中软国际

CHINASOFT INTERNATIONAL LIMITED

中 軟 國 際 有 限 公 司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 354)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

HIGHLIGHTS

Annual Results for 2010

	2010	**2009**	**Change**
	RMB'000	*RMB'000*	
Revenue	1,601,211	1,104,602	+45.0%
Service Revenue	1,374,424	920,917	+49.2%
Gross Profit	513,204	336,978	+52.3%
Segment Results	166,539	73,594	+126.3%
EBITDA	200,836	69,828	+187.6%
Business Contribution Profit*	231,779	116,510	+98.9%

Profit for the year** and EPS (excluding P-shares fair value impact): RMB115,461,000 and RMB0.0987

* *Business Contribution Profit means EBITDA excluding share option expenses, net foreign exchange loss (gain) and allowance for doubtful debts.*

** *Profit for the year means the net profit excluding the changes in fair value of redeemable convertible preferred shares.*

- The loss arising from changes in fair value of redeemable convertible preferred shares amounted to RMB145,197,000 for 2010 (2009: RMB47,746,000), which was a non-cash expense item.

- An amount of USD20,000,000 of redeemable convertible preferred shares were issued on 6 January 2006, it should be revalued at the year-end date every year under the Hong Kong Accounting Standard 39. Whenever the share price of Ordinary shares of the Company soars up from HKD0.80 (conversion price), the difference between the closing price as at the year-end date and the conversion price of HKD0.80 would be expensed in the income statement, vice versa. This non-cash expense item should not be accounted for the operation of the Company.

- All Redeemable convertible preferred shares must be either redeemed at cost of HKD0.80 per share or compulsory converted into Ordinary shares of the Company in the ratio of one to one by 6 January 2012.

- The Register of Member will be closed from Monday, 16 May 2011 to Wednesday, 18 May 2011, both dates inclusive, during which period no share transfer shall be registered.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year Ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Turnover	3	**1,601,211**	1,104,602
Cost of sales		**(1,088,007)**	(767,624)
Gross profit		**513,204**	336,978
Other income, gains and losses		**35,264**	18,868
Selling and distribution costs		**(94,203)**	(71,065)
Administrative expenses		**(241,444)**	(197,938)
Research and development cost expensed		**(39,086)**	(19,397)
Allowance for doubtful debts		**(8,276)**	(21,113)
Amortisation of intangible assets and prepaid lease payments		**(29,889)**	(23,892)
Impairment loss recognised in respect of goodwill		**–**	(80,667)
Finance costs	4	**(8,102)**	(4,064)
Share of results of associates		**2,650**	2,959
Loss arising from changes in fair value of redeemable convertible preferred shares		**(145,197)**	(47,746)
Loss before taxation		**(15,079)**	(107,077)
Taxation	5	**(14,657)**	(13,480)
Loss for the year	6	**(29,736)**	(120,557)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**1,197**	(553)
Total comprehensive income for the year		**(28,539)**	(121,110)
Loss for the year attributable to:			
Owners of the Company		**(40,133)**	(126,743)
Non-controlling interests		**10,397**	6,186
		(29,736)	(120,557)
Total comprehensive income attributable to:			
Owners of the Company		**(38,948)**	(127,296)
Non-controlling interests		**10,409**	6,186
		(28,539)	(121,110)
Loss per share	8		
Basic and diluted		**RMB (0.0377)**	RMB (0.1256)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2010

	Notes	**2010** *RMB'000*	2009 *RMB'000*
Non-current assets			
Property, plant and equipment		**108,871**	95,131
Intangible assets		**181,316**	83,197
Goodwill		**729,111**	414,615
Interests in associates		**21,758**	17,428
Prepaid lease payments		**643**	867
Prepayment for acquisition of technical knowhow		**–**	5,216
Deferred tax assets		**9,025**	3,528
		1,050,724	619,982
Current assets			
Inventories		**18,441**	14,457
Trade and other receivables	9	**557,160**	362,278
Prepaid lease payments		**178**	166
Amounts due from associates		**2,430**	–
Amounts due from customers for contract work	10	**251,278**	161,019
Amounts due from related companies		**414**	711
Pledged deposits		**8,826**	12,870
Bank balances and cash		**484,172**	297,029
		1,322,899	848,530
Current liabilities			
Amounts due to customers for contract work	10	**58,066**	79,745
Trade and other payables	11	**460,799**	283,272
Bills payable		**6,213**	1,255
Amounts due to related companies		**147**	128
Dividend payable to shareholders		**79**	82
Taxation payable		**14,770**	11,568
Borrowings	12	**186,950**	104,071
Consideration payable on acquisition of businesses		**74,430**	22,296
Consideration payable on acquisition of additional interest in a subsidiary		**–**	844
		801,454	503,261
Net current assets		**521,445**	345,269
Total assets less current liabilities		**1,572,169**	965,251

	Notes	**2010** *RMB'000*	2009 *RMB'000*
Non-current liabilities			
Deferred tax liabilities		**32,784**	9,208
Consideration payable for acquisition of businesses		**17,830**	11,374
Redeemable convertible preferred shares	13	**254,443**	167,655
Convertible loan notes	14	**165,109**	–
		470,166	188,237
		1,102,003	777,014
Capital and reserves			
Share capital		**61,133**	52,357
Share premium		**807,664**	519,389
Reserves		**167,651**	154,311
Equity attributable to owners of the Company		**1,036,448**	726,057
Non-controlling interests		**65,555**	50,957
Total equity		**1,102,003**	777,014

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 dollars, which is same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are development and provision of information technology ("IT") solutions services, IT outsourcing services, consulting services, mobile internet technology services and training services.

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

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK (IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of the new and revised Standards and Interpretations 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.

HKFRS 3 (as revised in 2008) Business Combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for the acquisitions in the current year.

- HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. In accounting for the acquisition completed in the current year, the Group has elected to measure the non-controlling interests at the share of recognised identifiable net assets of the acquiree at the acquisition date.

- HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

In the current year, the application of HKFRS 3 (as revised in 2008) has affected the acquisitions of Han Consulting and MMIM, as follows:

Consolidated statement of financial position

	31 December 2010 *RMB'000*
Liability recognised in respect of the fair value of contingent consideration that would not have been recognised under the previous version of the Standard (recognised in consideration payables)	**17,000**
Acquisition-related costs expensed when incurred	**(700)**
Additional goodwill recognised as a result of the application of HKFRS 3 (as revised in 2008)	**16,300**

Consolidated statement of comprehensive income

	Year ended 31 December 2010 *RMB'000*
Acquisition-related costs expensed when incurred (recognised in administrative expenses)	**700**
Increase in loss for the year as a result of the application of HKFRS 3 (as revised in 2008)	**700**

Results in future periods may be affected by future impairment losses relating to the increased goodwill, and by changes in the fair value of contingent consideration recognised as a financial liability.

The effects of the above changes in accounting policies on the Group's basic and diluted loss per share are insignificant.

The Group has not early adopted the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKFRS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 32 (Amendment)	Classification of Rights Issues[7]
HK (IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 July 2011
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 February 2010

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either 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 accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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 presentation 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 attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at 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 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new Standard may have an impact on amounts reported in profit or loss or other comprehensive income in respect of fair value change on Group's redeemable convertible preferred shares.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the results and the financial position of the Group.

3. 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.

