform Project for Monitoring Ocean Communication Device" with the Marine Environmental Forecasting Center of State Oceanic Administration. The Execution permission and approval project of Environmental Protection Bureau in a province in Central China started its trial run, which materialized extranet reporting, private networking reporting and communication with reporting countries in terms of construction and management and laid a foundation for the future promotion across provinces and cities in the whole nation. In the enterprises market, the Group formed a joint venture company with Shandong Zhaojin Group (山東招金集團), to be committed to mining information product development and solution integration, which has laid a solid foundation for the Group to be a chief integration service provider of mining information in the future.

   During the reporting period, the Group executed contracts with Guangfa Bank, Ping An Bank and a dozen of urban commercial banks for financial IC Card, maintaining it superior position by accounting for the largest market presence. Regarding the key supply chain financial platform products among emerging credit products, the Group was awarded tender from and signed contracts with Pufa Bank and Minsheng Bank following the Bank of Communications and Guangfa Bank, which further strengthened the leading position of Chinasoft International in the trading and financial market. The relocation of credit card core system of China Everbright Bank was successfully launched, which made the Group be recognized by customers and the industry for its superior integration capabilities in the credit card sector and further strengthened its leading position in the sector.

During the reporting period, the Group signed a strategic cooperation agreement with a world-leading insurance core application software provider and jointly secured the implementation and service on core system projects from a number of clients. The Group also signed a strategic framework agreement with a life insurance company in China and became strategic partners. Leveraging on the professional capability on BPM in the insurance industry, the Group successfully became a major service provider for another life insurance company in China. The Group won the tender for the service bus project of a life insurer, which laid a foundation for subsequent marketing across the whole insurance industry. Based on its strength in respect of the payment and clearing in the financial industry and with a good brand effect, the Group carried out in-depth cooperation with China Securities Depository & Clearing Corp. Ltd. Shanghai Branch in the development and maintenance of the depository and clearing system, which marked the Group's successful entry into the core business area in the securities industry and laid a solid foundation for our deployment in the securities industry.

During the reporting period, the Group maintained its top rank position for its market share in the MES (Manufacturing Execution System) area and was awarded the tender for MES system for a tobacco company. The Group was also awarded the 12th Five-Year IT Planning Project from another tobacco factory, which showed an unparalleled breakthrough in IT planning at factory level in the tobacco industry and would be a great example for promotion. The Group was also awarded the tender for Management Information System Project on Internal Control on Tobacco Monopoly of State Tobacco Monopoly Administration, which made it the pioneer in the establishment of internal control system for tobacco monopoly and tobacco monopoly system. The Group also won the tender for MES system construction project of a tobacco re-dryer in a southeastern coastal city, which has been the first MES system construction for tobacco re-dryers in the country. The MES System Project of a banknote printing company was well received after examination, which serves as an important reference and demonstrator for MES establishment and experience output in the banknote printing industry and provides the business development opportunity in the banknote printing industry in the future.

During the reporting period, the Group tapped fully into the electric power industry, and made a breakthrough by engaging in the projects including system development, system implementation and application operation and maintenance of State Grid Corporation and a number of its grid companies at provincial level. It signed the contract for acquiring of Along Grid's (愛朗格瑞) electric power information service business serving the State Grid, thus further enhancing its service capabilities in the industry.

During the reporting period, the Group secured a contract for Automatic Fare Collection System for Bus Rapid Transit in an eastern coastal city, and acted as the integrator and core software provider of the project. Solutions and experience from the project can apply to various provinces and developed places and cities, which showed a favourable prospect. The core system/frontline system of an e-payment card operation company in a major city in Southeast China was successfully launched. The Group provided services to facilitate smooth operation of the fare collection system for the intercity railway in an eastern city, being the first railway supporting both tickets and transportation cards in China, so that suburban railways and rail transit and buses were integrated and real "public transportation convenience" materialized, which was a pioneer for domestic railway ticketing system.

During the reporting period, the Group was awarded the "Mobile Business Travel Project" of China Mobile Design Institute, which established an internal e-commerce platform for business travel and developed a client terminal for the entire China Mobile Group and suppliers. This product will also be promoted to public users. The Group cooperated with a world leading information and communication solution provider on product collaboration. Through this collaboration, telecommunication operators worldwide will be provided with mobile internet and communication-integrated platform and mobile client terminals. Through CCTV5+ project, the mutual development based cooperation with AliCloud was accomplished; through the cooperation with different business units of Ali Group in respect of mobile terminals development and testing, the Group started the collaboration of scale with Ali Group. The Group was awarded the tender for the "Wireless City Service System Project of China Mobile", which laid a solid foundation for the Group in the IT construction for mobile groups, and provided preferential access to subsequent connection to this wireless city project.

During the reporting period, the Group signed a strategic cooperation agreement with AliCoud to jointly develop PaaS platform, by which both parties will work together to embed R1 products (including FramePortal, SOA Suite and BizFoundation) in Ali OS, and will provide Java-based development services and cloud-based SOA services. This cooperation will undoubtedly be an indelible milestone in the history of the infrastructure of China Cloud.

2. The Outsourcing Services Business achieved a year-on-year increase of 27.3% in revenue and revenue from service.

During the reporting period, the joint venture with Huawei was officially established and has started operation and achieved stable growth in performance. The advantage of the joint venture has started to emerge. By deploying the business segments including customization, platform, process and IT in all respects and making breakthroughs, the Group has laid a sound foundation for capturing market by differential performance during the integration of suppliers to achieve rapid business growth. In response to the deployment of business segments of clients, the Group has responsively intensified the expansion in the west and in the cities including Xiamen, Shijiazhuang, Suzhou, Shenyang, Yinchuan and Changsha. In particular, it recorded a 100% growth in Xi'an and Chengdu. The strategy of deployment in the third-tier cities was effectively implemented. The establishment of the joint venture will quicken the pace to create an environment for service outsourcing industry nationwide, enhancing competitiveness of China's software service outsourcing industry in international market.

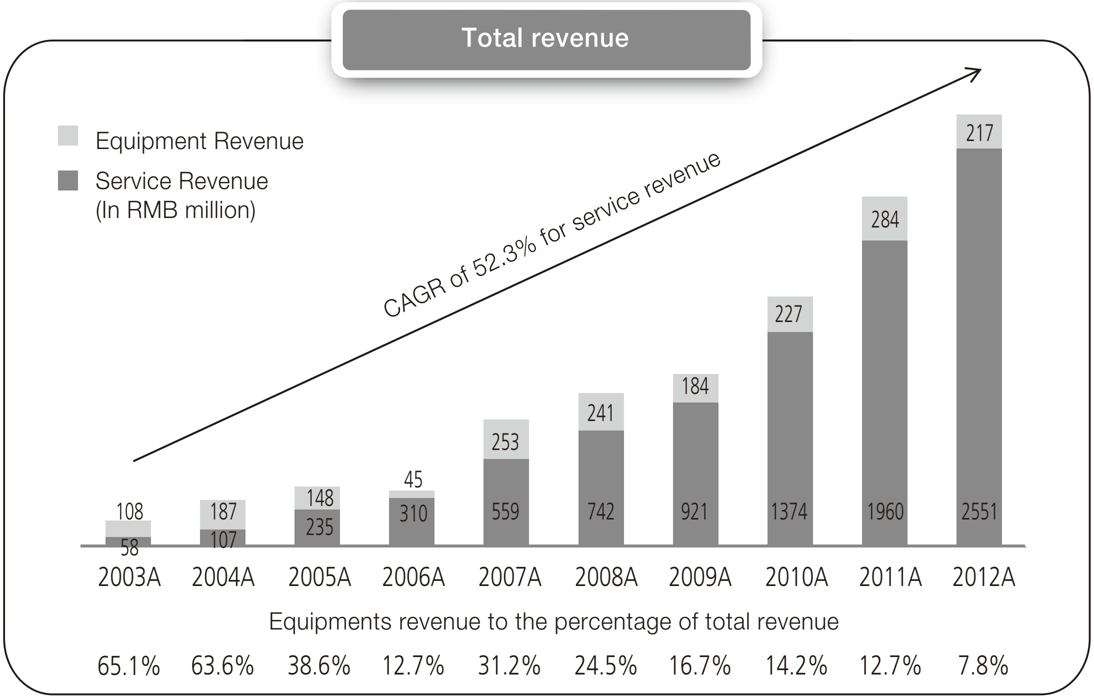
During the reporting period, the Group was awarded "2011 Microsoft Preferred Supplier Program Excellence Awards—Value Excellence Award" by Microsoft's headquarter. It is one of the most authoritative, challenging and meaningful awards, which represented the recognition by Microsoft's headquarter and their intention to maintain a long-term strategic partnership with outstanding providers. In addition to qualifying for a preferred supplier of Microsoft, the Group secured another framework contract with Microsoft for a term of three years. The business of a well-known Japanese mobile communication company has grown steadily and achieved the first rank in KPI assessment for providers.

During the reporting period, the Group provided comprehensive services to a top Chinese e-commerce enterprise. This was a remarkable breakthrough in the internet and e-commerce area that laid a foundation for becoming one of the core providers in the e-commerce industry chain. The Group also deepened its cooperation with a premier online travelling service company to develop internet solution capability in the tourism vertical. The Group conducted local test and engineering for an important product for a major IT product company, covering 20+ dominant languages and 60+ LIP languages. The Group provided 24*7 online technical support services for the cloud product of a client. The Group's business at a well-known Japanese housing constructor also recorded a steady growth with a bright prospect going forward. In the backdrop of a steady business growth of a personnel recruitment magazine enterprise, it provided new personnel services, which represented an important milestone in the expansion of mid to high-end BPO business. As a milestone of financial outsourcing business, the Group successfully signed a contract with Seven Bank of Japan.

3. The Training Business achieved a year-on-year increase of 35.0% in revenue and revenue from service.

During the reporting period, the Group signed on with 9 additional colleges (accumulative total of 61), of which 9 institutes/professional colleges were jointly built (accumulative total of 45). Regarding the internet of things and mobile internet, the Group constructed and jointly built laboratories, technology R&D centers with 16 colleges, including Beijing Jiaotong University, Tianjin University, Taiyuan University of Technology and Nanjing University of Aeronautics and Astronautics in order to start collaboration on additional profession approval and jointly-built projects. Regarding this area, the Group jointly organized training for "young backbone tutors" nationwide with the Office of National Demonstration School of Software of Ministry of Education. During the reporting period, ChinaSoft International was among the first elite batch of companies that were granted an approval jointly issued by 23 Chinese government ministries and departments including the Ministry of Education, Ministry of Commerce, and Ministry of Industry and Information Technology, to build the "State-level Project Practice Education Center" with 18 universities and colleges, including Beijing Jiaotong University, Beijing Industrial University, Harbin Institute of Technology and University of Electronic Science and Technology of China. The Group had the largest number of cooperated universities and colleges among this elite batch of companies. In the teaching area, the Group was approved as the cooperative enterprise of "2012 National Tutor Training for Vocational Education" and participated in national training program on the Internet of things and mobile internet for tutors of higher technical and vocational education.

Since the listing on the Growth Enterprise Market in 2003, the Group's revenue and service revenue have maintained rapid growth, recording a CAGR of 36.7% and 52.3% over the period from 2003 to 2012 respectively. The details are set out as follows:



CUSTOMER

The Group's customers include large enterprises headquartered in Greater China, Europe, the US and Japan. It had a relatively large market share in the fast-growing Chinese market, particularly in the mainstream industries such as the government and manufacturing industry, finance and banking industries, telecom industry and high-tech industry. In 2012, service revenue from the top five customers accounted for 38.5% of the Group's total service revenue while those from the top ten customers accounted for 43.6%. With the Group's continuous development of new customers and intensive tapping of existing customers in the vertical industries, it is expected that the proportion of service revenue from the top ten customers to the Group's total service revenue will further decline.

In 2012, the number of active customers was 995, of which 402 are new customers. In 2012, the Group had 61 major customers each generating service revenue of more than RMB6 million.

MARKET

The Group operated its businesses mainly in Greater China. In 2012, the Group continued to set Greater China market as an important area for development. China's strong economic growth and the immense market potentials embedded in the region gave rise to long-term growth opportunities for the Group. At the same time, several of the Group's large multinational corporate customers also intended to set China as the most crucial part of their global layout, which was a clear indication of their confidence of the Chinese economy and a rare development opportunity for the Group's businesses.

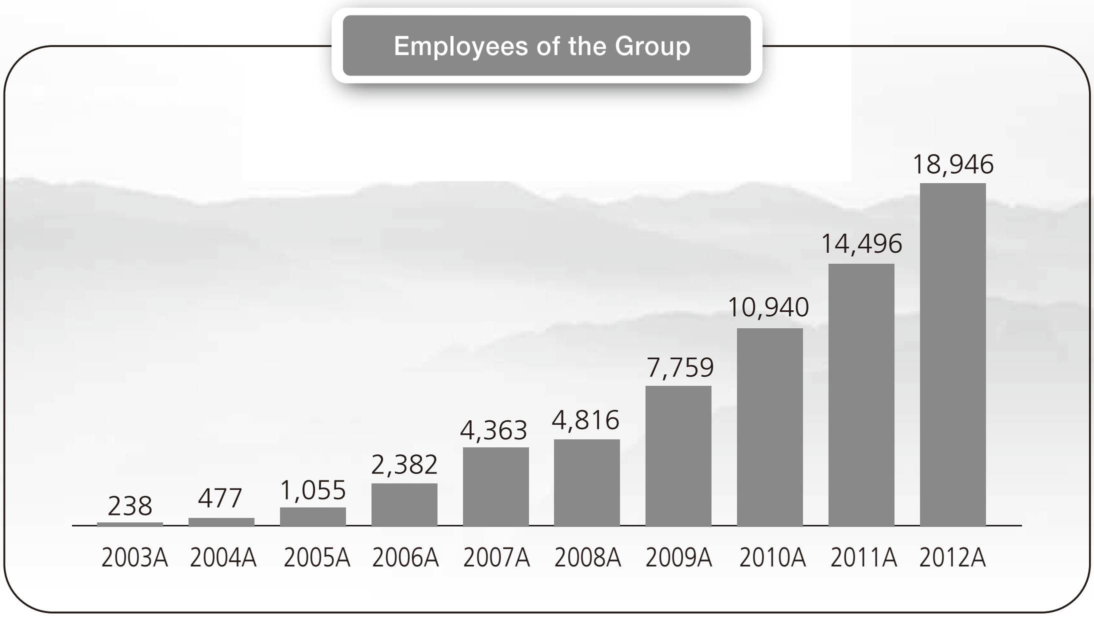
Human Resources

As of the end of 2012, the Group had altogether 18,946 employees, representing an increase of 30.7% over 14,496 employees as of the end of 2011, of which 17,161 employees were technicians accounting for 90.6% of the Group's total number of employees, and 1,789 employees were project managers and key consulting staff accounting for 10.4% of the Group's total number of technical employees.

The average turnover rate of the Group through 2012 was 14.6%, which was lower than the sector average level. Despite that the costs of human resources have increased continuously in recent years, the Group was still able to continue to increase its profitability through the continuous increase of the business income and a series of cost and performance management measures (including reasonable human resources allocation structure for stabilising overall cost levels, continuous input of resources into research and development for increasing the re-use of technology and optimisation of incentive policy for improving production efficiency among employees).

The Group's ETC business line cooperated with over 400 universities and colleges and education institutions in setting up training centers in Beijing, Tianjin, Dalian, Changsha, Wuxi, Chongqing, Xiamen, Nanjing and Chengdu to customise development training programmes for the business divisions of the Group. Each business division could participate in the course design, process tracking and appraisal to select quality students from a huge talent pool, hence ensuring constant supply of practical personnel.

Since the listing on the Growth Enterprise Market in 2003, the number of the Group's personnel has maintained rapid growth. The details are set out as follows:



EARNINGS CAPABILITY

In 2012, the Group's EBITDA was RMB328.838 million (2011: RMB293.184 million), representing a growth of 12.2% over the same period of previous year. EBITDA ratio was 11.9% in 2012 (2011: 13.1%), representing a year-on-year decrease of 1.2% (EBITDA ratio was 12.9% if measured on the basis of service revenue (2011: 15.0%), representing a decrease of 2.1% over the same period of the previous year). Set out below is the breakdown for the reconciliation of the profit for the year to EBITDA:

	2012 RMB'000	2011 RMB'000	Growth%
Profit (Loss) for the year	**150,142**	**121,076**	**24.0%**
+Taxation	**37,574**	29,611	26.9%
+Finance costs	**31,111**	23,898	30.2%
+Depreciation of property, plant and equipment	**46,577**	39,047	19.3%
+Amortisation of intangible assets and prepaid lease payments	**42,967**	47,514	(9.6%)
+Loss arising from changes in fair value of redeemable convertible preferred shares	**–**	37,287	N/A
–Gain arising from changes in fair value of contingent consideration on acquisition of business	**5,557**	71,718	(92.3%)
+Impairment loss recognised in respect of goodwill	**28,054**	68,982	(59.3%)
+Loss on disposal of associates	**–**	105	N/A
–Share of results of associates	**2,030**	2,618	(22.5%)
EBITDA	**328,838**	**293,184**	**12.2%**

In order to assist shareholders and investors in comparing the Group's business trends during different reporting periods and in understanding more clearly the Group's continuous business achievements and to facilitate the comparison of the Group's business achievements with other similar companies, it has excluded the impacts of the profit and loss items of non-business and non-cash nature in the EBITDA (for example: share option expenses, net foreign exchange (gain) loss and allowance for doubtful debts) in its calculation of the business contribution profit for 2012. Set out below is the breakdown for the alignment of EBITDA to business contribution profit:

	2012 RMB'000	2011 RMB'000	Growth%
EBITDA	**328,838**	**293,184**	**12.2%**
+ Share option expenses	**11,544**	24,861	(53.6%)
– Net foreign exchange gain	**(72)**	12,082	(100.6%)
+ Allowance for doubtful debts	**15,807**	17,417	(9.2%)
Business contribution profit	**356,261**	**323,380**	**10.2%**

Management Discussion and Analysis

In 2012, the Group's business contribution profit was RMB356.261 million (2011: RMB323.380 million), representing a year-on-year growth of 10.2%. In 2012, the business contribution profit margin was 12.9% (2011: 14.4%), representing a decrease of 1.5% over the same period of the previous year (the business contribution profit margin was 14.0% (2011: 16.5%) if measured on the basis of service revenue, representing a decrease of 2.5% over the same period of the previous year).

