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中软国际

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 354)

CONTINUING CONNECTED TRANSACTIONS

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On 30 January 2012, the Company and 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 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. Upon Completion, Huawei will 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.

As the applicable percentage ratios (other than the profits ratio) in respect of each of the Annual Caps exceed 5% and each of the Annual Caps is more than HK\$10 million, the transactions under the Huawei IT Outsourcing Agreement are subject to reporting, annual review, announcement and independent Shareholders' approval requirements under the Listing Rules.

GENERAL

A circular containing, among other things, details of the Huawei IT Outsourcing Agreement and the Annual Caps, together with the letter from the Independent Board Committee to the Shareholders, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Shareholders, together with a notice of EGM will be despatched to the Shareholders on or before 20 February 2012.

INTRODUCTION

The Board announced on 12 January 2012 the proposed establishment of IT Outsourcing Flagship and the equity participation of Huawei in IT Outsourcing Flagship pursuant to the Huawei Equity Participation Agreement. The Huawei Equity Participation Agreement is conditional upon, among others, (i) the Huawei IT Outsourcing Agreement being entered into by the Parties; and (ii) Huawei IT Outsourcing Agreement being approved by the Shareholders at the EGM. Upon Completion, IT Outsourcing Flagship will become a non-wholly owned subsidiary of the Company and Huawei will become a substantial shareholder of IT Outsourcing Flagship holding 40% of its equity interest immediately upon Completion. Thus, upon Completion, Huawei will become a connected person of the Company, and any transactions between the Group and Huawei Group will constitute connected transactions of the Company.

The Group commenced the provision of IT Outsourcing service to Huawei Group since September 2009. Currently, Huawei is one of the major customers of the Group in respect of the IT outsourcing business of the Group whose transaction amounts accounted for approximately 22%, 39% and 36% of the revenue attributable to the IT outsourcing business of the Group for each of the two years ended 31 December 2010 and the six months ended 30 June 2011. The Group expects to continue to provide IT Outsourcing service to Huawei Group after Completion.

In view of the recurring transactions between the Group and the Huawei Group upon Completion, on 30 January 2012, the Company and Huawei entered into the Huawei IT Outsourcing Agreement pursuant to which the Group shall provide the IT Outsourcing service to Huawei Group on a recurring basis during the period from the Effective Date up to and including 31 December 2014. The Huawei IT Outsourcing Agreement is just a framework agreement which set out the principles governing the transactions between the Group and Huawei Group in respect of the IT Outsourcing business. The Parties shall enter into a separate project agreement, purchase order and/or other forms of agreement setting out the detailed terms and conditions (including the transaction amount, project milestones and project completion date) for each project. The terms (including the service fee) in respect of the provision of IT Outsourcing service by the Group to Huawei Group pursuant to the Huawei IT Outsourcing Agreement will be determined based on arm's length negotiation between the Parties.

Set out below is the summary of the principal terms of the Huawei IT Outsourcing Agreement:

THE HUAWEI IT OUTSOURCING AGREEMENT

Date

30 January 2012

Parties

- (1) the Company; and
- (2) Huawei

Scope of services

The Group shall provide IT Outsourcing service to Huawei Group.

Term

The Huawei IT Outsourcing Agreement shall become effective from the Effective Date up to and including 31 December 2014.

Service fee

The service fee payable by Huawei Group to the Group in respect of the provision of the IT Outsourcing service is determined with reference to the Group's reasonable profit margins in respect of the provision of IT Outsourcing services, the average number of technical staff of the Group required for the completion of a project, the technical requirement of each project, time of delivery and the average annual revenue of the Group contributed by each technical staff of the Group in respect of their provision of IT Outsourcing service to Huawei Group.

Conditions precedent

The Huawei IT Outsourcing Agreement shall become effective upon fulfillment of the following conditions precedent:

- (1) the Parties having performed their respective internal approval procedures in respect of the Huawei IT Outsourcing Agreement;
- (2) the respective legal representative or authorized person of the Parties having duly executed the Huawei IT Outsourcing Agreement;
- (3) the obtaining of the approval from the Shareholders in respect of the Huawei IT Outsourcing Agreement at a general meeting of the Company and the Board having approved the Huawei IT Outsourcing Agreement;
- (4) the obtaining of the approval from the shareholders of Huawei in respect of the Huawei IT Outsourcing Agreement; and
- (5) the obtaining of the approval from the relevant approval authorities in respect of the Huawei IT Outsourcing Agreement, where necessary.

ANNUAL CAPS AND ITS BASIS OF DETERMINATION

Set out below is 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:–

INFORMATION OF HUAWEI GROUP

Huawei is a leading global information and communications technology solutions provider. Huawei has established end-to-end advantages in telecom networks, devices and cloud computing and is committed to creating maximum value for telecom operators, enterprises and consumers by providing competitive solutions and services. For more information about Huawei, please refer to www.huawei.com.