Specifically, the Group's reportable segments are as follows:

1. Solutions for government and manufacturing entities ("SGM") – development and provision of solutions services to government and manufacturing entities, and to a lesser extent, sales of standalone software and hardware products

2. Solutions for financial institutions ("SFI") – development and provision of solutions services to banks and other financial institutions; and to a lesser extent, sales of standalone software and hardware products

3. IT outsourcing

4. Training

Information regarding the above segments is reported below.

Segment revenues and results

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

	Segment revenue		Segment results	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
SGM	**471,820**	308,569	**36,997**	1,848
SFI	**392,059**	305,757	**36,168**	18,349
IT outsourcing	**682,917**	455,538	**85,596**	61,126
Training	**54,415**	34,738	**7,778**	(7,729)
	1,601,211	1,104,602	**166,539**	73,594

Reconciliation of segment results to loss before taxation:

	2010	2009
	RMB'000	*RMB'000*
Segment results	**166,539**	73,594
Other income, gains and losses unallocated	**2,824**	1,478
Impairment loss recognised in respect of goodwill	**–**	(80,667)
Corporate expenses	**(11,576)**	(28,249)
Share-based payment	**(27,669)**	(25,487)
Loss arising from changes in fair value of redeemable convertible preferred shares	**(145,197)**	(47,746)
Loss before taxation	**(15,079)**	(107,077)

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 segments are the same as the Group's accounting policies described in note 3 of the Annual Report.

Segment results represent the profit earned by/loss from each segment without allocation of impairment loss recognised in respect of goodwill, corporate expenses, share-based payment, loss arising from changes in fair value of redeemable convertible preferred shares and certain items of other income, gains and losses recorded at corporate level. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Segment assets and liabilities

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

	2010	2009
	RMB'000	*RMB'000*
Segment assets		
SGM	**736,430**	417,352
SFI	**354,334**	315,005
IT outsourcing	**466,457**	289,072
Training	**42,622**	27,537
Segment assets	**1,599,843**	1,048,966
Goodwill	**729,111**	414,615
Others	**44,669**	4,931
Consolidated assets	**2,373,623**	1,468,512
Segment liabilities		
SGM	**364,959**	202,436
SFI	**245,113**	226,726
IT outsourcing	**188,925**	78,877
Training	**12,921**	9,965
Segment liabilities	**811,918**	518,004
Redeemable convertible preferred shares	**254,443**	167,655
Convertible loan notes	**165,109**	–
Others	**40,150**	5,839
Consolidated liabilities	**1,271,620**	691,498

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

- all assets are allocated to all reportable segments other than goodwill, unallocated bank balances and cash, deferred tax assets and assets used jointly by reportable segments.
- all liabilities are allocated to reportable segments other than redeemable convertible preferred shares, convertible loan notes, deferred tax liabilities and liabilities for which reportable segments are jointly liable.

Other information

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

	SGM		SFI		IT outsourcing		Training		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Additions to non-current assets, other than deferred tax assets	**124,599**	31,107	**5,774**	5,871	**44,554**	21,164	**2,656**	9,601	**177,583**	67,743
Interests in associates	**19,998**	17,428	**–**	–	**1,760**	–	**–**	–	**21,758**	17,428
Depreciation of property, plant and equipment	**17,803**	7,918	**4,227**	3,881	**10,927**	10,153	**2,420**	1,543	**35,377**	23,495
Amortisation of intangible assets and prepaid lease payments	**16,936**	13,229	**–**	2,461	**12,953**	8,030	**–**	172	**29,889**	23,892
Allowance for doubtful debts	**2,298**	11,217	**5,849**	3,863	**129**	6,033	**–**	–	**8,276**	21,113
Interest income	**672**	486	**–**	1,498	**711**	553	**9**	14	**1,392**	2,551
Finance costs	**4,437**	3,304	**206**	543	**1,743**	196	**85**	21	**6,471**	4,064
Share of results of associates	**2,598**	2,959	**–**	–	**52**	–	**–**	–	**2,650**	2,959
Loss (gain) on disposal of property, plant and equipment	**78**	144	**(31)**	(103)	**216**	106	**3**	–	**266**	147

Geographical information

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

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

	Revenues from external customers		Non-current assets, other than deferred tax assets	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC and HK	**1,446,463**	979,675	**1,040,794**	615,700
USA	**132,358**	104,533	**618**	406
Japan	**22,390**	20,394	**287**	348
	1,601,211	1,104,602	**1,041,699**	616,454

Segment revenue by products and services:

	2010	2009
	RMB'000	*RMB'000*
Sale of software and hardware products	**226,787**	183,685
Provision of services		
Solutions	**637,092**	430,641
IT outsourcing	**682,917**	455,538
Training	**54,415**	34,738
	1,374,424	920,917
	1,601,211	1,104,602

Information about major customers

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

	2010	2009
	RMB'000	*RMB'000*
Customer A	**268,451**	Note
Customer B	**153,771**	155,033
Customer C	**Note**	113,027

Note: The corresponding revenue did not contribute over 10% of the total sales of the Group.

4. FINANCE COSTS

	2010	2009
	RMB'000	*RMB'000*
Interest on borrowings wholly repayable within five years	**5,860**	3,782
Imputed interest expenses on		
– loan from a related party	**–**	86
– consideration payable for acquisition of a business	**611**	196
Effective interest on convertible loan notes	**1,631**	–
	8,102	4,064

5. TAXATION

	2010	2009
	RMB'000	*RMB'000*
Tax charge comprises:		
PRC Enterprise Income Tax		
– current year	**22,406**	16,602
– (over) under provision in prior year	**(19)**	107
	22,387	16,709
The US Federal and State Income taxes	**406**	257
	22,793	16,966
Deferred tax	**(8,136)**	(3,486)
	14,657	13,480

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 the resolutions of National Development and Reform Commission, dated 31 December 2010 and 31 December 2009, Chinasoft Beijing had been designated as a supported software enterprise and its income tax rate was reduced from 25% to 10% for 2010 and 2009.

Pursuant to a certificate issued by Beijing Municipal Science and Technology Commission dated 24 December 2008, Chinasoft Resources Beijing had been designated as a High and New Technology Enterprise and its income tax rate was reduced from 25% to 15%. Moreover, Chinasoft Resources Beijing was entitled to the three year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2004. As a result, Chinasoft Resources Beijing is subject to the income tax at the rate of 15% for the year ended 31 December 2010 (2009: 7.5%).

Pursuant to an approval document issued by the Shanghai City District Bureau dated 27 February 2007, Chinasoft Resources Shanghai was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction with effect from 2006. As a result, Chinasoft Resources Shanghai is subject to the income tax at the rate of 12.5% for the year ended 31 December 2010 (2009: 12.5%).

Pursuant to an approval document issued by the Xuhui Branch of State Administration of Taxation Bureau in Shanghai and Xuhui Branch of Shanghai Local Taxation Bureau dated 22 May 2008, Shanghai Huateng was approved as a production enterprise and its income tax rate was reduced from 25% to 12.5% with effective from 1 January 2008 to 31 December 2010.

In addition, Chinasoft Resources Shenzhen is located in the 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 will increase progressively to 25%. The applicable tax rate of the Special Economic Zone is 22% in 2010 (2009: 20%). As a result, Chinasoft Resources Shenzhen is subject to the income tax at the rate of 22% for the year ended 31 December 2010 (2009: 20%).