OPERATING RESULTS

The following table sets out the Group's consolidated statement of comprehensive income for 2012 and 2011:

	2012 RMB'000	Percentage of revenue	Percentage of service revenue	2011 RMB'000	Percentage of revenue	Percentage of service revenue
Revenue	2,768,171			2,243,754		
Service Revenue	2,551,395			1,959,885		
Cost of sales	(1,852,830)	(66.9%)		(1,514,263)	(67.5%)	
Gross profit	915,341	33.1%	35.9%	729,491	32.5%	37.2%
Other income, gains and losses	55,235	2.0%	2.2%	46,036	2.1%	2.3%
Selling and distribution costs	(160,692)	(5.8%)	(6.3%)	(148,706)	(6.6%)	(7.6%)
Administrative expenses	(454,761)	(16.4%)	(17.8%)	(309,278)	(13.8%)	(15.8%)
Research and development cost expensed	(57,055)	(2.1%)	(2.2%)	(45,989)	(2.0%)	(2.3%)
Provision for doubtful debts	(15,807)	(0.6%)	(0.6%)	(17,417)	(0.8%)	(0.9%)
Amortisation of intangible assets and prepaid lease payments	(42,967)	(1.6%)	(1.7%)	(47,514)	(2.1%)	(2.4%)
Gain arising from changes in fair value of contingent consideration on acquisition of business	5,557	0.2%	0.2%	71,718	(3.2%)	(3.7%)
Impairment loss recognised in respect of goodwill	(28,054)	(1.0%)	(1.1%)	(68,982)	(3.1%)	(3.5%)
Finance costs	(31,111)	(1.1%)	(1.2%)	(23,898)	(1.1%)	(1.2%)
Share of results of associates	2,030	0.1%	0.1%	2,618	0.1%	0.1%
Loss on disposal of associates	0	0.0%	0.0%	(105)	0.0%	0.0%
Loss arising from changes in fair value of redeemable convertible preferred shares	0	0.0%	0.0%	(37,287)	(1.7%)	(1.9%)
Profit before taxation	187,716	6.8%	7.4%	150,687	6.7%	7.7%
Taxation	(37,574)	(1.4%)	(1.5%)	(29,611)	(1.3%)	(1.5%)
Profit for the year	150,142	5.4%	5.9%	121,076	5.4%	6.2%

Comparison of the results of 2012 with 2011:

REVENUE

In 2012, revenue of the Group amounted to RMB2,768.171 million (2011: RMB2,243.754 million), representing a growth of 23.4% compared to that of the same period for the previous year. Of which, service revenue was RMB2,551.395 million (2011:RMB1,959.885 million), representing a year-on-year growth of 30.2%, which was attributed to the constantly expanding customer base and the continuous and diversified development of the Group's main businesses.

In 2012, the Group's revenue and service revenue by contract model are set out as follows:

	Revenue RMB'000	Weight	Service Revenue RMB'000	Weight
Fixed price	1,537,583	55.5%	1,320,807	51.8%
Time and material	1,161,415	42.0%	1,161,415	45.5%
Quantity-based	69,173	2.5%	69,173	2.7%
Total	**2,768,171**	**100%**	**2,551,395**	**100%**

In 2012, Revenue from the Group's three business lines accounted for 52.5%, 44.1% and 3.4% of the Group's total revenue respectively (2011: approximately 54.1%, 42.8%, and 3.1% respectively). The growth in revenue of each business line is set out as follows:

	2012 RMB'000	Weight	2011 RMB'000	Weight	Growth rate
Professional Services Business (PSG)	**1,452,782**	**52.5%**	1,214,957	54.1%	19.6%
Outsourcing Services Business (OSG)	**1,221,800**	**44.1%**	959,458	42.8%	27.3%
Training Business	**93,589**	**3.4%**	69,339	3.1%	35.0%
Total revenue	**2,768,171**	**100%**	2,243,754	100%	23.4%

Service Revenue from the Group's three business lines in 2012 accounted for 48.4%, 47.9% and 3.7% of the Group's total service revenue respectively (2011: approximately 47.5%, 49.0% and 3.5% respectively). The growth in service revenue for each business line is set out as follows:

	2012 **RMB'000**	**Weight**	2011 RMB'000	Weight	Growth rate
Professional Services Business (PSG)	**1,236,006**	**48.4%**	931,088	47.5%	32.7%
Outsourcing Services Business (OSG)	**1,221,800**	**47.9%**	959,458	49.0%	27.3%
Training Business	**93,589**	**3.7%**	69,339	3.5%	35.0%
Total service revenue	**2,551,395**	**100%**	1,959,885	100%	30.2%

COST OF MAIN BUSINESSES

In 2012, cost of the Group's main businesses accounted for 66.9% of the revenue (2011: 67.5%), representing a decrease of 0.6% as compared with the same period of the previous year. Cost of main businesses of the Group amounted to RMB1,852.830 million (2011: RMB1,514.263 million), representing an increase of 22.4% year on year.

GROSS PROFIT

In 2012, the Group's gross profit was approximately RMB915.341 million (2011: RMB729.491 million), representing an increase of 25.5% year on year. In 2012, The Group's gross profit margin was approximately 33.1% (2011: 32.5%), representing an increase of 0.6% as compared with the same period of the previous year. The higher gross profit margin in 2012 compared to one year ago was mainly due to a higher portion of total revenue coming from service revenue, and the gross profit margin of service business is higher.

The gross profit margin which was calculated based on service revenue was 35.9% in 2012 (2011: 37.2%), representing a decrease of 1.3% year on year. In light of lower profit margin which was calculated based on service revenue mainly attributable to the increasing labor cost, the Group will alleviate the pressure from rising labor cost by the following measures:

The Group will continue to set up submission centers in "third-tier cities" to reduce the pressure brought about by increasing labor costs;

The Group will increase the extent of re-use of technology and solutions through continuous R&D input to lower direct cost;

OTHER INCOME, GAINS AND LOSSES

In 2012, other income amounted to RMB55.235 million (2011: RMB46.036 million), representing an increase of 20.0% over the same period of the previous year. The main reason for the increase is due to the increase in government subsidies in 2012 compare to 2011.

OPERATING EXPENSES

In 2012, selling and distribution costs amounted to RMB160.692 million (2011: RMB148.706 million), representing an increase of 8.1% as compared to 2011 and the proportion of selling and distribution costs to revenue was 5.8% as compared to 6.6% in 2011, representing a decrease of 0.8% over the same period of the previous year. In 2012, the proportion of selling and distribution costs to service revenue was 6.3%, a decrease of 1.3% compared with 7.6% in 2011. Typically, selling and distribution costs of the Group accounts for 6% – 8% to service revenue. The decrease was mainly attributable to the Group's marketing efforts during the previous year laid a solid foundation for its business expansion during the year, as well as the Group greatly intensified its efforts to control the selling and distribution costs.

In 2012, administrative expenses amounted to RMB454.761 million (2011: RMB309.278 million), representing a year-on-year growth of 47.0%. In 2012, the proportion of administrative expenses to revenue was 16.4%, an increase of 2.6% compared with 13.8% for 2011. In 2012, the proportion of administrative expenses to service revenue was 17.8%, an increase of 2.0% compared with 15.8% in 2011. The increase of the proportion was mainly due to more investment by the Group in establishment of the administration and business operation supporting management platform in relation to the formation of PSG and OSG during the year, as well as the increase in rental costs due to the expansion in office space this year. We expect to start to see measurable improvements of operating efficiency from these investment starting in 2013.

In 2012, research and development cost expensed were RMB57.055 million (2011: RMB45.989 million), representing a growth of 24.1% over 2011, and the proportion of research and development costs expensed to revenue was 2.1%, representing a year-on-year increase of 0.1% as compared with 2.0% in 2011.

EBITDA AND BUSINESS CONTRIBUTION PROFIT

In 2012, the Group recorded an EBITDA of approximately RMB328.838 million (2011: RMB293.184 million), representing an increase of 12.2% over the same period of the previous year. In 2012, the ratio of EBITDA to revenue was 11.9% (2011: 13.1%), representing a decrease of 1.2% over the same period of the previous year. The ratio of EBITDA which was calculated based on the service revenue was 12.9% (2011: 15.0%), representing a drop of 2.1% over the same period of the previous year.

In 2012, business contribution profit amounted to RMB356.261 million (2011: RMB323.380 million), representing an increase of 10.2% over the same period of the past year. In 2012, the business contribution profit margin dropped by 1.5% over the same period of 2011 to 12.9% (2011: 14.4%). Business contribution profit margin which was calculated based on the service revenue was 14.0% (2011: 16.5%), representing a decrease of 2.5% over the same period of 2011.

The decrease in EBITDA and business contribution profit margin was mainly due to lowered gross profit margin which was calculated based on the service revenue as a result of rising labor costs, the substantial growth of management costs in establishment of the administration and business operation supporting platform in relation to the formation of PSG and OSG, as well as the increase in rental costs due to the expansion in office space in 2012 as compared to the previous year.

FINANCE COSTS AND INCOME TAX

In 2012, finance costs accounted for 1.1% of the revenue, which was flat with that in the corresponding period of 2011. Finance costs for the year amounted to RMB31.111 million (2011: RMB23.898 million), representing an increase of 30.2% over 2011, which was mainly due to the increase of cost of funding on convertible loan notes and borrowings denominated in RMB. In 2012, the cost of funding on convertible loan notes of RMB13.767 million was debited to the interests of CB in profit and loss, representing a year-on-year increase of 8.7% as compared with that of RMB12.666 million in 2011. In 2012, as additional borrowings denominated in RMB were secured, the interest expenses on bank borrowings amounted to RMB17.344 million, representing a year-on-year increase of 54.4% as compared with that of RMB11.232 million in 2011.

In 2012, income taxes accounted for 1.4% of the revenue, representing an increase of 0.1% compared with 1.3% in the corresponding period of 2011. Income taxes for the year amounted to RMB37.574 million (2011: RMB29.611 million), representing an increase of 26.9% over 2011, which was mainly due to higher income before taxation in 2012 compared to 2011 and also higher taxation rate for certain companies under the Group as a result of the expiry of preferential tax policy.

OTHER NON-CASH EXPENSES

In 2012, the proportion of depreciation of property, plant and equipment to revenue was 1.7%, which was flat compared with the same period of 2011. Depreciation of property, plant and equipment amounted to RMB46.577 million (2011: RMB39.047 million), representing an increase of 19.3% over 2011 mainly due to the purchase of fixed assets during the year in order to cope with the increase in number of employees, which lead to an increase in depreciation.

In 2012, the proportion of amortisation of intangible assets to revenue was 1.6%, a decrease of 0.5% as compared with 2.1% in the same period of 2011. Amortisation of intangible assets amounted to RMB42.967 million (2011: RMB47.514 million), representing a decrease of 9.6% over 2011, primarily due to the completion of certain intangible assets acquired in prior years.

In 2012, the proportion of share option expenses to revenue was 0.4%, a decrease of 0.7% as compared with 1.1% in the same period of 2011. Share option expenses amounted to RMB11.544 million in 2012 (2011: RMB24.861 million), representing a substantial decrease of 53.6% over 2011, primarily due to much less share options issued in recent three years than those issued before 2010, as a result of which, the share option expenses allocated for 2012 were significantly decreased as compared with those for 2011.

In 2012, the proportion of provision for doubtful debts to revenue was 0.6%, representing a decrease of 0.2% as compared to the corresponding period of last year (2011: 0.8%). In 2012, provision for doubtful debts amounted to RMB15.807 million (2011: RMB17.417 million), representing a decrease of 9.2% over the same period of 2011, which was mainly due to the enhanced control and management of receivables by the Group to minimize the provision for doubtful debts during the year.

In 2012, gain arising from changes in fair value of contingent consideration payable on acquisition of business was RMB5.557 million (2011: RMB 71.718 million), accounting for 0.2% of the revenue.

In 2012, the impairment loss recognised in respect of goodwill was RMB28.054 million (2011: RMB68.982 million), accounting for 1.0% of the revenue.

In 2012, the Group had no loss on disposal of associates (last year RMB105,000).

In 2012, the Group had no profit or loss arising from changes in fair value of redeemable convertible preferred shares (2011: RMB37.287 million), which was mainly attributable to the full conversion of preferred A shares issued into ordinary shares by their holders at the end of 2011.

PROFIT FOR THE YEAR AND EARNINGS PER SHARE

In 2012, the Group achieved a profit for the year of RMB150.142 million (2011: RMB121.076 million), representing an increase of 24.0% over the same period of last year. In 2012, profit for the year accounted for 5.4% to revenue (2011: 5.4%), which remained as the same level as last year. In 2012, profit for the year accounted for 5.9% to service revenue (2011: 6.2%), representing a decrease of 0.3% over the same period of last year. In 2012, excluding the gain arising from changes in fair value of contingent consideration payable on acquisition of business, and the impairment loss recognised in respect of goodwill, the Group recorded profit for the year of RMB172.639 million (2011: RMB155.732 million excluding the effect of loss arising from changes in fair value of redeemable convertible preferred shares, gain arising from changes in fair value of contingent consideration payable on acquisition of business, impairment loss recognised in respect of goodwill and loss on disposal of associates), representing an increase of 10.9% year on year. In 2012, the proportion of profit for the year after adjustment to revenue was approximately 6.2% (2011: 6.9%), representing a decrease of 0.7% over the same period of last year; the proportion of profit for the year after adjustment to service revenue was approximately 6.8% (2011: 7.9%), representing a decrease of 1.1% over the same period of last year. The decrease was mainly due to lowered gross profit margin which was calculated based on the service revenue as a result of rising labor costs, the substantial growth of management costs in establishment of the administration and business operation supporting platform in relation to the formation of PSG and OSG, as well as the increase in rental costs due to the expansion in office space in 2012 as compared to the previous year.

Based on the abovementioned profit for 2012 of RMB150.142 million, if excluding profit attributable to minority interest, in 2012, profit for the year attributable to the owners of the Group amounted to RMB133.189 million (2011: RMB110.594 million), representing an increase of 20.4% over the same period of last year. Based on the profit for the year attributable to the owners of the Group, the basic earnings per share for 2012 amounted to approximately RMB7.99 cents (2011: RMB8.19 cents), representing a year-on-year decrease of 2.4%. This decrease in basic earnings per share (even though profit for the year for 2012 was higher than that in 2011) was primarily due to the increased number of ordinary shares outstanding in the second half of 2011, the conversion of preferred shares held by preferred shareholders including Microsoft into ordinary shares and the issuance of additional ordinary shares to Hony Capital, as a result of which, the weighted average ordinary shares for the purpose of calculation of basic earnings per share in 2012 were increased by approximately 23.5% as compared with 2011.

Corporate Governance Report

A. CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. The code provisions in the Code on Corporate Governance Practices of the Listing Rules (the "Code") have served as guideposts for the Company to follow in its implementation of corporate governance measures.

Key corporate governance principles and practices of the Company as well as details relating to the foregoing deviation are summarized below.

The Stock Exchange has made various amendments to the Code on Corporate Governance Practices (the "Former Code") set out in Appendix 14 of the Listing Rules, and the revised code, namely the "Corporate Governance Code and Corporate Governance Report" (the "Revised Code"), became effective on 1 April 2012. In the opinion of the Board, the Group has complied with the Former Code from 1 January 2012 to 31 March 2012 and the Revised Code from 1 April 2012 to 31 December 2012, except that (i) the Chairman of the Board was not able to attend the annual general meeting of the Company held on 18 May 2012 (the "2011 AGM") (deviated from code provision E.1.2) due to other business commitment. However, one of the independent non-executive Directors attended and acted as the Chairman of the 2011 AGM; (ii) the roles of chairman and chief executive officer should be separate and should not be performed by the same individual (deviated from code provision A.2.1).

The Board will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with statutory and professional standards and align with the latest developments.

B. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rule relating to dealings is securities. Having made specific enquiry of all the Directors, the Directors complied with the Model Code regarding securities transactions by the Directors throughout the year ended 31 December 2012.

C. BOARD OF DIRECTORS

1. *Composition of the 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 *(Chairman and Chief Executive Officer)*
Dr. Tang Zhenming
Mr. Wang Hui
Mr. Jiang Xiaohai

Non-executive directors:

Mr. Zhao John Huan
Dr. Zhang Yaqin
Mr. Lin Sheng
Ms. Shen Lipu

Independent non-executive directors:

Mr. Zeng Zhijie
Dr. Leung Wing Yin Patrick
Dr. Song Jun *(re-designated from non-executive directors on 28 December 2012)*
Mr. Xu Zeshan

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

2. ***Board Meetings***

During the year ended 31 December 2012, two full board meetings were held on 26 March and 17 August and the attendance of each director is set out as follows:

Name of Director		Number of attendance
Executive Directors:		
Dr. Chen Yuhong		2/2
Dr. Tang Zhenming		2/2
Mr. Wang Hui		2/2
Mr. Jiang Xiaohai		2/2
Non-executive Directors:		
Mr. Zhao John Huan		2/2
Dr. Zhang Yaqin		2/2
Mr. Lin Sheng		2/2
Ms. Shen Lipu		2/2
Independent non-executive Directors:		
Mr. Zeng Zhijie		2/2
Dr. Leung Wing Yin Patrick		2/2
Dr. Song Jun	(re-designated from non-executive directors on 28 December 2012)	2/2
Mr. Xu Zeshan		2/2

3. ***Functions of the Board of Directors***

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.

4. ***Independent Non-executive Directors***

The four 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. Among the four independent non-executive Directors, one of them has appropriate professional qualifications in accounting or relevant financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.

5. ***Chairman and Chief Executive Officer***

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Dr. Chen Yuhong currently assumes the roles of both the Chairman and the Chief Executive Office of the Company. The Board believes that by holding both roles, Dr. Chen will be able to provide the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies of the Group. As such, the structure is beneficial to the business prospects of the Group.

6. ***Appointment, Re-election and Removal of Directors***

According to the articles of association of the Company, one-third of the Directors are required to retire from office at each annual general meeting, provided that every Director shall be subject to retirement by rotation at least once in every three years.

Prior to the convening of the annual general meeting of the Company in May 2013, the board of Directors resolved that Mr. Wang Hui, Mr. Jiang Xiaohai, Ms. Shen Lipu and Mr. Xu Zeshan 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.

D. BOARD COMMITTEES

1. *Remuneration Committee*

During the year under review, the chairman of the committee was Dr. Leung Wing Yin Patrick and other members included Dr. Chen Yuhong, Mr. Zeng Zhijie and Mr. Xu Zeshan. Dr. Chen Yuhong is an executive Director, and the remaining three members are independent non-executive Directors.

The remuneration committee was established on 28 June 2005. 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 attendance
Dr. Leung Wing Yin Patrick *(Chairman)*	1/1
Dr. Chen Yuhong	1/1
Mr. Zeng Zhijie	1/1
Mr. Xu Zeshan	1/1

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 2013.

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 37 to the financial statements. The emolument payable to Directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 9 to the financial statements.

2. *Audit Committee*

The Company established an audit committee on 2 June 2003 and amended its written terms of reference to comply with the requirements in the Code on Corporate Governance Practices of the Listing Rules. The primary duties of the audit committee are to review and to supervise the financial reporting process and internal control system of the Group. During the year ended 31 December 2012, the audit committee comprised of three independent non-executive Directors, Mr. Zeng Zhijie, Dr. Leung Wing Yin Patrick and Mr. Xu Zeshan. Dr. Leung Wing Yin Patrick is the Chairman of the audit committee. The audit committee met on a semi-yearly basis during the year ended 31 December 2012.

The Group's unaudited interim results and audited annual results during the year ended 31 December 2012 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

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

Name of member	Number of attendance
Dr. Leung Wing Yin Patrick *(Chairman)*	2/2
Mr. Zeng Zhijie	2/2
Mr. Xu Zeshan	2/2

3. *Nomination Committee*

The Company established a nomination committee on 28 March 2012 with written terms of reference in compliance with the requirement in the Code on Corporate Governance Practices of the Listing Rules. The primary duties of the nomination committee are to review the structure, size and composition of the Board, and select and make recommendations to the Board on the appointment of Directors and senior management. During the year ended 31 December 2012, the nomination committee comprised of one executive Director. Dr. Chen Yuhong and three independent non-executive Directors, Mr. Zeng Zhijie, Dr. Leung Wing Yin Patrick, Mr. Xu Zeshan. Dr. Leung Wing Yin Patrick is the chairman of the nomination committee.

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

Name of Director	Number of attendance
Dr. Leung Wing Yin Patrick *(Chairman)*	1/1
Dr. Chen Yuhong	1/1
Mr. Zeng Zhijie	1/1
Mr. Xu Zeshan	1/1

E. ACCOUNTABILITY AND AUDIT

1. *Director's Responsibility for the Consolidated Financial Statements*

The Directors are responsible for the preparation of the consolidated financial statements. The Company's consolidated financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies have been adopted and applied consistently, and that judgments are estimates made are prudent and reasonable.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group. Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the consolidated financial statements.