BUSINESS CONTRACTING PROCESS

According to the information of the Directors, Huawei will carry out a tender at the end of each year open to all IT outsourcing companies like the Group who are interested in becoming one of Huawei Group's IT outsourcing service providers in the following year. Should the Group would like to become one of the service providers of Huawei Group, the Group will submit to them a bid setting out the Group's information including but not limited to the number, qualification and experience of its staff responsible to its IT outsourcing business for bidding purpose. Huawei will then sign a framework agreement with those who won the bid (the "**Qualified Candidates**") confirming that each of the Qualified Candidates will become one of the qualified IT outsourcing service providers of Huawei Group in the following year.

Should Huawei Group have any tasks that it would like to outsource to IT outsourcing companies like the Group, Huawei Group will either (i) carry out a tender for that specific IT outsourcing task open only to the Qualified Candidates; or (ii) offer to a designated IT outsourcing company which is one of the Qualified Candidates. For tender offers, Huawei Group will set out the terms and conditions of the project (including the transaction amount of the project, technical requirement and expected date of completion), the interested Qualified Candidates will send them the bid setting out, among others, the number of technical staff proposed to be deployed for the provision of such service and their respective expertise, and Huawei Group will then announce the winner of the tender. For offer to a designated Qualified Candidate, Huawei Group will propose to the designated Qualified Candidate terms and conditions of providing such specific IT outsourcing business to Huawei Group and the designated Qualified Candidate then decide whether to accept such offer based on the terms offered from Huawei Group.

Should the Group become the IT outsourcing service provider in respect of a specific task for Huawei Group, the Group will designate a team to discuss the detailed terms, and by considering the estimated manpower and profit margin, with Huawei Group for services to be provided by the Group. A written purchase order or project agreement for such service will subsequently be entered between the Group and Huawei Group.

REASONS FOR AND BENEFITS OF ENTERING INTO THE HUAWEI IT OUTSOURCING AGREEMENT

The Group has commenced the provision of IT Outsourcing service to Huawei Group since September 2009. Currently, Huawei Group is one of the major customers of the Group in respect of its IT outsourcing business. The transaction amount in respect of the provision of IT outsourcing service by the Group to Huawei Group for each of the two years ended 31 December 2010 and the six months ended 30 June 2011 were approximately RMB99 million, RMB269 million and RMB169 million respectively, representing approximately 22%, 39% and 36% of the revenue attributable to the IT outsourcing business of the Group of their respective financial year or period.

With the equity participation of Huawei in the IT Outsourcing Flagship (being the entity into which the Group intends to gradually consolidating its IT outsourcing resources), the Group expects that it can further strengthen the current business relationship, expand service scale and scope, and become a core IT outsourcing service providers of Huawei. The transactions between the Group and the Huawei Group are expected to continue on a recurring basis upon Completion. Accordingly, the entering of the Huawei IT Outsourcing Agreement is expected to enable the Group to generate an increasing turnover with respect of its IT Outsourcing service with Huawei Group.

The entering into the Huawei IT Outsourcing Agreement is one of the conditions precedent for the Huawei Equity Participation Agreement to become effective. Thus, the entering of the Huawei Equity Participation Agreement is essential for the IT Outsourcing Flagship to achieve the abovementioned benefits to the Group.

The Directors (excluding the independent non-executive Directors whose opinion will be included in the letter of advice from the Independent Board Committee which forms part of the circular in respect of Huawei IT Outsourcing Agreement to be despatched to the Shareholders) consider that the entering into the Huawei IT Outsourcing Agreement is in the ordinary course of business of the Group and that the terms of such agreement are determined after arm's length negotiation with the Huawei Group. Accordingly, the Directors (excluding the independent non-executive Directors whose opinion will be included in the letter of advice from the Independent Board Committee which forms part of the circular in respect of Huawei IT Outsourcing Agreement to be despatched to the Shareholders) are of the view that the terms of the Huawei IT Outsourcing Agreement (including the Annual Caps) are fair and reasonable, on normal commercial terms and that the entering into the IT Outsourcing Agreement is in the interests of the Group and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

Huawei has been a customer of the Group in respect of its IT Outsourcing business since September 2009 and such recurring transactions is expected to continue upon Completion. Upon Completion, the IT Outsourcing Flagship will become a non-wholly owned subsidiary of the Company and Huawei will be a substantial shareholder of the IT Outsourcing Flagship holding 40% of its equity interest immediately upon completion. Therefore, Huawei will become a connected person of the Company immediately upon Completion. Accordingly, any future continuing transactions between the Group and Huawei Group will constitute continuing connected transactions of the Company.

As the applicable percentage ratios (other than the profit ratio) in respect of each of the Annual Caps exceed 5% and each of the Annual Caps is more than HK\$10 million, the transactions under the Huawei IT Outsourcing Agreement is subject to reporting, annual review, announcement and independent Shareholders' approval requirements under the Listing Rules.