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

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

	2010	2009
	RMB'000	*RMB'000*
Loss before taxation	**(15,079)**	(107,077)
Tax at PRC Enterprise Income Tax rate of 25% (2009: 25%)	**(3,770)**	(26,769)
Tax effect of share of results of associates	**(663)**	(740)
Tax effect attributable to tax exemptions and concessions granted to PRC subsidiaries	**(39,080)**	(15,672)
Tax effect of expenses not deductible for tax purpose	**59,744**	53,471
Tax effect of income not taxable for tax purpose	**(5,327)**	(2,165)
(Over) under provision in prior year	**(19)**	107
Tax effect of utilisation of tax losses previously not recognised	**(426)**	(234)
Tax effect of tax losses not recognised	**3,946**	5,191
Effect of different tax rates of subsidiaries	**252**	291
Tax charge for the year	**14,657**	13,480

6. LOSS FOR THE YEAR

	2010	2009
	RMB'000	*RMB'000*
Loss for the year has been arrived at after charging:		
Directors' remuneration	**3,956**	4,376
Other staff costs	**661,136**	499,861
Retirement benefits costs (excluding those for directors)	**61,727**	32,048
Share option expenses (excluding those for directors)	**27,519**	23,716
Total staff costs	**754,338**	560,001
Less: Staff costs capitalised as development costs	**(9,807)**	(9,594)
	744,531	550,407
Research and development costs expensed	**41,601**	21,051
Less: Government grants	**(2,515)**	(1,654)
	39,086	19,397
Depreciation of property, plant and equipment	**35,377**	23,495
Amortisation of intangible assets	**29,725**	23,726
Amortisation of prepaid lease payments	**164**	166
	65,266	47,387
Auditor's remuneration	**4,800**	4,180
Cost of inventories recognised as an expense	**191,259**	173,906
Loss on disposal of property, plant and equipment and intangible assets	**266**	147
Minimum lease payments in respect of buildings	**45,539**	42,154
Net foreign exchange loss	**–**	82
and after crediting:		
Interest income from pledged deposits and bank balances	**1,392**	2,551
Government grants	**22,831**	11,044
Net foreign exchange gain	**3,094**	–
Tax incentive subsidies	**5,599**	3,961

7. DIVIDEND

No dividend was paid or proposed during 2009 and 2010, nor has any dividend been proposed since the end of the reporting period.

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	2010	2009
	RMB'000	*RMB'000*
Loss for the purposes of calculating basic and diluted loss per share	**(40,133)**	(126,743)

	Number of shares	
	2010	2009
Weighted average number of ordinary shares for the purposes of calculating basic and diluted loss per share	**1,064,256,388**	1,008,951,120

The computation of diluted loss per share for the years ended 31 December 2010 and 2009 did not assume the conversion of the redeemable convertible preferred shares or convertible loan notes as the conversion would result in a decrease in loss per share.

In addition, the computation of diluted loss per shares for the years ended 31 December 2010 and 2009 did not assume the exercise of share options either because of the exercise price of those options was higher than the average market price or the exercise would result in a decrease in loss per share.

9. TRADE AND OTHER RECEIVABLES

	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**510,761**	304,569
Less: Allowance for doubtful debts	**(61,890)**	(55,768)
	448,871	248,801
Trade receivables from related companies *(Note)*	**6,140**	5,985
	455,011	254,786
Advances to suppliers	**42,856**	59,432
Deposits, prepayments and other receivables	**59,293**	48,060
	557,160	362,278

Note: The balances principally arose from provision of services by the Group to certain related companies.

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

	2010	2009
	RMB'000	*RMB'000*
Within 90 days	**370,973**	189,043
Between 91 – 180 days	**40,565**	13,675
Between 181 – 365 days	**16,347**	16,856
Between 1 – 2 years	**26,073**	34,702
Over 2 years	**1,053**	510
	455,011	254,786

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. 68% (2009: 60%) of the trade receivables that are neither past due nor impaired have the best credit quality assessed by the Group.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of RMB102,957,000 (2009: RMB67,951,000) 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

	2010	2009
	RMB'000	*RMB'000*
Within 90 days	**32,308**	6,585
Between 91 – 180 days	**27,176**	9,298
Between 181 – 365 days	**16,347**	16,856
Between 1 – 2 years	**26,073**	34,702
Over 2 years	**1,053**	510
Total	**102,957**	67,951

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.

Movement in the allowance for doubtful debts

	2010	2009
	RMB'000	*RMB'000*
Balance at beginning of the year	**55,768**	34,783
Impairment losses recognised on receivables	**8,276**	21,113
Amounts written off as uncollectible	**(2,154)**	(128)
Balance at end of the year	**61,890**	55,768

10. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2010	2009
	RMB'000	*RMB'000*
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**563,075**	653,860
Less: Progress billings	**(369,863)**	(572,586)
	193,212	81,274
Analysed for reporting purposes as:		
Amounts due from contract customers for contract work	**251,278**	161,019
Amounts due to contract customers for contract work	**(58,066)**	(79,745)
	193,212	81,274

At 31 December 2010, retentions held by customers for contract work amounted to RMB3,730,000 (2009: RMB1,813,000). There are no advances received from customers for contract work at the end of 2010 and 2009.

11. TRADE AND OTHER PAYABLES

	2010	2009
	RMB'000	*RMB'000*
Trade payables	**183,656**	119,627
Trade payables to related companies *(Note)*	**2,153**	921
	185,809	120,548
Deposits received from customers	**23,519**	6,300
Other payables and accrued charges	**251,471**	156,424
	460,799	283,272

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

	2010	2009
	RMB'000	*RMB'000*
Within 90 days	**74,129**	48,165
Between 91 – 180 days	**30,630**	18,419
Between 181 – 365 days	**37,414**	14,543
Between 1 – 2 years	**31,807**	27,331
Over 2 years	**11,829**	12,090
	185,809	120,548

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

Note: The balances principally arose from rental expenses charged by a related company to the Group.

12. BORROWINGS

Carrying amount repayable within one year:

	2010	2009
	RMB'000	*RMB'000*
Unsecured bank loans *(Note (i))*	**146,950**	57,000
Loans from other financial institution, unsecured	**40,000**	30,000
Loan from a related party, unsecured *(Note (ii))*	**–**	17,071
	186,950	104,071

	2010	2009
	RMB'000	*RMB'000*
Total borrowings		
Interest free	**–**	17,071
At floating rates *(Note (iii))*	**186,950**	87,000
	186,950	104,071

Notes:

(i) Credit guaranteed by the Company and certain subsidiaries of the Company. A loan of RMB5,002,000 at 31 December 2009 was also guaranteed by China National Investment and Guaranty Co., Ltd., a guarantee service provider.

(ii) The loan from a related party represented a loan from a former shareholder of HGR that was assumed by the Group when the Group acquired HGR in 2007. The loan was unsecured, interest free and repayable within one year. The imputed interest rate on this loan was 5.26% (2009: 5.26%) per annum. The loan was settled during 2010.

(iii) 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 5.40% (2009: 5.89%) per annum.