2. *Internal Control*

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

3. *Auditor's Remuneration*

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group was required to pay an aggregate of approximately RMB4.3 million to the external auditor for their services including audit and other services relating to financial information.

F. INVESTORS AND SHAREHOLDERS RELATIONS

The Company commits to promoting transparency and maintaining effective communication with investors, analysts and the press. The management periodically meets with existing and potential investors to make corporate presentations. The Company also communicates with its shareholders and investors through the publication of annual and interim reports, announcements and press releases, as well as the Company's website at http://www.chinasofti.com. The Company hosts an annual general meeting each year to meet the Company's shareholders and answer their enquiries.

Report of Directors

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2012.

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 2012 are set out in the consolidated statement of comprehensive income on page 61.

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

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past five years, as extracted from the audited financial statements, is set out on page 144. This summary does not form part of the audited financial statements.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders as at 31 December 2012 are RMB1,067,367,000 approximately.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 29 to the financial statements.

During the year, the Company repurchased certain of its own shares through the Stock Exchange of Hong Kong Limited, details of which are set out in note 29 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

DIRECTORS

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

Executive Directors:
Dr. Chen Yuhong
Dr. Tang Zhenming
Mr. Wang Hui
Mr. Jiang Xiaohai

Non-executive Directors:
Mr. Zhao John Huan
Dr. Zhang Yaqin
Mr. Lin Sheng
Ms. Shen Lipu

Independent non-executive Directors:
Mr. Zeng Zhijie
Dr. Leung Wing Yin Patrick
Dr. Song Jun (re-designated from non-executive directors on 28 December 2012)
Mr. Xu Zeshan

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

In accordance with article 87 of the Company's Articles of Association, one-third of the Directors (who have been longest in office since their last election) will retire from office by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Dr. Chen Yuhong has entered into a service agreement with the Company. Particulars of the contract, except as indicated, are in all material respects identical and are set out below:

(i) the 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 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 Dr. Chen Yuhong shall be determined by the board of Directors but shall not be more than 120 percent of his annual salary for the preceding year;

(iii) Dr. Chen Yuhong is 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) Dr. Chen Yuhong shall abstain from voting and shall not be counted in the quorum in respect of the resolution regarding the amount of management bonus payable to himself/herself.

Dr. Tang Zhenming, Mr. Wang Hui, Mr. Jiang Xiaohai, Mr. Zhao John Huan, Dr. Zhang Yaqin, Mr. Lin Sheng and Ms. Shen Lipu have not entered into service agreements with the Group. Dr. Tang Zhenming, Mr. Wang Hui and Mr. Jiang Xiaohai receive no remuneration for holding their office as executive Directors. Mr. Zhao John Huan, Dr. Zhang Yaqin, Mr. Lin Sheng and Ms. Shen Lipu receive no remuneration for holding their office as non-executive Directors.

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

Dr. Leung Wing Yin Patrick, Dr. Song Jun and Mr. Xu Zeshan have not entered into any service agreements as independent non-executive Directors with the Group. The monthly remuneration for Dr. Leung Wing Yin Patrick is HK$10,000 until November 2012 and Dr. Leung Wing Yin Patrick receives no remuneration afterwords. Mr. Xu Zeshan receives no remuneration for holding his office as an independent non-executive Director.

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

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

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2012, the following Directors had interests in the shares and underlying shares of the Company and shares in an associated corporation (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) of the Company as set out below and recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of listed issuers.

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

Name of Director	Total No. of Ordinary Shares	Approximate percentage of total issued ordinary share capital of the Company as at 31 December 2012
Zhao John Huan	335,076,453	19.50%
Chen Yuhong	170,230,136	9.91%
Tang Zhenming	11,747,765	0.68%
Jiang Xiaohai	6,872,447	0.40%
Wang Hui	6,277,838	0.37%
Zeng Zhijie	300,000	0.02%

Options to subscribe for Shares

Name of Director	Exercise Price (HK$)	No. of share options outstanding as at 1 January 2012	No. of share options exercised during the year	No. of share options outstanding as at 31 December 2012	Percentage of total issued ordinary share capital of the Company as at 31 December 2012	No of underlying ordinary shares interested in	Note
Tang Zhenming	0.58	80,000	–	80,000	0.00%	4,180,000	(1)
	0.65	1,300,000	–	1,300,000	0.08%		(2)
	0.97	800,000	–	800,000	0.05%		(3)
	1.78	2,000,000	–	2,000,000	0.12%		(4)
Wang Hui	1.78	1,200,000	–	1,200,000	0.07%	1,200,000	(4)
Zeng Zhijie	1.78	450,000	–	450,000	0.03%	450,000	(4)

Notes:

(1) 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

(2) 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

(3) 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

(4) 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 2012 none of the Directors or chief executive of the Company had any interests or short positions in the shares, debentures or underlying shares of the Company or its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the required standard of dealings by directors of listed issuers as referred to the Model Code for Securities Transactions, to be notified to the Company and the Stock Exchange.

As at 31 December 2012, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2012 (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 2012, 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 2012, save as disclosed above, none of the Directors was granted any options to subscribe for shares of the Company. As at 31 December 2012, 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 2012, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions. Having made specific enquiry with all the Directors, the Directors had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the year ended 31 December 2012.

Report of Directors

SHARE OPTION SCHEME

During the year ended 31 December 2012, 30,000,000 share options have been granted at an exercise price of HK$1.67 per share pursuant to the Share Option Scheme. As at 31 December 2012, share options allowing for the subscription of an aggregate of 145,489,600 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 37 to the financial statements and notes 1 to 4 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 2012.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

CONNECTED TRANSACTIONS

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

On 30 January 2012, the Company and Huawei Technology Company Limited ("Huawei") entered into the Huawei IT Outsourcing Agreement pursuant to which the Group shall provide the IT Outsourcing services to Huawei Group on a recurring basis for the period from the contract effective date up to and including 31 December 2014. Huawei has been a customer of the Group in respect of its IT Outsourcing business since September 2009 and such recurring transactions are expected to continue upon the establishment of IT Outsourcing Flagship and the equity participation of Huawei in IT Outsourcing Flagship pursuant to Huawei Equity Participation Agreement. Since April 2012, Huawei has become a connected person of the Company by virtue of becoming a substantial shareholder of the IT Outsourcing Flagship, being a non-wholly owned subsidiary of the Company, holding 40% of its equity interest immediately upon Completion. Accordingly, any future continuing transactions between the Group and Huawei Group will constitute continuing connected transactions of the Company.

The Annual Caps for the provision of IT Outsourcing service by the Group to Huawei Group during the term of the Huawei IT Outsourcing Agreement is RMB 816 million for the period ended 31 December 2012. For the period from April 2012 to December 2012, the provision of IT Outsourcing service by the Group to Huawei Group is RMB 470 million.

On 10 December 2012, the Group and Hony Capital Limited ("HCL") entered into the IT Solution Agreement whereby HCL has agreed to engage the Group to provide service to HCL in respect of its informationalization platform with the goal of centralizing all the information of its investment business, enhancing the working efficiency of staff of all departments of HCL so as to meet the future investment philosophy of HCL. To facilitate the implementation of the solution and/or provision of services contemplated under the IT Solution Agreement which requires the use of certain fundamental intermediate products, on 10 December 2012, the Group and HCL entered into the Supply Agreement whereby HCL has agreed to purchase those fundamental intermediate products from a subsidiary of the Company.

HCL is a wholly-owned subsidiary of a substantial shareholder of Keen Insight. ZHAO John Huan, a non-executive Director, is a director of HCL. HCL and its subsidiary, Hony Capital (Tianjin) Limited are therefore considered a connected person of the Company.

During the year, the Group provided IT solution services of RMB159,000 and sold software of RMB513,000 to Hony Capital (Tianjin) Limited.

The independent non-executive directors confirm that the above 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 Directors also confirm the above connected transactions also constitute related party transactions under the accounting standards, details of which are set out in note 39 to the financial statements. Related party transactions set out in note 39 to the financial statements other than those transactions disclosed above are not considered to be connected transactions.

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

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers accounted for approximately 34.9% of the Group's total turnover and the Group's largest customer accounted for approximately 20.3% of the Group's total turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 55.8% of the Group's total purchases and the Group's largest supplier accounted for approximately 19.4% 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

So far as was known to the Directors, as at 31 December 2012, the interest of the persons (not being a Director or chief executive of the Company) in the shares of the Company which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in Shares

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of total issued ordinary share of the Company	Approximate percentage of total issued share* of the Company
Keen Insight Limited ("Keen Insight") *(Note 1)*	Beneficial interest	335.08	19.50%	18.26%
Hony Capital Fund 2008, L.P. *(Note 1)*	Interest of controlled corporation	335.08	19.50%	18.26%
Hony Capital Fund 2008 GP L.P. *(Note 1)*	Interest of controlled corporation	335.08	19.50%	18.26%

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of total issued ordinary share of the Company	Approximate percentage of total issued share* of the Company
Hony Capital Fund 2008 GP Limited *(Note 1)*	Interest of controlled corporation	335.08	19.50%	18.26%
Hony Capital Management Limited ("Hony Capital") *(Note 1)*	Interest of controlled corporation	335.08	19.50%	18.26%
Zhao John Huan *(Note 2)*	Interest of controlled corporation	335.08	19.50%	18.26%
Right Lane Limited *(Note 2)*	Interest of controlled corporation	335.08	19.50%	18.26%
Legend Holdings Limited ("Legend Holdings") *(Note 3)*	Interest of controlled corporation	335.08	19.50%	18.26%
Chinese Academy of Sciences Holdings Co., Ltd. *(Note 4)*	Interest of controlled corporation	335.08	19.50%	18.26%
Chinese Academy of Sciences *(Note 4)*	Interest of controlled corporation	335.08	19.50%	18.26%
Beijing Lian Chi Zhi Yuan Management Consulting Center *(Note 5)*	Interest of controlled corporation	335.08	19.50%	18.26%
Beijing Lian Chi Zhi Tung Management Consulting Ltd. *(Note 5)*	Interest of controlled corporation	335.08	19.50%	18.26%
Greater Pacific Capital Partners, LP ("GPC") *(Note 6)*	Beneficial interest	119.27	6.94%	6.50%
EJF Capital LLC ("EJF") *(Note 7)*	Beneficial interest	116.40	6.77%	6.34%
Far East Holdings International Limited ("Far East Holdings") *(Note 8)*	Beneficial interest	113.40	6.60%	6.18%
Microsoft Corporation ("Microsoft") *(Note 9)*	Beneficial interest	97.25	5.66%	5.30%

* *The total number of issued share consists of 1,718,364,659 Ordinary Shares and 116,404,949 Convertible Notes, which could be converted into 116,404,949 Ordinary Shares.*

Notes:

1. Hony Capital Fund 2008, L.P. holds the entire issued share capital of Keen Insight. Hony Capital Fund 2008 GP, L.P. is the sole general partner of Hony Capital Fund 2008, L.P.. Hony Capital Fund 2008 GP Limited, a wholly-owned subsidiary of Hony Capital, is the sole general partner of Hony Capital Fund 2008 GP, L.P.. Hony Capital is taken to be interested in the Shares in which Keen Insight is interested.

2. Zhao John Huan and Right Lane Limited are interested in 55% and 45% interests in Hony Capital respectively.

3. Legend Holdings Limited owns 100% interest in Right Lane Limited.

4. Chinese Academy of Sciences Holdings Co., Ltd, which is 100% owned by Chinese Academy of Sciences is taken to be interested in the Shares in which Keen Insight is interested. Chinese Academy of Sciences Holdings Co., Ltd owns 36% interest in Legend Holdings.

5. Beijing Lian Zhi Tung Management Consulting Ltd is the sole general partner of Beijing Lian Chi Zhi Yuan Management Consulting Center is taken to be interested in the Shares in which Keen Insight is interested. Beijing Lian Chi Zhi Yuan Management Consulting Center owns 35% interest in Legend Holdings.

6. GPC is interested in 119,268,639 Ordinary Shares.

7. EJF is an investment advisor registered under the Securities and Exchange Commission of the United States of America. EJF is interested in 116,404,949 Ordinary Shares which could be issued upon the full conversion of the Convertible Notes in the principal amount of RMB 200 million took place on 29 November 2010.

8. Far East Holdings is interested in 113,398,822 Ordinary Shares.

9. Microsoft is interested in 97,250,000 Ordinary Shares which was converted on 30 December 2011 from 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 on 6 January 2006.

Save as disclosed above, as at 31 December 2012, 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

During the year ended 31 December 2012, the Company purchased certain of its shares on the Stock Exchange and these shares were subsequently cancelled by the Company. The Company considered that it is the best way of enhancing shareholder value and that it is in the best interest of the shareholders to return a substantial part of the surplus funds to them. The summary details of those transactions are as follows:

	Number of shares repurchased	Price per share Highest	Lowest	Total price paid
		HK$	HK$	HK$'000
June 2012	140,000	1.96	1.92	272,300

The purchase of the Company's shares during the year ended 31 December 2012 was effected by the Directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2012.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence. The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 37 to the consolidated financial statements.

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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2012.

COMPETING INTERESTS

As at 31 December 2012, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

AFTER THE REPORTING PERIOD

Details of the subsequent event of the Group are set out in note 40 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board

Dr. Chen Yuhong
Chief Executive Officer

Beijing, 28 March 2013

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 50, is the Chairman and the Chief Executive Officer of the Company and is responsible for the overall business development of the Group. He has over 20 years of practicing experience in software information industry. Dr. Chen holds a doctorate degree in optics from Beijing Polytechnic University (北京理工大學) in 1991. Prior to joining the Company on 25 April 2000, Dr. Chen worked at China National Computer Software & Technology Service Corporation ("CS&S") from October 1996 to April 2000, subsequently was appointed as vice president in June 1999 and as senior vice president of CNTC (中軟網絡資訊技術有限公司) in December 2003. He has also been appointed a director of Chinasoft Resources. He was also a director of 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. (中國長城電腦軟體公司).

Dr. Tang Zhenming (唐振明), aged 50, is the senior vice president of the Company. He is responsible for the Group's training department. Dr. Tang obtained a doctorate degree in motor electronic control from Beijing Polytechnic University (北京理工大學) in 1994. Prior to joining the Company 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.

Mr. Wang Hui (王暉), aged 40, is the senior vice president and chief strategic officer of the Company and has over 10 years of practicing experience in software information industry. Mr. Wang graduated from Tianjin University (天津大學) in 1995. Prior to joining the Company on 25 April 2000, Mr. Wang was a manager of China Greatwall Computer Software Co., Ltd. (中國長城計算機軟體公司) from 1995 to 2000.

Mr. Jiang Xiaohai (蔣曉海), aged 43, was appointed on 18 May 2011. Mr. Jiang possesses more than 15 years' working experience in the information technology and telecommunication industry. He graduated with a bachelor's degree in computer software from Xiangtan University in 1991. Mr. Jiang founded MMIM Technologies, Inc., which became a whollyowned subsidiary of the Company since December 2010, in October 2004. Prior to MMIM Technologies, Inc. becoming a wholly-owned subsidiary of the Company, Mr. Jiang acted as its chairman and chief technology officer and his duties include research and development, operation support, frontier technology research and strategic management. From 1994 to 2002, he worked for UTStarcom (China) Inc., where he was wholly responsible for the research and development of digital service platforms and participated in and guided the design, development, implementation and after-sale services of many of China's first data service platforms on telecommunications, such as Intelligent Network, mobile SMS center, PHS data service platform, SMS Gateway, WAP Gateway and Call Center.

Biographical Details of Directors and Senior Management

Non-executive Director

Mr. Zhao John Huan (趙令歡), aged 50, was appointed on 29 July 2011. Mr. Zhao has many years of practicing experience in business management and investing operation. Mr. Zhao obtained a master degree in business administration from the Kellogg School of Management at Northwestern University in the United States of America ("USA") in June 1996, dual master degrees in electrical engineering and physics from Northern Illinois University in USA in 1987, and a bachelor degree in physics from Nanjing University (南京大學) in July 1984. Mr. Zhao established Hony Capital Fund 2008, L.P. in 2003 and serves as a president. Mr. Zhao also serves as a senior vice president and an executive director of the board of Legend Holdings Limited. Prior to joining Legend Holdings Limited, Mr. Zhao was a managing partner at eGarden Ventures, Ltd., chairman and chief executive officer of Infolio Inc. and Vadem Inc., a vice president and general manager at US Robotics Inc.. Prior to studying in USA, Mr. Zhao was a director of a workshop in Jiangsu Wireless Company.

Dr. Zhang Yaqin (張亞勤), aged 46, was appointed on 31 December 2008. Dr Zhang is currently the corporate vice president of Microsoft Corporation and the chairman of Microsoft Asia-Pacific Research & Development Group, responsible for driving Microsoft's overall research and development efforts in China and the Asia-Pacific region. Dr Zhang was also a member of Executive Management Committee of Microsoft (China) Limited and formulate unified strategy with other members for Microsoft in the Greater China region. Dr Zhang is a world-class scientist in the field of communication and software areas. He joined Microsoft in 1999 and served as the chief scientist of Microsoft Research Asia and was promoted to corporate vice president of Microsoft Corporation in 2004, in charge of Microsoft's Mobile and Embedded Division in Microsoft's headquarters. Dr Zhang was the core leader of Microsoft to enter into the non-PC market. In 1997, Dr. Zhang Yaqin,only aged 31 at that time, was rewarded as a Fellow of IEEE, becoming the youngest scientist receiving this honor in the 100 years of history of the association.

Mr. Lin Sheng (林盛), aged 38, was appointed on 29 July 2011. Mr. Lin obtained a master degree in economics in July 1999, and also a dual bachelor degree in engineering physics and business administration from Tsinghua University in July 1997. Mr. Lin joined Hony Capital in April 2003 and mainly responsible for the medicine, medical services and telecom, media and technology industry research and investment. Mr. Lin was a senior officer of Lenovo from April 2000 to April 2003, where he was responsible for strategic planning, market positioning, product design and business line operations.

Ms. Shen Lipu (沈麗普), aged 38, was appointed on 18 May 2011. Ms. Shen is an economist. She obtained a bachelor's degree from Hangzhou Dianzi University, and a master's degree from Central University of Finance and Economics. Ms. Shen worked in the international cooperation department, and the corporate & asset management department of CNSS. She held the positions of deputy general manager and general manager of the corporate & asset management department of CNSS since 2004, and from 2010, she has been serving as the general manager of the investment department.

Biographical Details of Directors and Senior Management

Independent Non-executive Director

Mr. Xu Zeshan (徐澤善), aged 64, was appointed on 8 May 2008. Mr. Xu is a senior engineer and has many years of experience in administration and corporate management. Since January 2003 to present, Mr. Xu acted as the deputy manager and then the manager of China Electronics Technology Group Corporation Industrial Park, the Chairman of the Board of Yangtse River Data Company Limited (長江數據股份有限公司), the chairman of the Board of China Information & Electronics Development Inc. Ltd. (Wuhan) and the managing director of China Electricity Investment Development Company Limited. From March 1998 to December 2002, he was the head of the 49th Research Institute of the Ministry of Information Industry (which was renamed as China Electronics Technology Group Corporation the 49th Research Institute in March 2002). From May 1995 to March 1998, he was the deputy mayor of Zibo in Shandong Province. He is specialised in the research and technological management of sensors and the related systems and was awarded the ministry level Technology Improvement second-ranked prize.

Dr. Song Jun (宋軍), aged 52, was appointed on 18 May 2011. Dr. Song has over 20 years of extensive experience in corporate management and operation. Dr. Song obtained a doctorate degree from Tsinghua University in 1990. He is a researcher and also currently the vice president and secretariat of Tsinghua University Education Foundation. He had held the positions of chairman and president of Tsinghua Holdings Co., Ltd. and director or chairman of over ten affiliates of Tsinghua Holdings Co., Ltd. Dr. Song is currently an independent non-executive director of China Glass Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited and an independent director of Gemdale Corporation, a company listed on the Shanghai Stock Exchange.