EGM

An EGM will be convened at which resolution(s) will be proposed to seek Shareholders' approval for the Huawei IT Outsourcing Agreement and the Annual Caps. Given no Shareholder has a material interest in the transactions contemplated under the Huawei IT Outsourcing Agreement, no Shareholder is required to abstain from voting on the resolution(s) in relation to the Huawei IT Outsourcing Agreement and the Annual Caps at the EGM. At the EGM, votes will be taken by way of poll.

GENERAL

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. ZENG Zhijie, Dr. LEUNG Wing Yin and Mr. XU Zeshan, will be formed to consider the transactions contemplated under the Huawei IT Outsourcing Agreement and the Annual Caps and to advise the Shareholders as to whether the Huawei IT Outsourcing Agreement and the Annual Caps are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Company has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in this regard.

A circular containing, among others, details of Huawei IT Outsourcing Agreement and the Annual Caps, the letter of advice from the Independent Board Committee to the Shareholders, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Shareholders, together with a notice of the EGM will be despatched to the Shareholders on or before 20 February 2012.

DEFINITIONS

In this announcement, the following expressions have the following meanings unless the context requires otherwise:

“Annual Cap(s)”	the maximum annual amount of service fee in respect of the provision of IT Outsourcing service by the Group to Huawei Group for the period from the Effective Date up to and including 31 December 2012 and each of the two years ended 31 December 2014 pursuant to the Huawei IT Outsourcing Agreement;
“Board”	the board of Directors;
“Company”	Chinasoft International Limited (中軟國際有限公司*), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange;
“Completion”	completion of the establishment of the IT Outsourcing Flagship pursuant to terms and conditions of the Huawei Equity Participation Agreement;
“connected person(s)”	such term has the meaning ascribed to it under the Listing Rules;
“connected transaction(s)”	such term has the meaning ascribed to it under the Listing Rules;
“continuing connected transaction(s)”	such term has the meaning ascribed to it under the Listing Rules;
“Director(s)”	directors of the Company;
“Effective Date”	the date on which all the conditions precedent of the Huawei IT Outsourcing Agreement having been fulfilled;
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the resolution(s) in respect of the Huawei IT Outsourcing Agreement (including the Annual Caps) and the transactions contemplated thereunder;
“Group”	the Company and its subsidiaries;

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Huawei”	華為技術有限公司 (Huawei Technology Company Limited*), a limited liability company established in the PRC;
“Huawei Equity Participation Agreement”	the capital contribution agreement dated 12 January 2012 entered into between Chinasoft International (China) Technology Co., Ltd. (being a wholly-owned subsidiary of the Company) and Huawei in relation to the establishment of IT Outsourcing Flagship and the equity participation of Huawei in the IT Outsourcing Flagship;
“Huawei Group”	Huawei, its subsidiaries and associated companies (excluding IT Outsourcing Flagship);
“Huawei IT Outsourcing Agreement”	the information technology outsourcing agreement dated 30 January 2012 entered into between the Company and Huawei which sets out the framework on which future provision of IT Outsourcing business to Huawei Group by the Group (inclusive of IT Outsourcing Flagship) upon the establishment of the IT Outsourcing Flagship;
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. ZENG Zhijie, Dr. LEUNG Wing Yin and Mr. XU Zeshan;
“Independent Financial Adviser”	an independent financial adviser appointed to advise the Independent Board Committee and the Shareholders in respect of the Huawei IT Outsourcing Agreement (including the Annual Caps);
“IT Outsourcing”	the contracting or subcontracting of all or part of the functions and operation flows, and software development to other party(ies), including information technology outsourcing (ITO) and business process outsourcing (BPO);

“IT Outsourcing Flagship”	中軟國際科技服務有限公司 (Chinasoft International Technology Services Co., Ltd.*), a joint venture to be established in the PRC pursuant to the Huawei Equity Participation Agreement, which is to be owned as to 60% and 40% by Chinasoft International (China) Technology Co., Ltd. (being a wholly-owned subsidiary of the Company) and Huawei respectively immediately upon Completion;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Parties”	parties to the Huawei IT Outsourcing Agreement, namely the Company and Huawei;
“percentage ratio(s)”	such term has the meaning as ascribed to it under the Listing Rules;
“PRC” or “China”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan);
“RMB”	Renminbi, the lawful currency of the PRC;
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of Shares;
“substantial shareholder(s)”	such term has the meaning as ascribed to it under the Listing Rules;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

For illustration purpose only, conversion of RMB into Hong Kong dollars in this announcement is based on the exchange rate of RMB0.81346 to HK\$1.00. Such conversion should not be construed as a representation that any amounts have been, could have been, or may be, exchanged at this or any other rate.

The English names of the PRC entities referred to in this announcement are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.

By order of the Board
Chinasoft International Limited
Dr. Chen Yuhong
Chairman and Chief Executive Officer

30 January 2012, Hong Kong

As at the date of this announcement, 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, Dr. SONG Jun, Mr. LIN Sheng, Mr. SHEN Lipu

Independent Non-executive Directors:

Mr. ZENG Zhijie, Dr. LEUNG Wing Yin, Mr. XU Zeshan

* *for identification purposes only*