13. 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 2009 and 2010	625,000,000	31,250
Issued and fully paid		
Balance at 1 January 2010	194,500,000	9,725
Converted into ordinary shares during the year	(30,000,000)	(1,500)
Balance at 31 December 2010	164,500,000	8,225

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

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

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

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

On 4 May 2010, the Company announced that IFC requested to convert its 30,000,000 out of the total 194,500,000 Series A Preferred Shares into the Company's ordinary shares. Immediately before the conversion, the fair value of the redeemable convertible preferred shares of the converted portion was approximately RMB44,351,000 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 13 August 2010, the Company announced that IFC completed the transfer of its 38,300,000 and 28,950,000 Series A Preferred Shares to Fantastic Dynasty Limited ("Fantastic") and two other investors, respectively, at a price of HK$1.57 each respectively. Fantastic is wholly and beneficially owned by Dr. Chen Yuhong, the Chief Executive Officer and the Managing Director of the Company.

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

At 31 December 2010 and 2009, the fair value of the liability component of the Series A Preferred Shares was estimated by using market interest rates of 12% and 14% respectively. The fair value of the embedded derivatives (including the redemption option and conversion option) is calculated using the binomial option pricing model. The inputs into the model were as follows:

	2010	2009
Share price	**HK$1.95**	HK$0.91
Exercise price	**HK$0.8**	HK$0.8
Time to maturity	**1 year**	2 years
Risk free rate	**0.348%**	0.551%
Share price volatility	**58.25%**	73.17%

Share price volatility was estimated using the historical volatility of the Company's share prices over a period of 263 days (2009: 434 days).

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

	Liability component	Derivative component	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2009	104,558	23,141	127,699
Exchange adjustment	(179)	(56)	(235)
Loss arising from changes in fair value	23,307	24,439	47,746
Interest paid	(7,555)	–	(7,555)
As at 31 December 2009	120,131	47,524	167,655
Exchange adjustment	(3,616)	(3,745)	(7,361)
Conversion during the year	(19,288)	(25,063)	(44,351)
Loss arising from changes in fair value	15,545	129,652	145,197
Interest paid	(6,697)	–	(6,697)
As at 31 December 2010	106,075	148,368	254,443

Included in the loss arising from changes of fair value is an interest expense of RMB6,710,000 (2009: RMB7,561,000).

14. 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.

The convertible loan notes contain 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. The effective interest rate of the liability component is 11.99% per annum. The movement of the liability component of the convertible loan notes for the year is set out below:

	2010	2009
	RMB'000	*RMB'000*
Issue of convertible loan notes	**163,478**	–
Interest charge *(note 4)*	**1,631**	–
Carrying amount at end of the year	**165,109**	–

MANAGEMENT DISCUSSION AND ANALYSES

KEY OPERATING DATA

Excluding the loss arising from fair value change of redeemable convertible preferred shares which are considered to be derivative financial instruments (2010: RMB145,197,000; 2009: RMB47,746,000) and goodwill impairment loss (2010: nil; 2009: RMB80,667,000), the key data of the consolidated statement of comprehensive income are set out as follows:

	2010	2009	Year-on-year increase/ decrease
	RMB'000	*RMB'000*	
Revenue	**1,601,211**	1,104,602	45.0%
Revenue from service*	**1,374,424**	920,917	49.2%
Cost of sales	**(1,088,007)**	(767,624)	41.7%
Gross profit	**513,204**	336,978	52.3%
Other operating income	**35,264**	18,868	86.9%
Selling and distribution costs	**(94,203)**	(71,065)	32.6%
Administrative expenses	**(241,444)**	(197,938)	22.0%
Research and development costs and expenses	**(39,086)**	(19,397)	101.51%
Provision for doubtful debts	**(8,276)**	(21,113)	(60.8%)
Amortisation of intangible assets	**(29,889)**	(23,892)	25.1%
Finance costs	**(8,102)**	(4,064)	99.4%
Share of results of associates	**2,650**	2,959	(10.4%)
Profit before taxation	**130,118**	21,336	509.9%
Taxation	**(14,657)**	(13,480)	8.7%
Profit for the year***	**115,461**	7,856	1369.7%
+Taxation	**14,657**	13,480	8.7%
+Finance costs	**8,102**	4,064	99.4%
+ Depreciation of property, plant and equipment	**35,377**	23,495	50.6%
+Amortisation of intangible assets and prepaid lease payments	**29,889**	23,892	25.1%
-Share of results of associates	**(2,650)**	(2,959)	(10.4%)
EBITDA**	**200,836**	69,828	187.6%
+Share option expenses	**27,669**	25,487	8.6%
+Net foreign exchange (gain) loss	**(5,002)**	82	6200%
+Provision for doubtful debts	**8,276**	21,113	(60.8%)
Business contribution profit**	**231,779**	116,510	98.9%

Note*: The revenue from service is extracted from Note 5 of the consolidated financial statements. Please refer to the part on "revenue" in "operating results" below for detailed analysis.

Note**: EBITDA and business contribution profit (EBITDA excluding share option expenses, net foreign exchange (gain) loss and provision for doubtful debts) are the true reflection of the business' earnings capability. Please refer to the part on "earnings capability" below for detailed analysis.

Note***: Profit for the year means the net profit excluding the changes in fair value of redeemable convertible preferred shares for 2009 and 2010 and loss arising from goodwill impairment for 2009 only.

GENERAL OVERVIEW

The growth in key operating data of the Group for 2010 is set out as follows:

	2010	2009	Growth rate
	RMB'000	*RMB'000*	
Revenue	**1,601,211**	1,104,602	45.0%
Revenue from service	**1,374,424**	920,917	49.2%
EBITDA	**200,836**	69,828	187.6%
Business contribution profit	**231,779**	116,510	98.9%

In 2010, segmental results of the Group increased substantially by 126.3% (extracted from Note 5 of the consolidate financial statements) on the whole as compared with that of the previous year and the growth in revenue, revenue from service and results by business line is set out as follows:

	Segment Revenue			**Segment Revenue from Service**			**Segment Results**		
	2010	2009	Growth rate	**2010**	2009	Growth rate	**2010**	2009	Growth rate
	RMB'000	*RMB'000*		***RMB'000***	*RMB'000*		***RMB'000***	*RMB'000*	
Government and manufacturing	**471,820**	308,569	52.9%	**364,431**	225,117	61.9%	**36,997**	1,848	1902.0%
Finance and banking	**392,059**	305,757	28.2%	**272,661**	205,524	32.7%	**36,168**	18,349	97.1%
IT outsourcing	**682,917**	455,538	49.9%	**682,917**	455,538	49.9%	**85,596**	61,126	40.0%
Training	**54,415**	34,738	56.6%	**54,415**	34,738	56.6%	**7,778**	(7,729)	N/A
Total	**1,601,211**	1,104,602	45.0%	**1,374,424**	920,917	49.2%	**166,539**	73,594	126.3%

Note: "Segmental results" refer to the profit earned/loss incurred prior to distribution of impairment loss recognised on goodwill, corporate expenses, share-based payment and loss arising from fair value change of redeemable convertible preferred shares, and the revenue, profit and loss items of some other companies. (Extracted from Note 5 of the consolidated financial statements)

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

Our major business growth drivers in 2010 were as follows:

- All of our main business sectors achieved strong results and simultaneous rapid growth, of which:

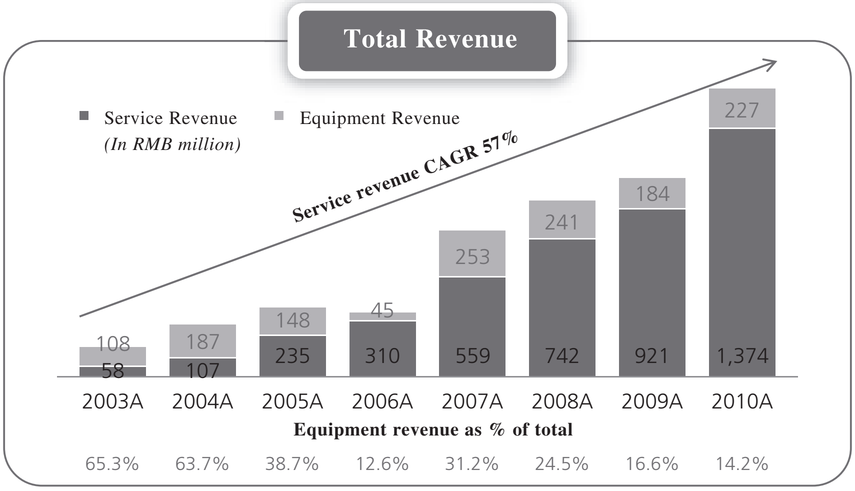
  (1) The solutions business continued to maintain steady and healthy growth momentum. We continued to intensively tap vertical industries in the advisory and solutions business sectors on the basis of our rich experience and technical knowhow accumulated in the advantageous industries, hence achieving a year-on-year increase of 40.6% and 47.9% in revenue and revenue from service respectively.

  (2) The IT outsourcing business expanded on the whole. The Group pursued continuous innovations in the IT outsourcing sector. Apart from traditional IT outsourcing service, the Group, with the support of its leading position in China market, assisted overseas customers for their swift understanding of the China market and the development of new business opportunities. At the same time, with the broad distribution of submission centers, the Group was capable of fully leveraging global resources and its own leading technological strength to assist customers to respond to the constantly and rapidly changing business challenges. During the reporting period, revenue from IT outsourcing business and revenue from service recorded an increase of 49.9% over last year.

- Relying on China's IT market developments in 2010 and supported by our long-term accumulation on the national conditions of China market, we continued to expand our market share in China, which resulted in substantial growth in revenue from Greater China as compared with that of the previous year.

- Acquisitions and mergers. Under the support of the Group's strong integration capability, the method of combining acquisitions and mergers with the natural growth in business is employed to secure the rapid development of the enterprise.

Since the listing on the Growth Enterprise Market in 2003, the Group's revenue and revenue from service have maintained rapid growth, recording a CAGR of 38% and 57% over the period from 2003 to 2010 respectively. The details are set out as follows:



Customer

Along with the continuous recovery in overall economic conditions and the further weakening of impact of the financial turmoil, customers of the Group increased their expenditure in the construction of information systems. Our customers include large enterprises situated in Greater China, Europe, the US and Japan. We had a relatively big market share in the fast-growing China market, particularly in the mainstream industries such as the government and manufacturing industry, finance and banking industries, telecom industry and high-tech industry. In 2010, revenue from the top ten customers accounted for 57.2% of the Group's total revenue. 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 revenue from the top ten customers in the Group's total revenue will further decline.

Market

The Group operated its businesses mainly in Greater China. In 2010, the Group continued to set Greater China market as an important sector for development. China's strong economic growth and the immense market potentials embedded in Greater China led to long-term growth opportunities for the Group. At the same time, several of our large multinational corporate customers also expressed to set China as the most crucial part of their global layout, which was a clear indication of their confidence in the Chinese economy and the rare development opportunities for our businesses.

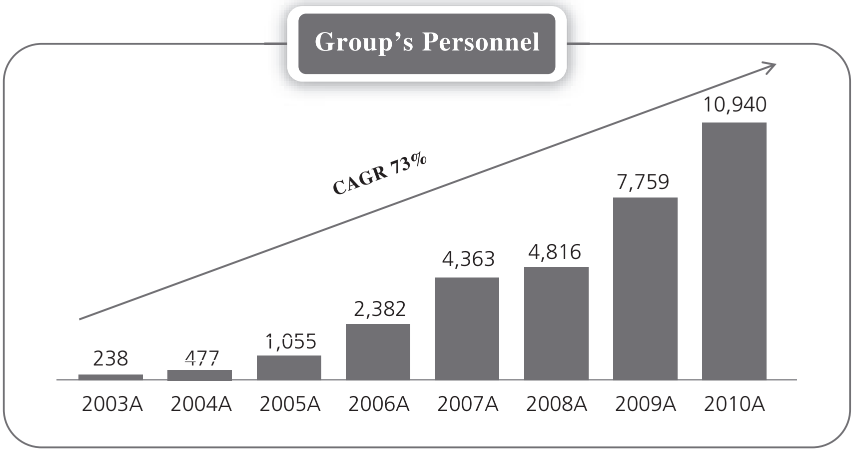
Human Resources

As of the end of 2010, the Group had altogether 10,940 employees, representing an increase of 41% over 7,759 employees as of the end of 2009, of which 9,750 employees were technicians accounting for 89% of the Group's total number of employees and 1,056 employees were project managers and key consulting staff accounting for 10.8% of the Group's total number of technical employees.

The average turnover rate of the Group through 2010 was 12.3% 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 increase earnings capability constantly through the continuous increase in the scale of 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 priority incentive policy for improving production efficiency among employees).

The Group cooperated with over 350 colleges and education institutions in setting up training centers in Beijing, Tianjin, Dalian, Changsha, Wuxi, Chongqing, Xiamen, Nanjing, Chengdu and Nanchang to customise development training programmes for the business divisions of the Group. Each business division could participate in the course design, process tracking and evaluation to select quality students from a huge resource pool, hence ensuring constant supply of practical personnel.

Since the listing on the Growth Enterprise Market in 2003, the size of the Group's personnel has maintained rapid growth, recording a CAGR of 73% over the period from 2003 to 2010. The details are set out as follows:



Earnings Capability

In 2010, the Group's EBITDA was RMB200.836 million (2009: RMB69.828 million), representing a growth of 187.6% over the same period of previous year. EBITDA ratio was 12.5% in 2010, representing a year-on-year increase of 6.2% (EBITDA ratio was 14.6% if measured on the basis of revenue from service, representing an increase of 7% over the same period of the previous year). Details from the loss for the year to EBITDA adjustments are set out as follows:

	FY2010 *RMB'000*	**FY2009** *RMB'000*	**Growth rate**
Loss for the year	**(29,736)**	**(120,557)**	**N/A**
+Taxation	14,657	13,480	8.7%
+Finance costs	8,102	4,064	99.4%
+Depreciation of property, plant and equipment	35,377	23,495	50.6%
+Amortisation of intangible assets and prepaid rental payments	29,889	23,892	25.1%
+Loss arising from fair value change of redeemable convertible preferred shares	145,197	47,746	204.1%
+Goodwill impairment loss	–	80,667	N/A
–Share of results of associates	(2,650)	(2,959)	(10.4%)
EBITDA	**200,836**	**69,828**	**187.6%**

In order to assist our vast shareholders and investors in comparing the Group with different business trends during the reporting period and in understanding the Group's continuous business achievements clearer and to facilitate the comparison of the Group's business achievements with other similar companies, we have excluded impacts on the profit and loss of non-business and non-cash nature in the EBITDA (for example: share option expenses, net foreign exchange (gain) loss and provision for doubtful debts) in our calculation of the business contribution profit for 2010. Details from EBITDA to business contribution profit are set out as follows:

	FY2010 *RMB'000*	**FY2009** *RMB'000*	**Growth rate**
EBITDA	**200,836**	**69,828**	**187.6%**
+Share option expenses	27,669	25,487	8.6%
+Net translation (gain) loss	(5,002)	82	(6,200.0%)
+Provision for doubtful debts	8,276	21,113	(60.8%)
Business contribution profit	**231,779**	**116,510**	**98.9%**

In 2010, the Group's business contribution profit was RMB231.779 million (2009: RMB116.510 million), representing a year-on-year growth of 98.9%. The ratio of business contribution profit was 14.5%, representing an increase of 4% over the same period of the previous year (the ratio of business contribution profit was 16.9% if measured on the basis of revenue from service, representing an increase of 4.2% over the same period of the previous year).