Mr. Zeng Zhijie (曾之杰), aged 45, was appointed on 21 April 2003. Mr Zeng is the Senior Managing Director of CITIC Capital Holdings Limited and the General Manager and Managing Partner of Kaixin Investment. Mr Zeng has been active in the venture capital industry for more than fifteen years. Mr.Zeng holds his B.S. in Economics from the University of Nagasaki, Japan, and M.M. from Stanford University. Prior to joining CITIC Capital, he was a managing director of Walden International since 2001, an established global venture capital firm. Prior to Walden International, Mr Zeng worked for CITIC Pacific Ltd in Hong Kong and Mitsubishi Corporation in Tokyo, Japan. At present, Mr Zeng also serves as the chairman of China Special Article Logistics Company, as well as independent director for six listed companies: Great Wall Technology Company Limited (SEHK), ChinaSoft International (SEHK), Shanghai AJ Corporation (Shanghai Stock Exchange), E-House (NYSE), Vimicro (Nasdaq) and AutoNavi (Nasdaq). Other companies he serves as director or independent director: the State Microelectronics and the United Overseas Bank. He is also the executive director of AAMA China branch and board member of WRSACC 2005 Committee.

Dr. Leung Wing Yin Patrick (梁永賢), aged 56, was appointed on 22 March 2006. Dr. Leung has many years working experience in internal auditing and corporate finance in banks. He holds a doctor's degree in accounting from the University of New South Wales, Australia, and is 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. Dr. Leung 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.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Fok Ming Fuk, William (霍銘福), aged 51, is the qualified accountant and company secretary of the Company. He has over 20 years experience in auditing and financial management. Prior to joining the Company on 17 May 2004, Mr. Fok worked as the chief financial officer of Portolan Commerce Solutions, a software developer engaged in enterprise resources planning in Germany. Mr. Fok got a master's degree in business administration from Henley Management College, 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 and Certified Tax Advisor in Hong Kong.

Mr. Simon Chung (鍾鎮銘), aged 51, is the global chief operating officer of the Company and the chief executive officer in ITO business of Japan. He is responsible for the overall daily operation of the Group. He has over 20 years of 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. He holds a bachelor's degree in Computing Mathematics from the University of Wollongong in Australia. Prior to joining the Company, 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.

Mr. Simon Zhang (張崇濱), aged 50, is the senior vice president and chief human resources officer of the Company. He is responsible for the human resources management of the Company. Mr. Zhang worked in Shaanxi Provincial Tourism Bureau after graduating from the Department of Economics of Northwest University in 1987. Prior to joining the Company, he was the General Manager of Chongqing Three Gorges Liner Corporation (under China International Travel Service in Xi'an) from 1997 to 1999. From 1994 to 1997, he was the Deputy General Manager and General Manager of Northwestern branch in Weijiang Plastics Co. Ltd., which was a Sino- US joint venture. From 1992 to 1994, Mr. Zhang was employed as Chief Business Representative in U.S. Phonenix Medical Equipment Company.

Mr. Han Shenyao (韓申瑤), aged 57, is the senior vice president and chief executive officer of professional services of the Company and the president and chief executive officer of Shanghai Huateng Software System Co. Ltd. (上海華騰軟件系統有限公司). From 1984 to 1997, Mr. Han served for the Shanghai Municipal Government as the Director for Shanghai Municipal Office Information Processing Center and Director of the Department of Technologies of the Shanghai Municipal Government General Office, during which he served as a member of the expert group of Shanghai Information Port and Deputy Head of the expert group of the Decision making System of National Executive Heads Office. Mr. Han, as one of the first group of EMBA graduates in China-Europe International Business School (CEIBS), joined CEIBS in 1997 and had worked as an officer of the President's Office. Mr. Han participates a number of principalships and is also a member of Chinese People's Political Consultative Conference in Xuhui district of Shanghai, Vice President of Shanghai Computer Institute, and Vice President of Shanghai Software Industry Association and has been elected as 2008 Shanghai Excellent Software Enterpriser.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

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

COMPLIANCE OFFICER

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

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 61 to 143, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012 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
28 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Turnover	5	**2,768,171**	2,243,754
Cost of sales		**(1,852,830)**	(1,514,263)
Gross profit		**915,341**	729,491
Other income, gains and losses		**55,235**	46,036
Selling and distribution costs		**(160,692)**	(148,706)
Administrative expenses		**(454,761)**	(309,278)
Research and development costs expensed		**(57,055)**	(45,989)
Allowance for doubtful debts		**(15,807)**	(17,417)
Amortisation of intangible assets and prepaid lease payments		**(42,967)**	(47,514)
Impairment loss recognised in respect of goodwill	14	**(28,054)**	(68,982)
Finance costs	6	**(31,111)**	(23,898)
Share of results of associates	15	**2,030**	2,618
Gain arising from changes in fair value of contingent consideration payable on acquisition of a business	33	**5,557**	71,718
Loss arising from changes in fair value of redeemable convertible preferred shares	27	**–**	(37,287)
Loss on deemed disposal of associates	15	**–**	(105)
Profit before taxation		**187,716**	150,687
Income tax expense	7	**(37,574)**	(29,611)
Profit for the year	8	**150,142**	121,076
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**(555)**	(680)
Total comprehensive income for the year		**149,587**	120,396
Profit for the year attributable to:			
Owners of the Company		**133,189**	110,594
Non-controlling interests		**16,953**	10,482
		150,142	121,076
Total comprehensive income attributable to:			
Owners of the Company		**132,638**	109,918
Non-controlling interests		**16,949**	10,478
		149,587	120,396
Earnings per share	11		
Basic		**RMB 0.0799**	RMB 0.0819
Diluted		**RMB 0.0774**	RMB 0.0756

Consolidated Statement of Financial Position

At 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	12	**132,853**	131,456
Intangible assets	13	**159,330**	157,172
Goodwill	14	**629,075**	657,129
Interests in associates	15	**27,616**	25,551
Available-for-sale investment	16	**25,000**	25,000
Prepaid lease payments	17	**42,477**	469
Deferred tax assets	26	**10,515**	10,069
		1,026,866	1,006,846
Current assets			
Inventories	18	**23,989**	24,405
Trade and other receivables	19	**1,039,396**	760,648
Prepaid lease payments	17	**1,038**	178
Amounts due from associates	15	**10,182**	5,859
Amounts due from customers for contract work	20	**561,359**	363,683
Amounts due from related companies	21	**205**	394
Pledged deposits	22	**4,468**	12,571
Bank balances and cash	22	**774,847**	772,950
		2,415,484	1,940,688
Current liabilities			
Amounts due to customers for contract work	20	**110,506**	56,142
Trade and other payables	23	**668,918**	613,149
Bills payable	24	**7,071**	21,525
Amounts due to related companies	21	**9,196**	3,765
Dividend payable to shareholders		**75**	75
Taxation payable		**39,312**	29,849
Borrowings	25	**309,300**	165,600
Convertible loan notes	28	**199,087**	–
		1,343,465	890,105
Net current assets		**1,072,019**	1,050,583
Total assets less current liabilities		**2,098,885**	2,057,429

Consolidated Statement of Financial Position

At 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Non-current liabilities			
Deferred tax liabilities	26	**17,602**	24,767
Consideration payable on acquisition of a business	33	**–**	5,557
Convertible loan notes	28	**–**	193,820
Borrowings	25	**19,000**	29,600
		36,602	253,744
		2,062,283	1,803,685
Capital and reserves			
Share capital	29	**81,804**	77,879
Share premium	30	**1,466,006**	1,392,651
Reserves	30	**379,814**	255,142
Equity attributable to owners of the Company		**1,927,624**	1,725,672
Non-controlling interests		**134,659**	78,013
Total equity		**2,062,283**	1,803,685

The consolidated financial statements on pages 61 to 143 were approved and authorised for issue by the board of directors on 28 March 2013 and are signed on its behalf by:

Dr. Chen Yuhong
DIRECTOR

Dr. Tang Zhenming
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to the owners of the Company											
	Share capital RMB'000	Share premium RMB'000 (note 30)	Translation reserve RMB'000	Share options reserve RMB'000	Convertible loan notes reserve RMB'000	General reserve fund RMB'000 (note 30)	Statutory enterprise expansion fund RMB'000 (note 30)	Statutory surplus reserve fund RMB'000 (note 30)	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2011	61,133	807,664	(706)	80,480	36,522	15,793	15,136	7,661	12,765	1,036,448	65,555	1,102,003
Profit for the year	–	–	–	–	–	–	–	–	110,594	110,594	10,482	121,076
Other comprehensive income for the year – Exchange differences arising on translation of foreign operations	–	–	(676)	–	–	–	–	–	–	(676)	(4)	(680)
Total comprehensive income for the year	–	–	(676)	–	–	–	–	–	110,594	109,918	10,478	120,396
Issue of ordinary shares upon subscription	6,237	225,211	–	–	–	–	–	–	–	231,448	–	231,448
Issue of ordinary shares upon partial conversion of redeemable convertible preferred shares	6,628	264,711	–	–	–	–	–	–	–	271,339	–	271,339
Reclassification to liability component (note 28)	–	–	–	–	(21,355)	–	–	–	–	(21,355)	–	(21,355)
Capital contribution from a non-controlling owner of a subsidiary	–	–	–	–	–	–	–	–	–	–	1,980	1,980
Issue of ordinary shares upon exercise of share options	3,881	95,065	–	(25,933)	–	–	–	–	–	73,013	–	73,013
Recognition of share option expenses	–	–	–	24,861	–	–	–	–	–	24,861	–	24,861
Cancellation of share options	–	–	–	(1,186)	–	–	–	–	1,186	–	–	–
Appropriations	–	–	–	–	–	–	11,613	4,492	(16,105)	–	–	–
At 31 December 2011	77,879	1,392,651	(1,382)	78,222	15,167	15,793	26,749	12,153	108,440	1,725,672	78,013	1,803,685
Profit for the year	–	–	–	–	–	–	–	–	133,189	133,189	16,953	150,142
Other comprehensive income for the year – Exchange differences arising on translation of foreign operations	–	–	(551)	–	–	–	–	–	–	(551)	(4)	(555)
Total comprehensive income for the year	–	–	(551)	–	–	–	–	–	133,189	132,638	16,949	149,587
Capital contribution from a non-controlling owner of a subsidiary	–	–	–	–	–	–	–	–	–	–	40,000	40,000
Issue of ordinary shares upon exercise of share options	3,931	76,738	–	(19,510)	–	–	–	–	–	61,159	–	61,159
Recognition of share option expenses	–	–	–	11,544	–	–	–	–	–	11,544	–	11,544
Cancellation of share options	–	–	–	(498)	–	–	–	–	498	–	–	–
Shares repurchased and cancelled	(6)	(217)	–	–	–	–	–	–	–	(223)	–	(223)
Dividend payable to a non-controlling owner of a subsidiary	–	–	–	–	–	–	–	–	–	–	(1,176)	(1,176)
Acquisition of additional equity interests in subsidiaries	–	(3,166)	–	–	–	–	–	–	–	(3,166)	873	(2,293)
Appropriations	–	–	–	–	–	–	–	16,919	(16,919)	–	–	–
At 31 December 2012	81,804	1,466,006	(1,933)	69,758	15,167	15,793	26,749	29,072	225,208	1,927,624	134,659	2,062,283

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Operating activities			
Profit before taxation		**187,716**	150,687
Adjustments for:			
Depreciation of property, plant and equipment		**46,577**	39,047
Amortisation of intangible assets and prepaid lease payments		**42,967**	47,514
Finance costs		**31,111**	23,898
Impairment loss recognised in respect of goodwill	14	**28,054**	68,982
Share option expenses		**11,544**	24,861
Allowance for doubtful debts		**15,807**	17,417
Loss on disposal of property, plant and equipment		**137**	573
Loss arising from changes in fair value of redeemable convertible preferred shares	27	**–**	37,287
Loss on deemed disposal of associates	15	**–**	105
Gain arising from changes in fair value of contingent consideration payable on acquisition of a business	33	**(5,557)**	(71,718)
Interest income		**(3,326)**	(3,802)
Share of results of associates		**(2,030)**	(2,618)
Net foreign exchange gain		**–**	(12,589)
Operating cash flows before movements in working capital		**353,000**	319,644
Increase in trade and other payables		**55,769**	150,556
Increase (decrease) in amounts due to customers for contract work		**54,364**	(1,924)
Decrease (increase) in inventories		**416**	(5,964)
Increase in trade and other receivables		**(294,161)**	(220,905)
Increase in amounts due from customers for contract work		**(197,676)**	(112,405)
(Decrease) increase in bills payable		**(14,454)**	15,312
Cash (used in) generated from operations		**(42,742)**	144,314
Income taxes paid		**(40,186)**	(27,056)
Taxation refunded		**4,562**	3,463
Net cash (used in) generated from operating activities		**(78,366)**	120,721
Investing activities			
Purchases of property, plant and equipment		**(50,145)**	(63,110)
Development costs paid		**(41,619)**	(19,489)
Payments in connection with a land use right		**(43,023)**	–
Placement of pledged deposits		**(21,929)**	(3,745)
Advances to associates		**(4,323)**	(3,429)
Purchases of software		**(3,351)**	(3,725)
(Advance to) repayment from related companies		**(205)**	20
Investments in associates		**(35)**	(1,280)
Acquisition of available-for-sale investment		**–**	(25,000)
Withdrawal of pledged deposits		**30,032**	–
Interest received		**3,326**	3,802
Proceeds from disposal of property, plant and equipment		**1,950**	809
Net cash used in investing activities		**(129,322)**	(115,147)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Financing activities			
New bank loans raised		**284,300**	217,200
Proceeds from exercise of share options		**61,159**	73,013
Capital contribution from a non-controlling owner of a subsidiary		**40,000**	1,980
Advance from a related company		**4,255**	3,762
Proceeds from issue of shares		**–**	231,448
Repayment of borrowings		**(151,200)**	(208,950)
Interest paid		**(17,344)**	(11,232)
Interest paid on convertible loan notes		**(8,500)**	(5,310)
Acquisition of additional equity interest in subsidiaries	34	**(2,293)**	–
Payment on repurchase of shares		**(223)**	–
Deferred payments for acquisition of a business		**–**	(11,985)
Interest paid on redeemable convertible preferred shares		**–**	(6,008)
Repayment to related companies		**–**	(144)
Net cash generated from financing activities		**210,154**	283,774
Net increase in cash and cash equivalents		**2,466**	289,348
Cash and cash equivalents at beginning of the year		**772,950**	484,172
Effect of foreign exchange rate changes		**(569)**	(570)
Cash and cash equivalents at end of the year, representing bank balances and cash		**774,847**	772,950

1. GENERAL INFORMATION OF THE COMPANY

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

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

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

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

The consolidated financial statements are presented in Renminbi, which is 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 information technology ("IT") solutions services, IT outsourcing services and training services.

Particulars of the Company's subsidiaries at 31 December 2012 and 2011 are set out as follows:

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2012	2011	**2012**	2011	
			%	%	**%**	%	
Chinasoft International Holdings Limited	Samoa/ Hong Kong ("HK")	US$1	**100**	100	**–**	–	Investment holding
Chinasoft International (Hong Kong) Limited	HK	HK$100	**–**	–	**100**	100	Investment holding and trading of standalone software products
Chinasoft International Treasury Management (Hong Kong) Limited	HK	HK$1	**–**	–	**100**	100	Inactive
Chinasoft Resource (International) Limited ("Chinasoft Resource International")	HK	HK$100,000	**–**	–	**100**	100	Provision of IT outsourcing services
Chinasoft International Inc.	United States of America ("USA")	US$0.01	**–**	–	**100**	100	Provision of IT outsourcing services

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2012	2011	**2012**	2011	
			%	%	**%**	%	
北京中軟國際信息技術有限公司 Chinasoft International Information Technology Limited ("Chinasoft Beijing")	People's Republic of China (other than HK) ("PRC")	RMB102,000,000	**–**	–	**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 (Note iv)	PRC	HK$5,000,000	**–**	–	**100**	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟總公司計算器培訓中心 Computer Training Center of CS&S (Note iii)	PRC	RMB500,000	**–**	–	**100**	100	Provision of IT training services
北京中軟國際教育科技有限公司 Beijing Chinasoft International Education Technology Co., Ltd.	PRC	RMB1,000,000	**–**	–	**70**	70	Development of educational software
無錫中軟國際信息技術培訓有限公司 Wuxi Chinasoft International Information Technology Training Co., Ltd.	PRC	RMB2,000,000	**–**	–	**70**	70	Provision of IT training services
中軟國際（昆明）信息技術有限公司 Chinasoft International (Kunming) Information Technology Limited (Note iv)	PRC	HK$8,000,000	**–**	–	**100**	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟國際（湖南）信息技術有限公司 Chinasoft International (Hunan) Information Technology Limited (Note iv)	PRC	US$1,000,000	**–**	–	**100**	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2012	2011	**2012**	2011	
			%	%	**%**	%	
中軟賽博資源軟件技術（天津）有限公司 CS&S Cyber Resources (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 Xiamen Chinasoft Haisheng International Technology Limited	PRC	RMB50,000,000	**–**	–	**51**	51	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
北京中科久輝信息自動化有限公司** Sino Sunnyever Automation and Information Co., Ltd. ("Sino Sunnyever")	PRC	RMB8,000,000	**–**	–	**–**	100	Provision of solutions services
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") (Note iv)	PRC	US$800,000	**–**	–	**100**	100	Provision of IT outsourcing services
深圳市中軟資源技術服務有限公司 Shenzhen Chinasoft Resources Information Technology Services Limited ("Chinasoft Resources Shenzhen")	PRC	RMB5,000,000	**–**	–	**100**	100	Provision of IT outsourcing services
上海中軟資源技術服務有限公司 Shanghai Chinasoft Resources Information Technology Services Limited ("Chinasoft Resources Shanghai")	PRC	RMB3,000,000	**–**	–	**80**	80	Provision of IT outsourcing services
日本創智株式會社 Japan Powerise Co., Ltd.	Japan	JPY22,500,000	**–**	–	**100**	100	Provision of IT outsourcing services
Hinge Global Resource Inc. ("HGR")	Cayman Islands	US$3,956,000	**97.35**	97.35	**–**	–	Investment holding

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group Directly 2012 %	Directly 2011 %	Indirectly 2012 %	Indirectly 2011 %	Principal activities
上海華騰軟件系統有限公司 Shanghai Huateng Software Systems Co., Ltd. ("Shanghai Huateng") (Note iv)	PRC	US$8,000,000	–	–	**86.43**	86.43	Development and provision of IT system
大連全數科技有限公司 Dalian Digitall Technology Co., Ltd. ("Dalian Digitall") (Note i) (note 34)	PRC	JPY25,000,000	–	–	**98.41**	58.41	Provision of IT outsourcing services
大連信華軟件技術有限公司 Dalian Xinhua Software Co., Ltd. (Note iv)	PRC	US$150,000	–	–	**97.35**	97.35	Provision of IT outsourcing services
大連信華信息技術有限公司 Dalian Xinhua Infotech Co., Ltd. (Note iv)	PRC	US$250,000	–	–	**97.35**	97.35	Provision of IT outsourcing services
株式會社東京信華 Kabushiki Kaisha Tokyo Xinhua	Japan	JPY10,000,000	–	–	**97.35**	97.35	Provision of IT outsourcing services
DoubleBridge Technologies, Inc.	USA	US$2,204,400	–	–	**97.35**	97.35	Provision of IT outsourcing services
長沙中軟教育科技有限公司 Excellency Training Center of CSI (Changsha)	PRC	RMB1,500,000	–	–	**70**	70	Provision of IT training services
重慶中卓教育諮詢有限公司 Excellency Training Center of CSI (Chongqing)	PRC	RMB1,500,000	–	–	**70**	70	Provision of IT training services
大連中軟卓越信息技術有限公司 Dalian Excellency Information & Technology Ltd.	PRC	RMB500,000	–	–	**70**	70	Provision of IT training services
大連中軟卓越計算機培訓中心 Excellency Training Center of CSI (Dalian) (Note iii)	PRC	RMB1,000,000	–	–	**70**	70	Provision of IT training services

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group Directly 2012 %	Directly 2011 %	Indirectly 2012 %	Indirectly 2011 %	Principal activities
廈門中軟卓越教育服務有限公司 Excellency Training Center of CSI (Xiamen)	PRC	RMB1,000,000	–	–	**70**	70	Provision of IT training services
天津開發區中軟卓越信息技術有限公司 Excellency Training Center of CSI (Tianjin)	PRC	RMB3,000,000	–	–	**70**	70	Provision of IT training services
北京中軟國際教育科技南京有限公司 Excellency Training Center of CSI (Nanjing)	PRC	RMB1,000,000	–	–	**70**	70	Provision of IT training services
中軟國際資源信息技術（無錫）有限公司 Chinasoft International Information Technology (Wuxi) Limited (Note iv)	PRC	USD3,000,000	–	–	**100**	100	Provision of IT outsourcing services
北京廣域齊民信息技術有限公司** Beijing Guangyuqimin Information Technology Limited ("Guangyuqimin")	PRC	RMB506,200	–	–	–	100	Provision of IT solutions
深圳市金華業軟件系統有限公司 Shenzhen Jinhuaye Software Ltd. ("Shenzhen Jinhuaye")	PRC	RMB1,000,000	–	–	**100**	100	Provision of IT outsourcing services
蘇州華騰軟件系統有限公司 Suzhou Huateng Software Systems Co., Ltd	PRC	RMB2,000,000	–	–	**86.43**	86.43	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟國際電子商務有限公司 Chinasoft International E-Co. Ltd.	PRC	RMB6,027,271/ RMB30,000,000	–	–	**67**	67	Provision of e-tickets agency services
中軟國際（中國）科技有限公司 Chinasoft International (China) Technology Limited ("CSI China") (Note vi)	PRC	HK$100,000,000	–	–	**100**	100	Provision of solutions, IT outsourcing, IT consulting

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group Directly 2012 %	Directly 2011 %	Indirectly 2012 %	Indirectly 2011 %	Principal activities
南京中軟資源科技服務有限公司 Nanjing Chinasoft Resources Information Technology Services Limited (Note iv)	PRC	US$6,000,000	–	–	100	100	Provision of IT outsourcing services
漢普管理諮詢（中國）有限公司 Han Consulting (China) Ltd. ("Han Consulting") (note 34)	PRC	RMB55,026,571	–	–	85	51	Provision of consulting services
掌中無限控股有限公司 MMIM Technologies Inc. ("MMIM") (note 33)	Cayman Islands	US$561	100	100	–	–	Investment holding
掌中無限信息服務有限公司 Mobile Instant Messaging and Information System, Ltd.	HK	HK$1	–	–	100	100	Provision of mobile internet technology services
北京掌迅互動信息技術有限公司 MMIM Interactive Co., Ltd. ("MMIM Interactive") (Note iv)	PRC	US$13,150,000	–	–	100	100	Provision of mobile internet technology services
北京掌中無限信息技術有限公司 MMIM Info. Technology Co., Ltd. (Note ii)	PRC	RMB10,000,000	–	–	100	100	Provision of mobile internet technology services
北京靈息互動信息技術有限公司** MMIM Palm Interactive Co., Ltd. (Note ii)	PRC	RMB10,000,000	–	–	–	100	Provision of mobile internet technology services
北京掌上靈息科技有限公司** MMIM Palm Co., Ltd. (Note ii)	PRC	RMB500,000	–	–	–	100	Provision of mobile internet technology services
中軟國際科技服務有限公司* Chinasoft International Technology Services Limited ("CSITS") (Note vi)	PRC	RMB100,000,000	–	–	60	–	Provision of IT outsourcing services
中軟國際（上海）科技服務有限公司* Chinasoft International Technology Service (Shanghai) Ltd.	PRC	RMB10,000,000	–	–	60	–	Provision of IT outsourcing services

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2012	2011	2012	2011	
			%	%	%	%	
北京中軟國際科技服務有限公司* Chinasoft International Technology Service (Beijing) Ltd.	PRC	RMB10,000,000	–	–	60	–	Provision of IT outsourcing services
中軟國際科技服務（湖南）有限公司* Chinasoft International Technology Service (Hunan) Ltd.	PRC	RMB5,000,000	–	–	60	–	Provision of IT outsourcing services
中軟國際科技服務（大連）有限公司* Chinasoft International Technology Service (Dalian) Ltd.	PRC	RMB10,000,000	–	–	60	–	Provision of IT outsourcing services
中軟國際(西安)軟件技術有限公司* Chinasoft International Software Technology (Xian) Ltd.	PRC	RMB10,000,000	–	–	100	–	Provision of IT outsourcing services
Cyber Resources Software Technology (Ireland) Limited *	Ireland	EUR 100.00	–	–	100	–	Provision of IT outsourcing services

* Newly established during the year ended 31 December 2012.

** Dissolved during the year ended 31 December 2012.

Except for convertible loan notes issued by the Company, none of the subsidiaries had any debt securities outstanding at 31 December 2012 or at any time during the year.

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

In June 2012, Chinasoft Resource International acquired a further 40% equity interest in Dalian Digitall from a non-controlling owner (see note 34).

Note ii: The Company does not have legal ownership in equity of these entities. Nevertheless, under a series of agreements enacted among the registered owners of these entities and MMIM Interactive, the Group controls these entities by way of controlling all the voting rights of them, governing their financial and operating policies and appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authority. The agreements enable the Group to obtain benefit from these entities through the exclusive technical and consulting services. In addition, such agreements also transfer the risks and rewards of these entities to the Group. As a result, they are considered as subsidiaries of the Company.

1. GENERAL INFORMATION OF THE COMPANY – continued

Note iii: These entities are registered as institutional organisations under the PRC law.

Note iv: These entities are registered as wholly-foreign owned enterprises under the PRC law.

Note v: All the PRC established entities, except for those mentioned in Note iii and Note iv above, are registered as limited liability companies.

Note vi: During the year, CSI China, a wholly owned subsidiary of the Company and Huawei Technology Company Limited ("Huawei") entered into an agreement to establish CSITS in April 2012 as part of the Group's planned consolidation of its IT outsourcing business. Pursuant to the agreement, CSITS was owned by CSI China and Huawei as to 60% and 40%, respectively, in accordance with their respective contribution of the registered capital. CSITS was accounted for as a subsidiary of the Company.

The agreement also provided certain profit sharing arrangements and related variations for 2012 between the parties as determined by the extent of fulfilment of certain conditions and commitments by the Group and Huawei in 2012. Based on the assessment of the directors, such profit sharing arrangements and related variations did not result in significant impact on the consolidated financial statements for 2012.

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

In the current year, the Group has applied the following amendments to standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which have been effective.

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

The application of the amendments to standards in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle[1]
Amendments to HKFRS 1	Government Loans[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

[2] Effective for annual periods beginning on or after 1 January 2014.

[3] Effective for annual periods beginning on or after 1 January 2015.

[4] Effective for annual periods beginning on or after 1 July 2012.

Other than described below, the directors do not expect the adoption of the new and revised HKFRSs will have a material impact on the consolidated financial statements.

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 January 2015 and may have an impact on the classification and measurement of the Group's available-for-sale equity investment measured at cost less impairment. Other than this, the directors do not expect the adoption of HKFRS 9 will have material impact on the Group's consolidated financial statements based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2012.

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards that are relevant to the Group are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. HK (SIC)-Int 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from the investor's involvement with the investee, and (c) the ability to use the investor's power over the investee to affect the amount of its returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 January 2013. However, the directors do not anticipate the adoption of these five HKFRSs will have a significant impact on the Group's consolidated financial statements other than more extensive disclosures.

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

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.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of consolidation – continued

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expenses of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in existing subsidiaries that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity, share premium, and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to accumulated profits as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units ("CGUs") (or groups of CGU) that is expected to benefit from the synergies of the combination.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

Interests in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting.

The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. 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. Additional losses are 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 which is included within the carrying amount of the investment.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Interests in associates – continued

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

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 the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits and instalments received from purchasers in respect of sales of goods prior to meeting the above criteria on revenue recognition are included in the consolidated statement of financial position under current liabilities.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition – continued

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Project-based development contracts

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are for the purpose of giving immediate financial support with no future related costs are recognised in profit or loss in the period in which they become receivable.

Leasing

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Retirement benefits costs

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

Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 before taxation" as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference 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 associated investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets or liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

Current and deferred tax is recognised in profit or loss except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Research and development expenditure

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

An internally-generated intangible asset arising from development activities or from the development phase of an internal project is recognised if, and only if, all of the following have been demonstrated:

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets – continued

Intangible assets acquired separately – continued

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

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

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are measured on the basis as intangible assets acquired separately.

Prepaid lease payments

Prepaid lease payments represent payments for obtaining land use rights and the right to use a trademark. Payment for the right to use a trademark is amortised on a straight-line basis over the effective period stipulated on the trademark license registration certificate. Payment for obtaining land use rights is charged to profit or loss on a straight line basis over the lease terms.

Inventories

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) 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 immediately in profit or loss.

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

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from associates, 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).

Available-for-sale financial assets

Available-for-sale ("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.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and 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 and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's 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.

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 instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements 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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

Financial liabilities at fair value through profit or loss

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

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

Other financial liabilities

Other financial liabilities including trade and other payables, bills payable, amounts due to related companies, dividend payable to shareholders and borrowings 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.

Convertible loan notes

Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes reserve).

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

Convertible loan notes – continued

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes reserve will be released to accumulated profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies – continued

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Equity-settled share-based payment transactions

Share options granted to employees and customers of the Group

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Equity-settled share-based payment transactions – continued

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

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, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counter parties render services, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to share options reserve.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Allowance for doubtful debts

In determining whether there is objective evidence of allowance for doubtful debts, the Group takes into consideration the collectability, aged analysis of trade receivables and estimation of future cash flows. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. The amount of the allowance for doubtful debts is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, an allowance for doubtful debts may arise. As at 31 December 2012, the carrying amount of trade receivables is RMB829,809,000 (2011: RMB639,934,000) which is after allowance for doubtful debts of RMB95,114,000 (2011: RMB79,307,000) (see note 19).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated. The recoverable amount determination of the CGUs as at 31 December 2012 is based on the value in use calculation which requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2012, the Group recognised an impairment loss of RMB28,054,000 (2011: RMB68,982,000). As at 31 December 2012, the carrying amount of goodwill is RMB629,075,000 (2011: RMB657,129,000). Details of the recoverable amount calculation are disclosed in note 14.

Project-based development contracts

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

5. TURNOVER AND SEGMENT INFORMATION

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

Information reported to the Chief Executive Officer of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the category of customers for each type of goods supplied or services provided by the Group's operating divisions.

In the prior year, the Group had four operating divisions which represent four operating segments, namely, (a) solutions for government and manufacturing; (b) solutions for banking, financial services and insurance; (c) IT outsourcing and (d) training. In the current year, the Group changed its internal reporting structure and combined two of the four operating divisions, solutions for government and manufacturing and solutions for banking, financial services and insurance to form a new division called "professional services business", following an integration of the prior divisions' activities and identification of new segment managers. Subsequent to the change of the internal reporting structure, the Group has three reportable operating segments, which are (a) professional services business; (b) outsourcing services business (formerly IT outsourcing) and (c) training. Prior period segment disclosure has been restated to conform with the current year's presentation.

The Group's operating and reportable segments in the current year are as follows:

1. Professional services business ("PSG") – development and provision of solutions for government, manufacturing entities, banks and other financial institutions, and to a lesser extent, sales of standalone software and hardware products

2. Outsourcing services business ("OSG")

3. Training business

5. TURNOVER AND SEGMENT INFORMATION – continued

Information regarding the above segments is reported below.

Segment revenues and results

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

	Segment revenue		Segment results	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Professional services business	**1,452,782**	1,214,957	**120,502**	98,201
Outsourcing services business	**1,221,800**	959,458	**113,699**	110,609
Training business	**93,589**	69,339	**12,813**	9,779
	2,768,171	2,243,754	**247,014**	218,589

Reconciliation of segment results to profit before taxation:

	2012	2011
	RMB'000	RMB'000
Segment results	**247,014**	218,589
Other income, gains and losses unallocated	**767**	12,632
Interest charge on convertible loan notes	**(13,767)**	(12,666)
Impairment loss recognised in respect of goodwill	**(28,054)**	(68,982)
Corporate expenses	**(12,257)**	(8,456)
Share option expenses	**(11,544)**	(24,861)
Gain arising from changes in fair value of contingent consideration payable on acquisition of a business	**5,557**	71,718
Loss arising from changes in fair value of redeemable convertible preferred shares	**–**	(37,287)
Profit before taxation	**187,716**	150,687

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

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

5. TURNOVER AND SEGMENT INFORMATION – continued

Segment revenues and results – continued

Segment results represent the profit earned by each segment without allocation of impairment loss recognised in respect of goodwill, corporate expenses, share option expenses, gain arising from changes in fair value of contingent consideration payable on acquisition of a business, loss arising from changes in fair value of redeemable convertible preferred shares, interest charge on convertible loan notes and certain items of other income, gains and losses recorded at corporate level. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Segment assets and liabilities

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

	2012 RMB'000	2011 RMB'000
Segment assets		
Professional services business	1,668,034	1,350,194
Outsourcing services business	953,321	635,408
Training business	79,971	60,056
Segment assets	2,701,326	2,045,658
Goodwill	629,075	657,129
Others	111,949	244,747
Consolidated assets	3,442,350	2,947,534
Segment liabilities		
Professional services business	879,306	687,645
Outsourcing services business	259,976	211,383
Training business	19,023	18,843
Segment liabilities	1,158,305	917,871
Convertible loan notes	199,087	193,820
Others	22,675	32,158
Consolidated liabilities	1,380,067	1,143,849

5. TURNOVER AND SEGMENT INFORMATION – continued

Segment assets and liabilities – continued

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

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

- all liabilities are allocated to operating segments other than convertible loan notes, deferred tax liabilities and liabilities for which operating segments are jointly liable.

Other information

Amounts included in the measure of segment expenses (income) and segment asset:

	PSG		OSG		Training		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Additions to non-current assets, other than deferred tax assets	**67,775**	42,664	**64,119**	33,775	**5,419**	9,885	**137,313**	86,324
Interests in associates	**23,179**	21,620	**4,437**	3,931	**–**	–	**27,616**	25,551
Depreciation of property, plant and equipment	**14,313**	15,312	**29,376**	19,467	**2,888**	4,268	**46,577**	39,047
Amortisation of intangible assets and prepaid lease payments	**37,788**	37,344	**4,816**	9,985	**363**	185	**42,967**	47,514
Allowance for doubtful debts	**15,498**	16,513	**–**	394	**309**	510	**15,807**	17,417
Interest income	**(1,777)**	(2,696)	**(705)**	(757)	**(11)**	(9)	**(2,493)**	(3,462)
Finance costs	**10,935**	6,532	**6,164**	4,522	**245**	178	**17,344**	11,232
Share of results of associates	**(2,030)**	(2,618)	**–**	–	**–**	–	**(2,030)**	(2,618)
Loss on disposal of property, plant and equipment	**15**	437	**122**	130	**–**	6	**137**	573

5. TURNOVER AND SEGMENT INFORMATION – continued

Geographical information

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

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

	Revenues from external customers		Non-current assets, other than deferred tax assets and available-for-sale investment	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC and HK	**2,455,824**	2,005,120	**989,953**	970,421
USA	**249,101**	209,154	**1,130**	1,154
Japan	**63,246**	29,480	**268**	202
	2,768,171	2,243,754	**991,351**	971,777

Segment revenue by products and services:

	2012	2011
	RMB'000	RMB'000
Sale of software and hardware products	**216,776**	283,869
Provision of services		
Professional services	**1,236,006**	931,088
Outsourcing services	**1,221,800**	959,458
Training	**93,589**	69,339
	2,551,395	1,959,885
	2,768,171	2,243,754

5. TURNOVER AND SEGMENT INFORMATION – continued

Information about major customers

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

	2012 RMB'000	2011 RMB'000
Customer A	572,517	402,194
Customer B	280,985	237,893

6. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest on borrowings wholly repayable within five years	17,344	11,232
Effective interest on convertible loan notes	13,767	12,666
	31,111	23,898

7. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
Tax charge comprises:		
PRC Enterprise Income Tax		
– current year	46,157	38,928
– over provision in prior year	(2,047)	(721)
	44,110	38,207
The US Federal and State Income taxes	6	86
Japan Corporate Income Tax	901	379
Hong Kong Profits Tax	168	–
	45,185	38,672
Deferred tax (note 26)	(7,611)	(9,061)
	37,574	29,611

7. TAXATION – continued

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

Pursuant to a certificate issued by Beijing Municipal Science and Technology Commission dated 11 October 2011, Chinasoft Beijing had been designated as a High and New Technology Enterprise ("HNTE") for a period up to 11 October 2014 and its income tax rate was reduced from 25% to 15%.

Pursuant to a certificate issued by Beijing Municipal Science and Technology Commission dated 24 December 2008, Chinasoft Resources Beijing had been designated as a HNTE till the end of 2011. Moreover, pursuant to a certificate issued by Beijing Municipal Science and Technology Commission dated 11 October 2011, Chinasoft Resources Beijing had been designated as a HNTE till the end of 2014. As a result, Chinasoft Resources Beijing is subject to the income tax rate of 15% for both years.

Pursuant to a certificate issued by Shanghai Municipal Science and Technology Commission dated 28 September 2010, Chinasoft Resources Shanghai had been designated as a HNTE for a period up to 27 September 2013. As a result, the income tax rate of Chinasoft Resources Shanghai was reduced from 25% to 15% for both years.

Pursuant to a certificate issued by Shanghai Municipal Science and Technology Commission dated 20 October 2011, Shanghai Huateng had been designated as a HNTE for a period up to 20 October 2014. As a result, Shanghai Huateng is subject to the income tax rate of 15% for both years.

Chinasoft Resources Shenzhen is located in the Shenzhen Special Economic Zone and the applicable tax rate was 15% before the effective date of the new EIT Law. With effect from 1 January 2008, the tax rate has increased progressively to 25%. The applicable tax rate of the Special Economic Zone is 25% in 2012 (2011: 24%). As a result, Chinasoft Resources Shenzhen is subject to the income tax at the rate of 25% (2011: 24%) for the year ended 31 December 2012.

Pursuant to a certificate issued by the Industry and Information Technology Department of Shaanxi Province dated 25 December 2012, CSITS had been designated as a software enterprise for a period up to 25 December 2017. As such, CSITS was entitled to the two years' exemption from income tax followed by three years of 50% tax reduction with effect from 2012. As a result, CSITS is exempted from income tax for the year ended 31 December 2012.