FUTURE PROSPECTS

1. Macro Environment

The year 2011 is the first year of the "Twelfth Five-Year Plan" of the Chinese government. The government will continue to develop the domestic economy vigorously and pay attention to the people's livelihood. Meanwhile, the global economic environment will further recover. According to the forecast of CCID Consulting (CCID) in "2009-2010 China IT service market research report", China's local IT service market will reach USD30 billion in 2011, a growth of 20% over 2010, and China's global ITO market will reach USD8.5 billion, an increase of 35% over 2010. In 2011, we expect that our businesses and operating results will be affected by the following factors:

- In the "Twelfth Five-Year" period, China will still be at a golden stage of development and thus a relatively rapid growth will still be maintained, with potential growth rate in the range of 8%-9%;

- Along with the blending of informatisation and industrialisation and the advance of the process of the "New Five" (namely new industrialisation, new urbanisation, knowledge informatisation, infrastructure modernisation and economic globalisation), information-based facilities and the IT industry will be developed at a faster speed and their weight in the national economy is expected to increase further;

- The cultivation and development of new strategic industries will increase the degree of application of informatisation in these industries and the new industries will be more inclined to adopt informatisation as a means to propel enterprises to the heights of global market;

- The Circular No. 2011-4 as released by the Office of the State Council has provided some policy support to the development of the knowledge-intensive software and integrated circuits industries and thus the software and information service business will be ushered into a rare environment and opportunity for rapid development;

- A sound social security scheme covering residents in cities and villages alike will place greater emphasis on the construction of livelihood systems, hence bringing unprecedented and historic opportunities to informatisation in the medical, social security and education sectors.

2. Countermeasures

With focus on the marco economic environment as mentioned above, we plan to:

- Continue to invest in new industries which are particularly fostered by the government taking the opportunity of the State's "Twelfth Five-Year" development and increase our business proportion and service viscosity in the overall IT investments of our customers by providing existing customers and business partners with services covering the full value chain from consulting, IT to outsourcing;

- Set Asia Pacific, Central and North America and Europe as the key areas for business development on the basis of stabilising businesses in Greater China and we believe that the market situation of these regions and our existing business layout will bring forth greater market opportunities;

- Continue to invest in the Company's human resources base and new service catalogue;

- Continue to conduct key operations and stronger management for the proper management of our cost structure, such as the arrangements for implementing ERP system at the Group's level;

- Establish our new development centers in the third-tier cities in China where human resources are relatively abundant to capitalise on the decreasing costs of labour.

OPERATING RESULTS

The following chart sets out the Group's consolidated statement of comprehensive income for 2009 and 2010:

	2010 RMB'000	Percentage of revenue	Percentage of revenue from service	2009 RMB'000	Percentage of revenue	Percentage of revenue from service
Revenue	**1,601,211**			1,104,602		
Revenue from service	**1,374,424**			920,917		
Cost of sales	**(1,088,007)**	(67.9%)		(767,624)	(69.5%)	
Gross profit	**513,204**	32.1%	37.3%	336,978	30.5%	36.6%
Other operating income	**35,264**	2.2%	2.6%	18,868	1.7%	2.0%
Selling and distribution costs	**(94,203)**	(5.9%)	(6.9%)	(71,065)	(6.4%)	(7.7%)
Administrative expenses	**(241,444)**	(15.1%)	(17.6%)	(197,938)	(17.9%)	(21.5%)
Research and development costs and expenses	**(39,086)**	(2.4%)	(2.8%)	(19,397)	(1.8%)	(2.1%)
Provision for doubtful debts	**(8,276)**	(0.5%)	(0.6%)	(21,113)	(1.9%)	(2.3%)
Amortisation of intangible assets and prepaid rental payments	**(29,889)**	(1.9%)	(2.2%)	(23,892)	(2.2%)	(2.6%)
Goodwill impairment loss	**0**	0.0%	0.0%	(80,667)	(7.3%)	(8.8%)
Finance costs	**(8,102)**	(0.5%)	(0.6%)	(4,064)	(0.4%)	(0.4%)
Share of results of associates	**2,650**	0.2%	0.2%	2,959	0.3%	
Loss arising from fair value change of redeemable convertible preferred shares	**(145,197)**	(9.1%)	(10.6%)	(47,746)	(4.3%)	(5.2%)
Profit (loss) before taxation	**(15,079)**	(0.9%)	(1.1%)	(107,077)	(9.7%)	(11.6%)
Taxation	**(14,657)**	(0.9%)	(1.1%)	(13,480)	(1.2%)	(1.5%)
Profit (loss) for the year	**(29,736)**	(1.9%)	(2.2%)	(120,557)	(10.9%)	(13.1%)

Comparison of the results of 2009 and 2010:

Revenue

In 2010, revenue of the Group amounted to RMB1,601.211 million (2009: RMB1,104.602 million), representing a growth of 45% compared to that of the previous year. Of which, revenue from service was RMB1,374.424 million (2009: RMB920.917 million), representing a year-on-year growth of 49.2%, which was attributed to the constantly expanding customer base and the continuous and diversified development of the Group's main businesses.

In 2010, the Group's revenue and revenue from service by contract model (on the basis of fixed price or time) are set out as follows:

	Revenue *RMB'000*	**Weight**	**Revenue from service** *RMB'000*	**Weight**
Fixed price	918,294	57.3%	691,507	50.3%
Time material	682,917	42.7%	682,917	49.7%

Revenue from the Group's four major business lines, namely government and manufacturing, finance and banking, IT outsourcing and training, accounted for 29.5%, 24.5%, 42.7% and 3.4% of the Group's total revenue respectively (2009: approximately 27.9%, 27.7%, 41.2% and 3.1% respectively). The growth in revenue of each business line is set out as follows:

	2010 *RMB'000*	**Weight**	2009 *RMB'000*	Weight	Growth rate
Government and manufacturing	**471,820**	**29.5%**	308,569	27.9%	52.9%
Finance and banking	**392,059**	**24.5%**	305,757	27.7%	28.2%
IT outsourcing	**682,917**	**42.7%**	455,538	41.2%	49.9%
Training	**54,415**	**3.4%**	34,738	3.1%	56.6%
Total revenue	**1,601,211**	**100.0%**	1,104,602	100%	45.0%

Revenue from service for each major business line accounted for 26.5%, 19.8%, 49.7% and 4% of the Group's total revenue from service respectively (2009: approximately 24.4%, 22.3%, 49.5% and 3.8% respectively). The growth in revenue from service for each business line is set out as follows:

	2010 *RMB'000*	**Weight**	2009 *RMB'000*	Weight	Growth rate
Government and manufacturing	**364,431**	**26.5%**	225,117	24.4%	61.9%
Finance and banking	**272,661**	**19.8%**	205,524	22.3%	32.7%
IT outsourcing	**682,917**	**49.7%**	455,538	49.5%	49.9%
Training	**54,415**	**4.0%**	34,738	3.8%	56.6%
Total revenue from service	**1,374,424**	**100.0%**	920,917	100.0%	49.2%

COST OF MAIN BUSINESSES

In 2010, cost of the Group's main businesses accounted for 67.9% of the revenue (2009: 69.5%), representing a decrease of 1.5% over the same period of the previous year. Cost of main businesses of the Group amounted to RMB1,088.007 million (2009: RMB767.624 million), representing an increase of 41.7% year on year.

GROSS PROFIT

In 2010, the Group's gross profit was approximately RMB513.204 million (2009: RMB336.978 million), representing an increase of 52.3% over 2009. The Group's gross profit margin was 32.1% (2009: 30.5%), representing a growth of 1.5% compared with that of the previous year. The gross profit margin for revenue from service was 37.3% in 2010 (2009: 36.6%), an increase of 0.7% year on year.

The Group is of the view that the following measures will increase gross profit margin going forward:

First, we will strengthen business management of the Group and increase the weight of businesses with high gross profit margin in revenue to increase the overall gross profit margin of the Group;

Second, we will increase the extent of re-use of technology through continuous input of resources into research and development to lower direct cost ratio and thus increase gross profit margin;

Third, we will set up submission centers at "third-tier cities" to reduce the overall labor cost of the Group;

Fourth, we will continue to cultivate and build exclusive personnel and project management teams by continuously enhancing the incentive policy to improve the production efficiency among employees and thus the pressure from the surge in wages on the Group will be reduced.

OTHER OPERATING REVENUE

In 2010, other operating revenue amounted to RMB35.264 million (2009: RMB18.868 million), representing an increase of 86.9% over the same period of the previous year which was mainly attributed to the increase in tax refunds and government subsidies in 2010.

OPERATING EXPENSES

In 2010, selling and distribution costs amounted to RMB94.203 million (2009: RMB71.065 million), representing a growth of 32.6% over 2009 and the proportion of selling and distribution costs in revenue was 5.9% as compared to 6.4% in 2009.

In 2010, the proportion of administrative expenses in revenue was 15.1%, a decrease of 2.8% compared with 17.9% for the same period of 2009. Administrative expenses amounted to RMB241.444 million in 2010 (2009: RMB197.938 million), representing a year-on-year growth of 22.0% which was mainly due to the Group's recruitment of more experienced management personnel, in addition to the Group's continuous strengthening of team building which increased the spending in areas such as staff training.

In 2010, research and development costs and expenses were RMB39.086 million (2009: RMB19.397 million), representing a growth of 101.5% over the same period of 2009, and the proportion of research and development costs and expenses in revenue was 2.4%, which was 1.8% in 2009.

EBITDA AND BUSINESS CONTRIBUTION PROFIT

In 2010, the Group recorded an EBITDA of approximately RMB200.836 million (2009: RMB69.828 million), representing a substantial increase of 187.6% over 2009. EBITDA to revenue was approximately 12.5% (2009: 6.3%), representing a significant growth of 6.2%. EBITDA to revenue from service was approximately 14.6% (2009: 7.6%), representing a substantial increase of 7% over the same period of 2009.

In 2010, business contribution profit amounted to RMB231.779 million (2009: RMB116.510 million), representing an increase of 98.9% over 2009. In 2010, the business contribution profit margin grew substantially by 4% over the same period of 2009 to 14.5% (2009: 10.5%). Business contribution profit margin based on revenue from service was 16.9% (2009: 12.7%), representing a significant growth of 4.2% over the same period of 2009.

The Group believes that the operating expenses can be reduced through the following two measures: 1) cross-sales between different business lines to lower the overall selling and distribution costs of the Group; 2) implementation of ERP human resources and financial segments across the Group to lower the administrative expenses through standardising the operations and rationalising the resources and development regional platform, so as to enhance the EBITDA and business contribution profit margin:

OTHER NON-CASH EXPENSES

In 2010, depreciation of property, plant and equipment to revenue was 2.2%, an increase of 0.1% as compared with 2.1% in the same period of 2009. Depreciation of property, plant and equipment amounted to RMB35.377 million (2009: RMB23.495 million), representing an increase of 50.6% over 2009, mainly attributable to personnel expansion and increase in depreciation due to purchase of fixed assets during the year.

In 2010, amortisation of intangible assets and prepaid lease payments to revenue was 1.9%, a decrease of 0.3% as compared with 2.2% in the same period of 2009. Amortisation of intangible assets and prepaid lease payments amounted to RMB29.889 million (2009: RMB23.892 million), representing an increase of 25.1% over 2009, primarily due to the increase in amortisation of intangible assets and prepaid lease payments arising from the new acquisition.

In 2010, share option to revenue was 1.7%, a decrease of 0.6% as compared with 2.3% in the same period of 2009. Cost of options amounted to RMB27.669 million (2009: RMB25.487 million), representing a growth of 8.6% over 2009, mainly as a result of the increase in share option expenses arising from the grant of options to further encourage and retain quality staff.

In 2010, provision for doubtful debt to revenue was 0.5%, a decrease of 1.4% as compared to 1.9% over the same period of 2009. Provision of bad debt amounted to RMB8.276 million (2009: RMB21.113 million), representing a decrease of 60.8% over the same period of 2009, which was due to the Group's efforts to recover outstanding receivables and to link the recovery ratio of receivables and receivable turnover days with the performance appraisal of various business lines directly. Accordingly, provision for doubtful debt decreased significantly.

In 2010, the Group had no impairment loss recognised in respect of goodwill (2009: RMB80.667 million).

In 2010, loss arising from fair value change of redeemable convertible preferred shares to revenue was 9.1%, an increase of 4.8% as compared with 4.3% in the same period of 2009. Loss arising from fair value change of redeemable convertible preferred shares amounted to RMB145.197 million (2009: RMB47.746 million), representing an increase of 204.1% over the same period of last year, mainly attributable to the substantial increase in the fair value of redeemable convertible preferred shares resulting from the surge in share price of the Group in 2010.

PROFIT FOR THE YEAR AND EARNINGS PER SHARE

In 2010, excluding the effect of loss arising from fair value changes of redeemable convertible preferred shares and goodwill impairment, the Group recorded a profit for the year of RMB115.461 million (2009: RMB7.856 million), representing a substantial increase of 1,369.7%. Based on the said profit for the year, earnings share per for 2010 amounted to approximately RMB0.0987 (2009: RMB0.0017), representing a substantial increase of 5,864.3%.

Profit for the year to revenue was approximately 7.2% (2009: 0.7%), representing a significant growth of 6.5% over the same period of last year; profit for the year to revenue from service was approximately 8.4% (2009: 0.9%), representing a significant growth of 7.5% over the same period of last year.