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

7. TAXATION – continued

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

	2012 RMB'000	2011 RMB'000
Profit before taxation	**187,716**	150,687
Tax at PRC Enterprise Income Tax rate of 25% (2011: 25%)	**46,929**	37,672
Tax effect of share of results of associates	**(508)**	(655)
Tax effect attributable to tax exemptions and concessions granted to PRC subsidiaries	**(30,236)**	(42,362)
Tax effect of expenses not deductible for tax purpose	**22,580**	44,919
Tax effect of income not taxable for tax purpose	**(15,777)**	(20,063)
Over provision in prior year	**(2,047)**	(721)
Tax effect of utilisation of tax losses previously not recognised	**(2,347)**	(1,313)
Tax effect of tax losses not recognised	**17,542**	11,918
Effect of different tax rates of subsidiaries	**1,438**	216
Income tax expense for the year	**37,574**	29,611

8. PROFIT FOR THE YEAR

	2012 RMB'000	2011 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration (note 9)	**4,470**	3,463
Other staff costs	**1,546,251**	1,115,622
Retirement benefits costs (excluding those for directors)	**158,276**	89,865
Share option expenses	**11,544**	24,861
Total staff costs	**1,720,541**	1,233,811
Less: Staff costs capitalised as development costs	**(22,494)**	(14,073)
	1,698,047	1,219,738
Research and development costs expensed	**64,609**	50,987
Less: Government grants	**(7,554)**	(4,998)
	57,055	45,989
Depreciation of property, plant and equipment	**46,577**	39,047
Amortisation of intangible assets	**42,812**	47,358
Amortisation of prepaid lease payments	**155**	156
	89,544	86,561
Auditor's remuneration	**4,300**	3,800
Cost of inventories recognised as an expense	**176,668**	241,301
Loss on disposal of property, plant and equipment	**137**	573
Minimum lease payments in respect of buildings	**91,495**	58,326
Net foreign exchange loss	**72**	–
and after crediting:		
Interest income from pledged deposits and bank balances	**3,326**	3,802
Government grants	**48,524**	26,628
Net foreign exchange gain	**–**	12,082
Tax incentive subsidies	**4,562**	3,463

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

Details of emoluments to the directors and the chief executive for the year ended 31 December 2012 are as follows:

	Chief executive and executive director	Executive director			Non-executive director				Independent non-executive director				
	Chen Yuhong RMB'000	Tang Zhenming RMB'000	Wang Hui RMB'000	Jiang Xiaohai RMB'000	John Zhao RMB'000	Zhang Yaqin RMB'000	Lin Sheng RMB'000	Shen Lipu RMB'000	Zeng Zhijie RMB'000	Leung WingYin Patrick RMB'000	Song Jun RMB'000 (Note c)	Xu Zeshan RMB'000	Total RMB'000
Fees	-	-	-	-	-	-	-	-	98	89	-	-	187
Other emoluments:													
Salaries and other benefits	2,168	641	1,322	-	-	-	-	-	-	-	53	-	4,184
Retirement benefits costs	33	33	33	-	-	-	-	-	-	-	-	-	99
Total directors' remuneration	2,201	674	1,355	-	-	-	-	-	98	89	53	-	4,470

Details of emoluments to the directors and the chief executive for the year ended 31 December 2011 are as follows:

	Chief executive and executive director	Executive director			Non-executive director							Independent non-executive director				
	Chen Yuhong RMB'000	Tang Zhenming RMB'000	Wang Hui RMB'000	Jiang Xiaohai RMB'000 (Note b)	Cui Hui RMB'000 (Note a)	Fang Jun RMB'000 (Note a)	Liu Zheng RMB'000 (Note a)	John Zhao RMB'000 (Note b)	Zhang Yaqin RMB'000	Lin Sheng RMB'000 (Note b)	Shen Lipu RMB'000 (Note b)	Song Jun RMB'000 (Note b)	Zeng Zhijie RMB'000	Leung Wing Yin Patrick RMB'000	Xu Zeshan RMB'000	Total RMB'000
Fees	-	-	-	-	-	-	-	-	-	-	-	-	99	99	-	198
Other emoluments:																
Salaries and other benefits	1,910	458	807	-	-	-	-	-	-	-	-	-	-	-	-	3,175
Retirement benefits costs	30	30	30	-	-	-	-	-	-	-	-	-	-	-	-	90
Total directors' remuneration	1,940	488	837	-	-	-	-	-	-	-	-	-	99	99	-	3,463

Note a: Resigned during 2011.

Note b: Appointed during 2011.

Note c: Re-designated from non-executive director during 2012.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2011: one) were directors and chief executive of the Company whose emoluments were included above. The emoluments of the remaining three (2011: four) highest paid individuals were as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other benefits	2,280	3,017
Share option expenses	1,662	4,653
Retirement benefits costs	78	94
	4,020	7,764

Their emoluments were within the following bands:

	No. of employees 2012	 2011
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,220,401 to RMB1,627,200; 2011: equivalent to RMB1,241,851 to RMB1,655,800)	3	–
HK$2,000,001 to HK$2,500,000 (equivalent to RMB1,627,201 to RMB2,034,000; 2011: equivalent to RMB1,655,801 to RMB2,069,750)	–	3
HK$2,500,001 to HK$3,000,000 (equivalent to RMB2,034,001 to RMB2,440,800; 2011: equivalent to RMB2,069,751 to RMB2,483,700)	–	1
	3	4

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

None of the directors waived any emoluments during both years.

10. DIVIDEND

No dividend was paid or proposed during 2011 and 2012, nor has any dividend been proposed since the end of the reporting period.

11. EARNINGS PER SHARE

	2012 RMB'000	2011 RMB'000
Earnings		
Earnings for the purpose of basic and dilutive earnings per share (Profit for the year attributable to owners of the Company)	**133,189**	110,594

Number of shares

	2012 '000	2011 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,667,556**	1,349,785
Effect of dilutive potential ordinary shares:		
Share options	**53,812**	113,451
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,721,368**	1,463,236

The computation of diluted earnings per share for the year ended 31 December 2011 did not assume the conversion of the Company's outstanding redeemable convertible preferred shares prior to their conversion or the Company's outstanding convertible loan notes because the assumed conversion would result in an increase in earnings per share.

The computation of diluted earnings per share for the year ended 31 December 2012 did not assume the conversion of the Company's outstanding convertible loan notes because the assumed conversion would result in an increase in earnings per share.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST					
At 1 January 2011	45,101	139,933	16,049	2,201	203,284
Exchange adjustments	(12)	(257)	(6)	–	(275)
Additions	20,044	40,001	1,869	1,196	63,110
Disposals	–	(8,113)	(41)	–	(8,154)
Transfers	209	206	–	(415)	–
At 31 December 2011	65,342	171,770	17,871	2,982	257,965
Exchange adjustments	(5)	(79)	–	–	(84)
Additions	14,368	35,174	509	94	50,145
Disposals	–	(3,456)	(50)	–	(3,506)
Transfers	351	2,725	–	(3,076)	–
At 31 December 2012	**80,056**	**206,134**	**18,330**	**–**	**304,520**
DEPRECIATION					
At 1 January 2011	20,628	67,471	6,314	–	94,413
Exchange adjustments	(12)	(165)	(2)	–	(179)
Provided for the year	10,959	26,195	1,893	–	39,047
Eliminated on disposals	–	(6,733)	(39)	–	(6,772)
At 31 December 2011	31,575	86,768	8,166	–	126,509
Exchange adjustments	–	–	–	–	–
Provided for the year	15,116	29,559	1,902	–	46,577
Eliminated on disposals	–	(1,409)	(10)	–	(1,419)
At 31 December 2012	**46,691**	**114,918**	**10,058**	**–**	**171,667**
CARRYING VALUES					
At 31 December 2012	**33,365**	**91,216**	**8,272**	**–**	**132,853**
At 31 December 2011	33,767	85,002	9,705	2,982	131,456

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

Leasehold improvements	Over the relevant lease terms or 19%-33$^1/_3$%, whichever is the lower
Furniture, fixtures and equipment	9%-33$^1/_3$%
Motor vehicles	9%-20%

13. INTANGIBLE ASSETS

	Development costs	Technical knowhow	Software	Contract-based customer-related intangibles	Technical expertise	Customer relationship	Patent	Trade name	Technology	Non-compete agreements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST											
At 1 January 2011	66,349	17,367	10,156	19,704	12,494	136,764	13,764	968	6,643	1,019	285,228
Additions	19,489	–	3,725	–	–	–	–	–	–	–	23,214
At 31 December 2011	85,838	17,367	13,881	19,704	12,494	136,764	13,764	968	6,643	1,019	308,442
Additions	41,619	–	3,351	–	–	–	–	–	–	–	44,970
At 31 December 2012	**127,457**	**17,367**	**17,232**	**19,704**	**12,494**	**136,764**	**13,764**	**968**	**6,643**	**1,019**	**353,412**
AMORTISATION/IMPAIRMENT											
At 1 January 2011	34,203	8,052	2,396	17,734	11,491	25,067	776	533	3,322	338	103,912
Provided for the year	8,532	2,801	2,233	1,970	814	27,833	1,355	194	1,329	297	47,358
At 31 December 2011	42,735	10,853	4,629	19,704	12,305	52,900	2,131	727	4,651	635	151,270
Provided for the year	6,860	2,801	3,962	–	189	25,905	1,305	184	1,329	277	42,812
At 31 December 2012	**49,595**	**13,654**	**8,591**	**19,704**	**12,494**	**78,805**	**3,436**	**911**	**5,980**	**912**	**194,082**
CARRYING VALUES											
At 31 December 2012	**77,862**	**3,713**	**8,641**	**–**	**–**	**57,959**	**10,328**	**57**	**663**	**107**	**159,330**
At 31 December 2011	43,103	6,514	9,252	–	189	83,864	11,633	241	1,992	384	157,172

Development costs are internally generated. All other intangible assets were acquired from third parties.

13. INTANGIBLE ASSETS – continued

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

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

14. GOODWILL

	RMB'000
COST	
At 1 January 2011	828,153
Adjustment on contingent consideration in respect of the acquisition of IT solution business in tobacco retailing industry ("Tobacco") in 2009 (Note i)	(3,000)
At 31 December 2011 and 2012	**825,153**
IMPAIRMENT	
At 1 January 2011	99,042
Impairment loss recognised for the year	68,982
At 31 December 2011	168,024
Impairment loss recognised for the year	28,054
At 31 December 2012	**196,078**
CARRYING VALUES	
At 31 December 2012	**629,075**
At 31 December 2011	657,129

14. GOODWILL – continued

Impairment testing on goodwill

For the purposes of impairment testing, the carrying amount of goodwill (net of impairment loss) as at 31 December 2012 and 2011 has been allocated to the following individual CGUs under the three segments:

	2012 RMB'000	2011 RMB'000
Professional services business segment		
– Chinasoft Beijing	55,249	26,396
– Sino Sunnyever	–	2,669
– Guangyuqimin	–	2,909
– Tobacco (Note i)	–	23,275
– Han Consulting	11,250	11,250
– MMIM (Note ii)	206,210	234,264
– HGR and its subsidiaries	134,188	134,188
	406,897	434,951
Outsourcing services business segment		
– CSITS and existing outsourcing entities	221,348	–
– Cyber Resources (Note iii)	–	31,963
– Chinasoft Resources Beijing	–	80,968
– HGR and its subsidiaries	–	82,817
– Chinasoft Resources Shanghai	–	6,109
– Shenzhen Jinhuaye	–	19,491
	221,348	221,348
Training business segment	830	830
	629,075	657,129

In previous years, the operation of the outsourcing services business was monitored at each entity level and each entity was considered as an individual CGU for the purpose of goodwill impairment assessment for these years. Following the establishment of CSITS in April 2012 as mentioned in note 1, the Group consolidated its IT outsourcing business. As such, for the purpose of goodwill impairment assessment at 31 December 2012, CSITS, its subsidiaries and other entities under the outsourcing services business segment were taken as a group that represents the lowest level within the Group at which the related goodwill was monitored for internal management purposes.

14. GOODWILL – continued

Impairment testing on goodwill – continued

During 2012, Sino Sunnyever, Guangyuqimin and Tobacco were closed after the completion of business transfer to Chinasoft Beijing. Therefore, the goodwill attributable to these entities was reallocated to Chinasoft Beijing for the purpose of goodwill impairment assessment at 31 December 2012 which represents the lowest level within the Group at which the related goodwill is monitored for internal management purposes.

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

Except as noted below, the recoverable amounts of the following CGUs or group of CGUs have been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rates shown below. The cash flows of the CGUs or group of CGUs beyond the five-year period are extrapolated using steady growth rates shown below. These growth rates are based on the relevant industry. 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 and/or outflows which include budgeted sales and gross profit margin. Such estimation is based on the past performance of the CGUs or group of CGUs and management's expectations.

CGUs	**Discount rate**		**Growth rate**	
	2012	2011	**2012**	2011
Professional services business segment				
– Chinasoft Beijing	**14%**	15%	**3%**	3%
– Sino Sunnyever	**N/A**	15%	**N/A**	3%
– Guangyuqimin	**N/A**	15%	**N/A**	3%
– Tobacco	**N/A**	15%	**N/A**	3%
– Han Consulting	**16%**	16%	**3%**	3%
– MMIM	**17%**	16%	**3%**	3%
– HGR and its subsidiaries	**14%**	15%	**3%**	3%
Outsourcing services business segment				
– CSITS and existing outsourcing entities	**14%**	N/A	**3%**	N/A
– Cyber Resources	**N/A**	Note iii	**N/A**	Note iii
– Chinasoft Resources Beijing	**N/A**	16%	**N/A**	3%
– HGR and its subsidiaries	**N/A**	15%	**N/A**	3%
– Chinasoft Resources Shanghai	**N/A**	16%	**N/A**	3%
– Shenzhen Jinhuaye	**N/A**	16%	**N/A**	3%
Training business segment	**13%**	15%	**3%**	3%

14. GOODWILL – continued

Impairment testing on goodwill – continued

Notes:

i. During the year ended 31 December 2011, certain specific milestones in relation to the contingent consideration of RMB3,000,000 arising on acquisition of Tobacco in 2009 was finally determined to be unachieved. The adjustment on contingent consideration is recognised against the cost of acquisition.

ii. The Group recognised an impairment loss of RMB28,054,000 in 2012 (2011: RMB68,982,000) in relation to the goodwill arising on acquisition of MMIM under the professional services business segment.

iii. In 2011, the recoverable amount of Cyber Resources was fair value less costs to sell and had been determined based on the valuation at 31 December 2011. The valuation was based on the management's 2011 financial information and a weighted average of market value of invested capital over earnings before interest and taxation of 23 and that over earnings of 23 based on comparable companies in the relevant industry.

15. INTERESTS IN ASSOCIATES

	2012 RMB'000	2011 RMB'000
Unlisted cost of investments in associates	9,495	9,460
Share of post-acquisition profits net of dividend received	18,121	16,091
	27,616	25,551

Included in the unlisted cost of investments in associates is goodwill of RMB3,052,000 (2011: RMB3,052,000) arising on acquisition of China National Tobacco Information Company Limited in 2005.

Amounts due from associates are unsecured, interest free and repayable within one year.

15. INTERESTS IN ASSOCIATES – continued

Particulars of the Group's associates at 31 December 2012 and 2011 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 2012	2011	Nature of business
武漢中軟國際資訊技術有限公司 Wuhan Chinasoft International Information Technology Limited	Equity joint venture enterprise	PRC	PRC	**46%**	46%	Provision of solutions and IT consulting services
北京中煙資訊技術有限公司 China National Tobacco Information Company Limited	Equity joint venture enterprise	PRC	PRC	**20%**	20%	Maintenance of a policy making system for the production, operation and management of the tobacco industry
上海華騰數據信息科技有限公司 Shanghai Huateng Data Service Co., Ltd. (Note i) ("Huateng Data")	Equity joint venture enterprise	PRC	PRC	**20%**	20%	Operation of data centre
上海華騰智能系統有限公司 Shanghai Huateng Intelligent System Co., Ltd. (Note i) ("Huateng Intelligent")	Equity joint venture enterprise	PRC	PRC	**20%**	20%	Design of intelligent terminal hardware
北京雲博中軟國際科技有限公司 Beijing Yunbo Chinasoft International Techonology Limited (Note ii)("Beijing Yunbo")	Equity joint venture enterprise	PRC	PRC	**35%**	N/A	Provision of solutions and IT consulting services

Notes:

i The proportion of registered capital of the associates held by the Group was diluted as the capital injections in 2011 contributed by the Group were lower than the original proportion. A loss on deemed disposal of RMB105,000 was recognised during 2011.

ii Beijing Yunbo was newly established in the current year.

15. INTERESTS IN ASSOCIATES – continued

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

	2012 RMB'000	2011 RMB'000
Total assets	**144,603**	121,820
Total liabilities	**(54,694)**	(43,170)
Net assets	**89,909**	78,650
Group's share of net assets of associates	**24,564**	22,499
Total revenue	**132,622**	114,046
Total profit for the year	**11,159**	12,779
Group's share of profits of associates for the year	**2,030**	2,618

16. AVAILABLE-FOR-SALE INVESTMENT

	2012 RMB'000	2011 RMB'000
Unlisted equity investment	**25,000**	25,000

On 17 January 2011, the Group entered into a trust agreement (the "Agreement") with Easy Win Technology Limited ("Easy Win"), an equity owner of Huateng Data and Huateng Intelligent, associates of the Group. Under the Agreement, Easy Win agreed to acquire and hold on behalf of the Group a 19.8% unlisted equity investment in Fu Fei Tong Information Service Company Limited ("Fu Fei Tong"), an entity established in the PRC and engaged in the provision of digital payment services in the PRC, at a consideration of RMB25,000,000. Pursuant to the Agreement, the Group is entitled to the relevant investment return but is not entitled to other owners' rights on the investment (including voting rights in shareholders' meeting and directors' meeting). The owners' rights, including voting rights in shareholders' and directors' meeting are to be exercised by Easy Win. The directors consider that the Group cannot exercise significant influence on Fu Fei Tong.

The investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably.

17. PREPAID LEASE PAYMENTS

	Land use right	Trademark usage right	Total
	RMB'000	RMB'000	RMB'000
COST			
At 1 January 2011	–	1,726	1,726
Exchange adjustment	–	(75)	(75)
At 31 December 2011	–	1,651	1,651
Addition	43,023	–	43,023
At 31 December 2012	43,023	1,651	44,674
AMORTISATION			
At 1 January 2011	–	905	905
Exchange adjustment	–	(57)	(57)
Provided for the year	–	156	156
At 31 December 2011	–	1,004	1,004
Provided for the year	–	155	155
At 31 December 2012	–	1,159	1,159
CARRYING VALUE			
At 31 December 2012	43,023	492	43,515
At 31 December 2011	–	647	647

	2012			2011		
	Land use right	Trademark usage right	Total	Land use right	Trademark usage right	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Analysed for reporting purposes as:						
Non-current assets	42,163	314	42,477	–	469	469
Current assets	860	178	1,038	–	178	178
	43,023	492	43,515	–	647	647

17. PREPAID LEASE PAYMENTS – continued

The Group's prepaid lease payments comprise payments for a trademark usage right of RMB492,000 (2011: RMB647,000) and payments associated with a land use right of RMB43,023,000 (2011: nil) in the PRC under medium-term lease.

The payment for the trademark usage right is amortised on a straight-line basis over 10 years.

During 2012, the Group entered into an agreement with the relevant government authority to acquire a land use right with a lease term of 50 years. The consideration under the agreement and other directly attributable costs amounted to RMB43,023,000. The Group is in the process of obtaining the land use right certificate. The land use right will be amortised on a straight-line basis over a lease term of 50 years.

18. INVENTORIES

	2012 RMB'000	2011 RMB'000
Computer hardware, equipment and software products	**23,989**	24,405

19. TRADE AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade receivables	**589,501**	717,577
Less: Allowance for doubtful debts	**(95,114)**	(79,307)
	494,387	638,270
Trade receivables from related companies (Note)	**335,422**	1,664
	829,809	639,934
Advances to suppliers	**91,114**	39,296
Deposits, prepayments and other receivables	**118,473**	81,418
	1,039,396	760,648

Note: The balances principally arose from provision of services by the Group to certain related companies (see note 39). As at 31 December 2012, the balances included an amount of RMB334,791,000 due from the group of Huawei and its subsidiaries ("Huawei Group") which became a related party following the establishment of CSITS in April 2012.

19. TRADE AND OTHER RECEIVABLES – continued

The credit terms of the Group range from 30 to 180 days. An aged analysis of trade receivables (net of allowance for doubtful debts), presented based on the invoice date at the end of the reporting period is as follows:

	2012 RMB'000	2011 RMB'000
Within 90 days	601,133	483,793
Between 91 – 180 days	116,221	80,316
Between 181 – 365 days	54,822	39,804
Between 1 – 2 years	56,828	30,293
Over 2 years	805	5,728
	829,809	639,934

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by each customer. Limits attributed to customers are reviewed each time. 67% (2011: 71%) 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 receivables balance are debtors with an aggregate carrying amount of RMB210,169,000 (2011: RMB131,106,000) which are past due at the reporting date for which the Group has not provided for an impairment loss as the Group is satisfied with the subsequent settlement and the credit quality of these customers had not been deteriorated. Accordingly, the Group does not consider these balances impaired. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	2012 RMB'000	2011 RMB'000
Within 90 days	2,038	12,601
Between 91 – 180 days	95,676	42,680
Between 181 – 365 days	54,822	39,804
Between 1 – 2 years	56,828	30,293
Over 2 years	805	5,728
Total	210,169	131,106

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

19. TRADE AND OTHER RECEIVABLES – continued

Movement in the allowance for doubtful debts

	2012 RMB'000	2011 RMB'000
Balance at beginning of the year	**79,307**	61,890
Impairment losses recognised on receivables	**15,807**	17,417
Balance at end of the year	**95,114**	79,307

20. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2012 RMB'000	2011 RMB'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**1,840,047**	1,557,975
Less: Progress billings	**(1,389,194)**	(1,250,434)
	450,853	307,541
Analysed for reporting purposes as:		
Amounts due from contract customers for contract work	**561,359**	363,683
Amounts due to contract customers for contract work	**(110,506)**	(56,142)
	450,853	307,541

At 31 December 2012, retentions held by customers for contract work amounted to RMB7,378,000 (2011: RMB3,680,000). There are no advances received from customers for contract work at the end of 2012 and 2011.

21. AMOUNTS DUE FROM/TO RELATED COMPANIES

At the end of 2011, the amounts due from related companies principally represent the balance with a company whose director is also a director of a subsidiary of the Company. At the end of 2012, the amount due from a related company represents an advance to a non-controlling owner of a subsidiary. The balances are unsecured, non-interest bearing and repayable on demand.

The amounts due to related companies principally represent an advance from a non-controlling owner of a subsidiary of the Company, which is unsecured, interest-bearing at 5.39% (2011: 5.68%) per annum and repayable on demand.

22. PLEDGED DEPOSITS/BANK BALANCES

Pledged deposits

The amount represents deposits pledged to certain banks as collaterals for short-term trade facilities granted to the Group and is therefore classified a current asset. The deposits carry interest at the prevailing market interest rate. The weighted average interest rate at the end of the reporting period was 0.42% (2011: 1.09%) per annum. The pledged deposits will be released upon the settlement of relevant liabilities under the trade facilities.

Bank balances

The amounts comprise short-term bank deposits carried at the prevailing market interest rates which range from 2.82% to 3.25% (2011: from 2.5% to 2.82%) per annum as at 31 December 2012. At the end of the reporting period, included in bank balances are the following amounts denominated in currencies other than the functional currency of the relevant group entity to which they relate.

	2012 RMB'000	2011 RMB'000
Hong Kong Dollar	56,567	15,877
United States Dollar	241	375
Japanese Yen	3,158	11,267

23. TRADE AND OTHER PAYABLES

	2012 RMB'000	2011 RMB'000
Trade payables	342,149	283,359
Trade payables to related companies (Note)	2,996	–
	345,145	283,359
Deposits received from customers	50,960	41,505
Other payables and accrued charges	272,813	288,285
	668,918	613,149

23. TRADE AND OTHER PAYABLES – continued

An aged analysis of trade payables, presented based on the invoice date at the end of the reporting period is as follows:

	2012 RMB'000	2011 RMB'000
Within 90 days	**143,443**	161,373
Between 91 – 180 days	**36,729**	20,780
Between 181 – 365 days	**49,998**	20,811
Between 1 – 2 years	**89,102**	65,345
Over 2 years	**25,873**	15,050
	345,145	283,359

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that sufficient working capital is maintained to meet its obligations when they fall due.

Note: The balance arose from provision of service by Huateng Intelligent to the Group (see note 39) during the year ended 31 December 2012.

24. BILLS PAYABLE

An aged analysis of bills payable is as follows:

	2012 RMB'000	2011 RMB'000
Within 90 days	**7,071**	21,525

25. BORROWINGS

	2012 RMB'000	2011 RMB'000
Unsecured bank loans (Note (i))	**328,300**	195,200

25. BORROWINGS – continued

	2012 RMB'000	2011 RMB'000
Carrying amount repayable:		
Within one year	309,300	165,600
More than one year, but not exceeding two years	19,000	29,600
	328,300	195,200
Less: Amounts due within one year shown under current liabilities	(309,300)	(165,600)
Amounts shown under non-current liabilities	19,000	29,600

	2012 RMB'000	2011 RMB'000
Total borrowings		
At fixed interest rates	84,000	–
At floating interest rates (Note (ii))	244,300	195,200
	328,300	195,200

	2012 RMB'000	2011 RMB'000
Analysis of borrowings by currency		
Denominated in RMB	328,300	195,200

Notes:

(i) Guaranteed by the Company and certain subsidiaries of the Company.

(ii) Interests on RMB borrowings are charged at interest rates announced by the People's Bank of China. The average interest rate during the year is 6.46% (2011: 6.71%) per annum.

26. DEFERRED TAXATION

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

	Deferred development costs RMB'000	Technical expertise RMB'000	Software RMB'000	Customer relationship RMB'000	Patent RMB'000	Technology RMB'000	Trade name RMB'000	Non-compete agreement RMB'000	Property, plant and equipment RMB'000	Accrued expenses RMB'000	Total RMB'000
At 1 January 2011	(1,766)	(60)	(281)	(26,363)	(3,235)	(831)	(95)	(152)	804	8,220	(23,759)
Credit to profit or loss	937	35	147	6,124	328	333	43	69	–	1,045	9,061
At 31 December 2011	(829)	(25)	(134)	(20,239)	(2,907)	(498)	(52)	(83)	804	9,265	(14,698)
Credit to profit or loss	379	25	134	5,862	326	332	43	64	–	446	7,611
At 31 December 2012	**(450)**	**-**	**-**	**(14,377)**	**(2,581)**	**(166)**	**(9)**	**(19)**	**804**	**9,711**	**(7,087)**

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

	2012 RMB'000	2011 RMB'000
Deferred tax assets	**10,515**	10,069
Deferred tax liabilities	**(17,602)**	(24,767)
	(7,087)	(14,698)

At the end of the reporting period, the Group had unused tax losses available for offset against future profits of approximately RMB158,911,000 (2011: RMB98,131,000) which may be carried forward indefinitely except for losses of approximately RMB88,743,000 (2011: RMB62,246,000) which will expire from 2013 to 2017 (2013: RMB3,268,000, 2014: RMB27,288,000, 2015: RMB5,826,000, 2016: RMB16,476,000, 2017: RMB35,885,000). No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams.

Under the new EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profit earned by PRC subsidiaries from 1 January 2008 onwards at 5% or 10% according the relevant tax treaties. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of the PRC subsidiaries as at 31 December 2012 amounting to RMB512,620,000 (2011: RMB381,620,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

27. REDEEMABLE CONVERTIBLE PREFERRED SHARES

	Number of shares	Nominal amount HK$'000
Redeemable convertible preferred shares (the "Series A Preferred Shares") of HK$0.05 each:		
Authorised		
Balance at 31 December 2011 and 2012	625,000,000	31,250
Issued and fully paid		
Balance at 1 January 2011	164,500,000	8,225
Converted into ordinary shares during 2011	(164,500,000)	(8,225)
Balance at 31 December 2011 and 2012	–	–

On 22 November 2011, the Company announced that one of the investors requested to convert its 7,250,000 out of the total 164,500,000 outstanding Series A Preferred Shares into the Company's ordinary shares (note 29). Immediately before the conversion, the fair value of the redeemable convertible preferred shares of the converted portion was approximately RMB12,899,000 which was measured by the Company with reference to the share price as adjusted by an estimated discount rate for the restriction of trading given the converted ordinary shares are prohibited for sale for 180 days after the conversion.

On 30 December 2011, the Company announced that the investors requested to convert their entire 157,250,000 outstanding Series A Preferred Shares into the Company's ordinary shares (note 29). Immediately before the conversion, the fair value of the redeemable convertible preferred shares of the converted portion was approximately RMB258,440,000 which was measured by the Company with reference to the share price as adjusted by an estimated discount rate for the restriction of trading given the converted ordinary shares are prohibited for sale for 180 days after the conversion.

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

27. REDEEMABLE CONVERTIBLE PREFERRED SHARES – continued

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

	Liability component	Derivative component	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2011	106,075	148,368	254,443
Exchange adjustment	(5,102)	(7,487)	(12,589)
Conversion during the year	(104,992)	(166,347)	(271,339)
Loss arising from changes in fair value	11,821	25,466	37,287
Interest paid	(6,008)	–	(6,008)
Reclassification of interest payable to other payable	(1,794)	–	(1,794)
As at 31 December 2011	**–**	**–**	**–**

Included in the loss arising from changes in fair value for the year ended 31 December 2011 was an interest expense of RMB5,993,000.

28. CONVERTIBLE LOAN NOTES

On 30 November 2010, the Company announced the completion of issue of 4.25% convertible loan notes in the principal amount of RMB200 million took place on 29 November 2010.

The convertible loan notes entitle the holders to convert them into ordinary shares of the Company (unless previously redeemed, converted or purchased and cancelled) at any time on or after 29 November 2010 up to 29 November 2013 (the "Maturity Date") at a conversion price (subject to adjustment for among other things, consolidation or subdivision of shares, capitalisation issue, capital distribution and certain other dilutive events) of HK$2 per share, translated to RMB1.718 per share at fixed exchange rate. Interest of 4.25% per annum will be paid semi-annually with the first interest payment date fell on 15 January 2011. The convertible loan notes will be redeemed by the Company at the Maturity Date at the principal amount outstanding together with accrued interest thereon up to and including the Maturity Date.

The Company has no right to require early cancellation or redemption of any of the convertible loan notes prior to the Maturity Date. The note holder may terminate and request immediate redemption of the convertible loan notes at their principal amount then outstanding together with accrued interest upon occurrence of certain events of defaults. Details of the issue of convertible loan notes were set out in a circular dated 1 November 2010 issued by the Company.

28. CONVERTIBLE LOAN NOTES – continued

At the date of issue, the convertible loan notes contained two components, liability element of RMB163,478,000 and equity element of RMB36,522,000. The equity element is presented in equity heading convertible loan notes reserve. During the year ended 31 December 2011, with the introduction of a new investor, the directors had conducted an assessment of the Group borrowing portfolio. As part of the assessment, the directors re-assessed the value of the convertible loan notes and decided to apply a revised effective interest rate of 7.24% per annum effective from January 2011 (2010: 11.99% per annum) on the liability component of the convertible loan notes, resulting in a reduction of the equity component by RMB21,355,000.

29. SHARE CAPITAL

	Number of shares	Nominal amount HK$'000
Ordinary shares of HK$0.05 each:		
Authorised:		
At 1 January 2011	1,500,000,000	75,000
Increase on 18 May 2011 (Note i)	2,500,000,000	125,000
At 31 December 2011 and 2012	4,000,000,000	200,000

	Number of shares	Amount HK$	Amount shown in the financial statements RMB'000
Issued and fully paid			
At 1 January 2011	1,214,327,259	60,716,363	61,133
Exercise of share options	93,401,400	4,670,070	3,881
Conversion of redeemable convertible preferred shares (note 27)	164,500,000	8,225,000	6,628
Issue of new shares (Note ii)	150,000,000	7,500,000	6,237
At 31 December 2011	1,622,228,659	81,111,433	77,879
Exercise of share options	96,276,000	4,813,800	3,931
Share repurchased and cancelled	(140,000)	(7,000)	(6)
At 31 December 2012	**1,718,364,659**	**85,918,233**	**81,804**

29. SHARE CAPITAL – continued

Notes:

(i) Pursuant to a resolution passed by shareholders of the Company in the annual general meeting on 18 May 2011, the authorised share capital is increased to 4,000,000,000 shares of HK$0.05 each.

(ii) On 21 June 2011, the Company entered into a subscription agreement with the subscriber, an existing shareholder of the Company, pursuant to which the subscriber has agreed to subscribe for 150,000,000 new shares at the subscription price of HK$1.86 per share, raising proceeds of HK$278,182,000 (equivalent to RMB231,448,000). The proceeds from the subscription was intended to be used as general working capital of the Group.

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

30. SHARE PREMIUM AND RESERVES

Share premium

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

No dividend has been paid and distributed in years 2011 and 2012.

General reserve fund and statutory enterprise expansion fund

As stipulated by the relevant laws and regulations in the PRC, foreign invested enterprises are required to provide for the general reserve fund and the statutory enterprise expansion fund. Appropriations to such reserve funds are made out of net profit after taxation as reported in the statutory financial statements of the relevant subsidiaries prepared in accordance with accounting principles generally accepted in the PRC and the amount and allocation basis are decided by their respective boards of directors annually. The general reserve fund can be used to make up prior year losses of these subsidiaries, if any, and can be applied in conversion into capital by means of capitalisation issue. The statutory enterprise expansion fund is used for expanding the capital base of these subsidiaries by means of capitalisation issue.

Statutory surplus reserve fund

As stipulated by the relevant laws and regulations in the PRC, the PRC subsidiaries other than foreign invested enterprises are required to provide for the statutory surplus reserve fund. Appropriations to such funds are made out of 10% of the net profit after taxation as reported in the statutory financial statements of the relevant subsidiaries prepared in accordance with accounting principles generally accepted in the PRC.

31. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 25, convertible loan notes disclosed in note 28, net of cash and cash equivalents and equity attributable to the owners of the Company, comprising issued share capital, share premium, reserves and accumulated profits.

The directors review the capital structure semi-annually. 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.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2012	2011
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,634,428**	1,511,462
Available-for-sale financial assets	**25,000**	25,000
Financial liabilities		
Amortised cost	**892,747**	707,467
Contingent consideration arising from business combination	**–**	5,557

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from associates, amounts due from/to related parties, pledged deposits, bank balances and cash, trade and other payables, dividend payable, borrowings, bills payable, contingent consideration arising from business combination and convertible loan notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate 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.

32. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk

(i) Currency risk

Several subsidiaries of the Company have bank balances and cash and trade receivables denominated in foreign currencies arising from income generated from provision of services and trade payables arising from purchases dominated in foreign currencies, which expose the Group to foreign currency risk. Approximately 3.7% (2011: 4.4%) of the Group's income generated from provisions of services is denominated in currencies other than the functional currency of the group entity providing the services. In addition, contingent consideration arising from business combination is denominated in foreign currency.

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

	Liabilities		**Assets**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong Dollar	**1,119**	30,863	**95,851**	21,371
United States Dollar	**58,541**	71,854	**24,110**	13,325
Japanese Yen	**8,076**	2,028	**17,499**	11,267
Others	**65**	–	**307**	–

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 has kept on monitoring the movement of all foreign currency exposure.

Sensitivity analysis

The Group is mainly exposed to Hong Kong Dollar, Unite States Dollar and Japanese Yen.

The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk 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 end of the reporting period for a 5% change in foreign currency rates. A positive/negative number below indicates an increase/decrease in post-tax profit where Renminbi strengthens 5% against the relevant currencies. For a 5% weakening of Renminbi against the relevant currencies, there would be an equal and opposite impact on the result, and the balances below would be negative.

32. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

(i) Currency risk – continued

Sensitivity analysis – continued

	Hong Kong dollar Impact		US dollar Impact		Japanese Yen Impact	
	2012	2011	**2012**	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Post-tax profit for the year	**(3,552)**	356 (a)	**1,291**	2,915 (b)	**(353)**	(346) (c)

(a) This is mainly attributable to the exposure on Hong Kong Dollar trade receivables and bank balances at the end of the reporting period.

(b) This is mainly attributable to the exposure on United States Dollar trade receivables, bank balances and trade payables at the end of the reporting period.

(c) This is mainly attributable to the exposure on Japanese Yen trade receivables, bank balances, and trade payables at the end of the reporting period.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to convertible loan notes (see note 28 for details), borrowings with fixed interest rates (see note 25) and amount due to related companies (see note 21).

The Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short-term bank deposits and borrowings at market rates. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prevailing interest rate announced by the Peoples' Bank of China.

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

32. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

(ii) Interest rate risk – continued

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for floating rate borrowings (see note 25) and short-term deposits at the end of the reporting period. A 50 basis points (2011: 50 basis points) increase or decrease is used for floating rate borrowings and a 10 basis points (2011: 10 basis points) increase or decrease is used for short-term deposits when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

In respect of the floating rate borrowings, if interest rates had been 50 basis points (2011: 50 basis points) higher and all other variable were held constant, the Group's post-tax profit for the year ended 31 December 2012 would decrease/increase by RMB916,000 (2011: RMB732,000). This is attributable to the Group's exposure to interest rate on floating rate borrowings.

In respect of short-term bank deposits, if interest rates had been 10 basis points (2011: 10 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2012 would increase/decrease by RMB584,000 (2011: RMB589,000). This is attributable to the Group's exposure to interest rates on its short-term bank deposits.

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 2012 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated specific persons responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group reviews the recoverable amount of each individual trade receivable at each end of the reporting period to ensure that adequate impairment losses, if necessary, are made for irrecoverable amounts.

In this regard, the directors 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 in the PRC.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 91.9% (2011: 91.8%) of the total trade receivables as at 31 December 2012. The Group has concentration of credit risk as 40.0% (2011: 40.4%) and 62.2% (2011: 52.2%) of the total trade receivable was due from the Group's largest customer and the five largest customers respectively. In addition, there is concentration of credit risk on liquid funds which are deposited with several authorised banks in the PRC. Other than the above, the Group does not have any other significant concentration of credit risk.

32. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk

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

As at 31 December 2012, the Group has available unutilised general borrowing facilities of approximately RMB137,029,000 (2011: RMB73,475,000).

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. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity tables

	Weighted average interest rate	On demand or less than 6 months	Over 6 months but not more than 1 year	1-2 years	Total undiscounted cash flows	Carrying amount at 31 December 2012
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2012						
Trade and other payables		349,018	–	–	349,018	349,018
Bills payable		7,071	–	–	7,071	7,071
Amounts due to related companies	5.39	9,412	–	–	9,412	9,196
Dividend payable to shareholders		75	–	–	75	75
Borrowings	6.46	209,300	114,785	20,227	344,312	328,300
Convertible loan notes	7.24	4,285	207,405	–	211,690	199,087
		579,161	322,190	20,227	921,578	892,747

32. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity tables – continued

	Weighted average interest rate %	On demand or less than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	1-2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2011 RMB'000
2011						
Trade and other payables		293,082	–	–	293,082	293,082
Bills payable		21,525	–	–	21,525	21,525
Amounts due to related companies	5.68	3,765	–	–	3,765	3,765
Dividend payable to shareholders		75	–	–	75	75
Borrowings	6.71	96,849	78,819	31,587	207,255	195,200
Contingent consideration arising from business combination in 2010 (Note)		–	–	57,338	57,338	5,557
Convertible loan notes	7.24	4,285	4,238	211,667	220,190	193,820
		419,581	83,057	300,592	803,230	713,024

The amounts included above for variable interest rate borrowings are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Note: The amounts included above for contingent consideration arising from business combination are the maximum amounts of cash the Group could be required to settle under the arrangement if certain milestones are achieved by the acquirees. Based on expectations at the end of the reporting period, the directors have assessed the fair value of the contingent consideration which will be payable under the arrangement. However, this estimate is subject to change depending on the actual financial performance of the acquirees.

Fair value

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

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

32. FINANCIAL INSTRUMENTS – continued

Fair value measurements recognised in the consolidated statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2011, level 3 financial liability included contingent consideration arising from business combination. The fair value of contingent consideration arising from business combination was RMB5,557,000 (2012: nil), a fair value gain of RMB71,718,000 (2012: RMB5,557,000) was recognised in profit or loss during the year ended 31 December 2011. Redeemable convertible preferred shares were fully converted into ordinary shares at 31 December 2011, a fair value loss of RMB37,287,000 was recognised in profit or loss during year ended 31 December 2011.

33. ACQUISITIONS OF A BUSINESS

On 2 December 2010, the Group acquired the entire equity interest of MMIM for a consideration up to US$91,000,000 comprising of both cash consideration and issue of consideration shares. The amount included a consideration of US$45,500,000, comprising of both cash consideration and issue of consideration shares, the payment of which is contingent upon achievement of certain specific milestones. The contingent consideration is measured at fair value of RMB77,275,000 at the date of acquisition, which is based on a discounted cash flow model considering the forecasted financial performance, the market potential of the acquired business and the market performance.

During the years ended 31 December 2011 and 2012, certain specific milestones in relation to the contingent consideration payable were finally determined to be unachieved and no payment has been made during both years. The Group recognised a gain arising from changes in fair value of contingent consideration payable on acquisition of a business of RMB5,557,000 (2011: RMB71,718,000). The fair value of the contingent consideration was RMB5,557,000 at 31 December 2011 (2012: nil).

34. ACQUISITION OF ADDITIONAL EQUITY INTERESTS IN SUBSIDIARIES

In June 2012, the Group acquired a further 40% equity interests in an existing non-wholly owned subsidiary, Dalian Digitall from a non-controlling owner of the subsidiary for a cash consideration of JPY10,000,000 (equivalent to approximately RMB793,000) which was paid in 2012. The fair value of the consideration paid RMB793,000 is recognised directly in equity.

In August 2012, the Group acquired a further 34% equity interests in an existing non-wholly owned subsidiary, Han Consulting from a non-controlling owner of the subsidiary for a cash consideration of RMB1,500,000 which was paid in 2012. The fair value of the consideration paid RMB1,500,000 is recognised directly in equity.

35. MAJOR NON-CASH TRANSACTION

In November and December 2011, holders of redeemable convertible preferred shares converted 164,500,000 redeemable convertible preferred shares into 164,500,000 ordinary shares of the Company of HK$0.05 each.

36. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of buildings which fall due as follows:

	2012	2011
	RMB'000	RMB'000
Within one year	**86,157**	32,073
In the second to fifth year inclusive	**107,555**	25,545
	193,712	57,618

Operating lease payments represent rentals payable by the Group for certain premises for training centers, office properties and storeroom. Leases are negotiated for lease terms ranging from one year to five years (2011: one year to five years) for the Group and rentals are normally fixed during the lease period.

37. SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 2 June 2003 by the shareholders for the purpose of providing incentives and rewards to the people and the parties working for the interest of the Group. Under the Share Option Scheme, the board of directors may grant options to eligible participants including the directors, full-time and part-time employees of the Company or any of its subsidiaries or associates, 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.

37. SHARE OPTION SCHEME – continued

The movements of the share options granted to the directors, other employees and customers of the Group during the year ended 31 December 2012 are as follows:

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2012	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2012
Directors and other employees:									
	13.8.2003	HK$ 0.58	13.8.2003 – 12.8.2006	13.8.2006 – 12.8.2013	1,392,500	–	–	–	1,392,500
			13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	1,877,500	–	–	–	1,877,500
	13.5.2004	HK$ 0.65	Nil	13.5.2004 – 12.5.2014	375,000	–	–	–	375,000
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	375,000	–	–	–	375,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	6,200,000	–	(1,000,000)	–	5,200,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	8,300,000	–	(1,000,000)	–	7,300,000
	30.3.2006	HK$ 0.97	Nil	30.3.2006 – 29.3.2016	450,000	–	(275,000)	–	175,000
			30.3.2006 – 29.3.2007	30.3.2007 – 29.3.2016	2,750,000	–	(275,000)	–	2,475,000
			30.3.2006 – 29.3.2008	30.3.2008 – 29.3.2016	3,550,000	–	(275,000)	–	3,275,000
			30.3.2006 – 29.3.2009	30.3.2009 – 29.3.2016	2,150,000	–	(275,000)	–	1,875,000
	10.4.2007	HK$ 1.78	Nil	10.4.2007 – 9.4.2017	3,610,000	–	(625,000)	–	2,985,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	6,220,000	–	(625,000)	–	5,595,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	6,062,500	–	(500,000)	–	5,562,500
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	6,462,500	–	(250,000)	–	6,212,500
	2.2.2009	HK$ 0.48	Nil	2.2.2009 – 1.2.2012	2,395,000	–	(2,235,000)	(160,000)	–
			2.2.2009 – 1.2.2010	2.2.2010 – 1.2.2012	2,675,000	–	(2,295,000)	(380,000)	–
			2.2.2009 – 1.2.2011	2.2.2011 – 1.2.2012	5,780,000	–	(3,900,000)	(1,880,000)	–
	15.5.2009	HK$ 0.71	15.5.2009 – 14.5.2010	15.5.2010 – 14.5.2012	7,603,852	–	(7,423,852)	(180,000)	–
			15.5.2009 – 14.5.2011	15.5.2011 – 14.5.2012	6,595,148	–	(6,195,148)	(400,000)	–
	24.8.2009	HK$ 0.86	Nil	24.8.2009 – 23.8.2012	2,640,000	–	(2,640,000)	–	–
			24.8.2009 – 23.8.2010	24.8.2010 – 23.8.2012	3,540,000	–	(3,540,000)	–	–
			24.8.2009 – 23.8.2011	24.8.2011 – 23.8.2012	19,960,000	–	(19,960,000)	–	–

37. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share option: Outstanding at 1.1.2012	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2012
	3.11.2009	HK$ 0.76	Nil	3.11.2009 – 2.11.2012	11,228,492	–	(11,228,492)	–	–
			3.11.2009 – 2.11.2010	3.11.2010 – 2.11.2012	11,909,360	–	(11,909,360)	–	–
			3.11.2009 – 2.11.2011	3.11.2011 – 2.11.2012	19,759,148	–	(19,699,148)	(60,000)	–
	22.10.2010	HK$ 2.00	Nil	22.10.2010 – 21.10.2013	18,804,600	–	(90,000)	–	18,714,600
			22.10.2010 – 21.10.2011	22.10.2011 – 21.10.2013	18,900,000	–	(60,000)	–	18,840,000
			22.10.2010 – 21.10.2012	22.10.2012 – 21.10.2013	25,200,000	–	–	–	25,200,000
	19.9.2012	HK$ 1.67	Nil	19.9.2012 – 18.9.2013	–	9,000,000	–	–	9,000,000
			19.9.2012 – 18.9.2013	19.9.2013 – 18.9.2014	–	9,000,000	–	–	9,000,000
			19.9.2012 – 19.9.2014	19.9.2014 – 18.9.2015	–	12,000,000	–	–	12,000,000
					206,765,600	30,000,000	(96,276,000)	(3,060,000)	137,429,600
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
					8,000,000	–		–	8,000,000
Total					214,765,600	30,000,000	(96,276,000)	(3,060,000)	145,429,600
Exercisable at the end of the year									124,429,600
Weighted average exercise price					HK$ 1.22	HK$ 1.67	HK$ 0.78	HK$ 0.53	HK$ 1.62

37. SHARE OPTION SCHEME – continued

The movements of the share options granted to the directors and other employees of the Group during the year ended 31 December 2011 are as follows:

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2011
Directors and other employees:									
	13.8.2003	HK$ 0.58	13.8.2003 – 12.8.2006	13.8.2006 – 12.8.2013	1,392,500	–	–	–	1,392,500
			13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	1,977,500	–	(100,000)	–	1,877,500
	13.5.2004	HK$ 0.65	Nil	13.5.2004 – 12.5.2014	375,000	–	–	–	375,000
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	375,000	–	–	–	375,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	6,950,000	–	(750,000)	–	6,200,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	9,300,000	–	(1,000,000)	–	8,300,000
	30.3.2006	HK$ 0.97	Nil	30.3.2006 – 29.3.2016	450,000	–	–	–	450,000
			30.3.2006 – 29.3.2007	30.3.2007 – 29.3.2016	2,750,000	–	–	–	2,750,000
			30.3.2006 – 29.3.2008	30.3.2008 – 29.3.2016	3,550,000	–	–	–	3,550,000
			30.3.2006 – 29.3.2009	30.3.2009 – 29.3.2016	3,550,000	–	(1,400,000)	–	2,150,000
	10.4.2007	HK$ 1.78	Nil	10.4.2007 – 9.4.2017	5,060,000	–	(1,450,000)	–	3,610,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	7,550,000	–	(1,330,000)	–	6,220,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	7,662,500	–	(1,600,000)	–	6,062,500
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	7,662,500	–	(1,200,000)	–	6,462,500
	14.4.2008	HK$ 1.37	Nil	14.4.2008 – 13.4.2011	8,500,000	–	(8,500,000)	–	–
			14.4.2008 – 13.4.2009	14.4.2009 – 13.4.2011	9,650,000	–	(9,650,000)	–	–
	13.6.2008	HK$ 1.21	13.6.2008 – 12.6.2010	13.6.2010 – 12.6.2011	2,900,000	–	(2,900,000)	–	–
	4.7.2008	HK$ 1.14	4.7.2008 – 3.7.2010	4.7.2010 – 3.7.2011	6,120,000	–	(2,960,000)	(3,160,000)	–
	2.2.2009	HK$ 0.48	Nil	2.2.2009 – 1.2.2012	2,395,000	–	–	–	2,395,000
			2.2.2009 – 1.2.2010	2.2.2010 – 1.2.2012	10,005,000	–	(7,330,000)	–	2,675,000
			2.2.2009 – 1.2.2011	2.2.2011 – 1.2.2012	13,340,000	–	(7,560,000)	–	5,780,000

37. SHARE OPTION SCHEME – continued

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 12.31.2011
	15.5.2009	HK$ 0.71	15.5.2009 – 14.5.2010	15.5.2010 – 14.5.2012	10,464,852	–	(2,861,000)	–	7,603,852
			15.5.2009 – 14.5.2011	15.5.2011 – 14.5.2012	19,375,148	–	(12,780,000)	–	6,595,148
	24.8.2009	HK$ 0.86	Nil	24.8.2009 – 23.8.2012	14,100,000	–	(11,460,000)	–	2,640,000
			24.8.2009 – 23.8.2010	24.8.2010 – 23.8.2012	15,000,000	–	(11,460,000)	–	3,540,000
			24.8.2009 – 23.8.2011	24.8.2011 – 23.8.2012	20,000,000	–	(40,000)	–	19,960,000
	3.11.2009	HK$ 0.76	Nil	3.11.2009 – 2.11.2012	14,243,492	–	(3,015,000)	–	11,228,492
			3.11.2009 – 2.11.2010	3.11.2010 – 2.11.2012	15,269,360	–	(3,360,000)	–	11,909,360
			3.11.2009 – 2.11.2011	3.11.2011 – 2.11.2012	20,359,148	–	(600,000)	–	19,759,148
	22.10.2010	HK$ 2.00	Nil	22.10.2010 – 21.10.2013	18,900,000	–	(95,400)	–	18,804,600
			22.10.2010 – 21.10.2011	22.10.2011 – 21.10.2013	18,900,000	–	–	–	18,900,000
			22.10.2010 – 21.10.2012	22.10.2012 – 21.10.2013	25,200,000	–	–	–	25,200,000
					303,327,000	–	(93,401,400)	(3,160,000)	206,765,600
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
					8,000,000	–	–	–	8,000,000
Total					311,327,000	–	(93,401,400)	(3,160,000)	214,765,600
Exercisable at the end of the year									189,565,600
Weighted average exercise price					HK$ 1.09	–	HK$ 0.94	HK$ 1.14	HK$ 1.22

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$1.87 (2011: HK$2.08).

37. SHARE OPTION SCHEME – continued

The estimated fair value of the share options granted on 19 September 2012 was HK$0.53 per option. Fair values were calculated using the binomial option pricing 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:

Share price on grant date	HK$1.67
Exercise price	HK$1.67
Expected volatility	49.36%
Time to maturity	3 years
Risk-free rate	0.29%
Expected dividend yield	0.00%

Expected volatility was determined by using the historical volatility of the Company's share price over a period of 1,095 days in 2012.

The Group recognised a total expense of RMB11,544,000 for the year ended 31 December 2012 (2011: RMB24,861,000) in relation to share options granted by the Company.

38. RETIREMENT BENEFITS SCHEMES

As stipulated by the rules and regulations in the PRC, the Group contributes to state-sponsored retirements 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 retirements plans, and has no further obligation for the actual payment of the previous or post retirement benefits. The relevant state-sponsored retirements 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.

During the year, the total cost of retirement benefits contributions charged to profit or loss of RMB158,375,000 (2011: RMB89,955,000) represents contributions to the schemes made by the Group at rates specified in the rules of the respective schemes.

39. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related companies, other than those disclosed elsewhere in the consolidated financial statements:

	Notes	2012 RMB'000	2011 RMB'000
Rental expenses			
– China National Software and Service Company Limited ("CNSS")	(a) & (i)	–	2,862
Provision of IT outsourcing services			
–日本國株式會社CDI	(b) & (ii)	4,740	10,021
– Huawei Group	(c) & (iii)	469,741	–
Trademark usage right			
– CNSS Group (see note 17)	(a) & (iv)	–	78
Disposal of property, plant and equipment			
– Huateng Data	(d)	–	6
– Huateng Intelligent	(d)	–	1,892
Provision of IT solution services			
– Huateng Data	(d) & (v)	2,331	–
Sales of software and provision of IT solution services			
–弘毅投資管理(天津)(有限合伙) ("Hony Capital (Tianjin)")	(e) & (vi)	672	–
Outsourcing service fee charged by			
– Huateng Intelligent	(d) & (vii)	11,447	–

Notes:

(a) CNSS is a holding company of a former substantial shareholder of the Company. CNSS and its subsidiaries are referred to as CNSS Group. Following the dilution of its interest in the Company in June 2011, CNSS Group ceased to be a related party of the Group thereafter. The transactions with CNSS Group shown above represent the transactions occurred from January 2011 to June 2011.

(b) 日本國株式會社CDI is a former substantial shareholder of Dalian Digitall, a subsidiary of the Company. Following the acquisition of entire remaining equity interest in Dalian Digitall by Chinasoft Resource International in June 2012,日本國株式會社CDI ceased to be a related party of the Group thereafter. The transactions with日本國株式會社CDI shown above represent the transactions occurred up to June 2012.

39. RELATED PARTY TRANSACTIONS – continued

Notes: – continued

(c) Huawei is the non-controlling owner of CSITS, a non-wholly owned subsidiary of the Company. Following the establishment of CSITS in April 2012, Huawei Group became a related party of the Group thereafter. The transactions with Huawei Group shown above represent the transactions occurred from April 2012 to December 2012.

(d) Huateng Data and Huateng Intelligent are the associates of the Group.

(e) Keen Insight Limited is a substantial shareholder of the Company and Hony Capital Fund 2008, L.P. ("Hony Capital") is the shareholder of Keen Insight Limited. Hony Capital ("Tianjin") is a wholly owned subsidiary of Hony Capital.

(i) During 2011, certain subsidiaries of the Company entered into rental agreements with CNSS for a period of 12 months. Pursuant to the rental agreements, the subsidiaries rented the premises from CNSS for training, as office and storeroom.

(ii) During the year, the Group provided IT outsourcing services of RMB4,740,000 (2011: RMB10,021,000) to日本國株式會社 CDI. At 31 December 2011, an amount of RMB859,000 was included in trade and other receivables in the consolidated statement of financial position.

(iii) During April 2012 to December 2012, the Group provided IT outsourcing services of RMB469,741,000 to Huawei Group. At 31 December 2012, an amount of RMB334,791,000 was included in trade and other receivables in the consolidated statement of financial position.

(iv) The Group entered into a trademark usage right agreement with CNSS Group on 20 December 2003 and paid RMB2,000,000 for the trademark usage right. The amount charged to expense is RMB78,000 from January 2011 to June 2011.

(v) During the year, the Group provided IT solution services of RMB2,331,000 (2011: nil) to Huateng Data. The amount was fully settled during the year.

(vi) During the year, the Group provided IT solution services of RMB159,000 (2011: nil) and sold software of RMB513,000 (2011: nil) to Hony Capital (Tianjin). The amount was fully settled during the year.

(vii) During the year, the Group received IT solution services of RMB11,447,000 (2011: nil) from Huateng Intelligent. At 31 December 2012, an amount of RMB 2,996,000 (2011: nil) was included in trade and other payables in the consolidated statement of financial position.

39. RELATED PARTY TRANSACTIONS – continued

Compensation of key management personnel

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

	2012 RMB'000	2011 RMB'000
Short-term employee benefits	7,187	6,377
Retirement benefits costs	187	169
Share option expenses	1,661	3,012
	9,035	9,558

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

40. SUBSEQUENT EVENT

On 27 December 2012, Chinasoft Beijing, a wholly owned subsidiary of the Company, and Beijing Along Grid Technology Co. Ltd. ("Along Grid") entered into a sale and purchase agreement. Pursuant to the agreement, Chinasoft Beijing has conditionally agreed to purchase, and Along Grid has conditionally agreed to sell, the IT software outsourcing service and IT software solution business of State Grid Corporation of China electric power field currently operated by Along Grid and the related employees and assets at a consideration of RMB190 million, to be satisfied by a combination of cash and the issue of 64,588,274 ordinary shares of the Company. The transaction was not completed up to the date these consolidated financial statements were approved and authorised for issue.

Financial Summary

RESULTS

	For the year ended 31 December				
	2008	2009	2010	**2011**	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	983,372	1,104,602	1,601,211	2,243,754	**2,768,171**
Profit (loss) before taxation	80,979	(107,077)	(15,079)	150,687	**187,716**
Taxation	(9,254)	(13,480)	(14,657)	(29,611)	**(37,574)**
Profit (loss) for the year	71,725	(120,557)	(29,736)	121,076	**150,142**
Attributable to:					
Owners of the Company	63,335	(126,743)	(40,133)	110,594	**133,189**
Non-controlling interests	8,390	6,186	10,397	10,482	**16,953**
	71,725	(120,557)	(29,736)	121,076	**150,142**
Dividend	4,406	–	–	–	**–**

ASSETS AND LIABILITIES

	As at 31 December				
	2008	2009	2010	**2011**	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	1,405,047	1,468,512	2,373,623	2,947,534	**3,442,350**
Total liabilities	(534,935)	(691,498)	(1,271,620)	(1,143,849)	**(1,380,067)**
	870,112	777,014	1,102,003	1,803,685	**2,062,283**