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

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

Dr. Tang Zhenming, Mr. Wang Hui, Dr. Zhang Yaqin, Mr. Fang Jun and Mr. Liu Zheng, have not entered into service agreements with the Group. Dr. Tang Zhenming and Mr. Wang Hui receive no remuneration for holding their office as executive Directors. Dr. Zhang Yaqin, Mr. Fang Jun and Mr. Liu Zheng 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 and Mr. Xu Zeshan have not entered into any service agreements as independent non-executive Directors with the Group. The monthly remuneration for Dr. Leung Wing Yin Patrick is HK$10,000. Mr. Xu Zeshan receives no remuneration for holding his office as an independent non-executive Director.

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

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

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2010, 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 Preferred Shares	Approximate percentage of total issued preferred share capital of the Company as at 31 December 2010	Total No. of Ordinary Shares	Approximate percentage of total issued ordinary share capital of the Company as at 31 December 2010	Approximate voting percentage of the Company as at 31 December 2010
Chen Yuhong	38,300,000	3.06%	44,420,136	3.66%	5.53%
Cui Hui	–	–	20,000,000	1.65%	1.34%
Tang Zhenming	–	–	11,747,765	0.97%	0.79%
Wang Hui	–	–	9,237,838	0.76%	0.62%
Zeng Zhijie	–	–	300,000	0.02%	0.02%

Options to subscribe for Shares

Name of Director	Exercise Price *(HK$)*	No. of share options outstanding as at 31 December 2010	Percentage of total issued ordinary share capital of the Company as at 31 December 2010	No. of underlying ordinary Shares interested in	Note
Chen Yuhong	1.78	3,800,000	0.31%	8,800,000	(6)
	1.37	5,000,000	0.41%		(7)
Cui Hui	0.65	500,000	0.04%	500,000	(4)
Duncan Chiu	0.65	1,000,000	0.08%	11,000,000	(4)
	1.37	10,000,000	0.82%		(7)
Tang Zhenming	0.58	80,000	0.01%	6,180,000	(3)
	0.65	1,300,000	0.11%		(4)
	0.97	800,000	0.07%		(5)
	1.78	2,000,000	0.16%		(6)
	1.37	2,000,000	0.16%		(7)
Wang Hui *(Note1)*	0.65	250,000	0.02%	4,400,000	(4)
	0.97	1,000,000	0.08%		(5)
	1.78	2,000,000	0.16%		(6)
	1.37	1,150,000	0.09%		(7)
Zeng Zhijie *(Note2)*	1.78	450,000	0.04%	450,000	(6)

Notes:

(1) An aggregate of 250,000, 1,500,000 and 1,450,000 share options were exercised by Mr. Wang Hui at the exercise price of HK$0.58, HK$0.65 and HK$1.37 each respectively during the year. Hence, following the exercise of these share options, the number of share options outstanding reduced to 4,400,000 as at 31 December 2010.

(2) An aggregate of 300,000 share options were exercised by Mr. Zeng Zhijie at the exercise price of HK$1.78 each during the year. Hence, following the exercise of these share options, the number of share options outstanding reduced to 450,000 as at 31 December 2010.

(3) 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

(4) 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

(5) 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

(6) 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

(7) These share options were offered on 14 April 2008 under the Share Option Scheme and accepted on 12 May 2008. These share options are exercisable for a period of 3 years from the date of offer, subject to the following conditions:

Exercisable Period		
Commencing	**Ending**	**Number of share options exercisable**
14/04/2008	13/04/2011	50% of the total number of share options granted
14/04/2009	13/04/2011	50% of the total number of share options granted

Save as disclosed above and so far as was known to the Directors, as at 31 December 2010 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 2010, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2010 (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 2010, 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 2010, save as disclosed above, none of the Directors was granted any options to subscribe for shares of the Company. As at 31 December 2010, 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 2010, 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 2010.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in Shares

Name	Nature of interest	Approximate number of Shares *(million)*	Approximate percentage of total issued share* of the Company
China National Computer Software & Information Technology Service Corporation (Hong Kong) Limited ("CS&S (HK)") *(Note 1)*	Beneficial interest	165.32	11.06%
Chinasoft National Software and Service Company Limited ("CNSS") (Note 1)	Interest of controlled corporation	165.32	11.06%
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)") *(Note 2)*	Interest of persons acting in concert	165.32	11.06%
Far East Holdings International Limited ("Far East Holdings") *(Note 3)*	Beneficial interest	138.99	9.30%
Greater Pacific Capital Partners, LP ("GPC") *(Note 4)*	Beneficial interest	119.27	7.98%
EJF Capital LLC ("EJF") *(Note 5)*	Beneficial interest	116.45	7.79%
Microsoft Corporation ("Microsoft") *(Note 6)*	Beneficial interest	116.40	6.50%

* *The total number of issued share consists of 1,214,327,259 Ordinary Shares, 164,500,000 Series A Preferred Shares, which could be converted into 164,500,000 Ordinary Shares and 116,404,949 Convertible Notes, which could be converted into 116,404,949 Ordinary Shares.*

Notes:

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

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

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

4. Greater Pacific Capital Partners, LP was interested in 119,268,639 Shares.

5. EJF is an investment advisor registered under the Securities and Exchange Commission of the United States of America. EJF was interested in 116,404,949 Shares which could be issued upon the full conversion of the Convertible Notes in the principal amount of RMB200 million took place on 29 November 2010.

6. Microsoft was interested in 97,250,000 Shares which could be issued upon the conversion of the 97,250,000 series A preferred shares of HK$0.05 each in the capital of the Company ("Series A Preferred Shares") allotted and issued on 6 January 2006. Microsoft holds 59.12% of the total 164,500,000 Series A Preferred Shares in issue.

Save as disclosed above, as at 31 December 2010, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

COMPETING INTERESTS

As at 31 December 2010, Dr. Cui Hui, an non-executive Director, was interested in approximately 1.15% of the issued share capital of CNSS. Dr. Cui Hui also served as a director of CNSS. Although the Directors are of the view that the principal activities of CNSS do not directly compete with those of the Group currently, the Group and CNSS however are both engaged in the provision of information technology outsourcing.

Save as disclosed above, as at 31 December 2010, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

THE AUDIT COMMITTEE

The Company established an audit committee on 2 June 2003 and amended its written terms of reference to comply with the requirements in the Code on Corporate Governance Practices of the Listing Rules. The primary duties of the audit committee are to review and to supervise the financial reporting process and internal control system of the Group. During the year ended 31 December 2010, the audit committee comprised of three independent non-executive Directors, Mr. Xu Zeshan, Mr. Zeng Zhijie and Dr. Leung Wing Yin Patrick. Dr. Leung Wing Yin Patrick is the Chairman of the audit committee. The audit committee met on a semi-yearly basis during the year ended 31 December 2010.

The Group's unaudited quarterly and interim results and audited annual results during the year ended 31 December 2010 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

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

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

CORPORATE GOVERNANCE PRACTICES

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

FINAL DIVIDEND AND CLOSURE OR REGISTER OF MEMBERS

The Board do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

The register of members of the Company will be closed from Monday, 16 May 2011 to Wednesday, 18 May 2011, both days inclusive, during which period no transfer of shares will be effected.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company is proposed to hold on Wednesday, 18 May 2011. Notice of the Annual General Meeting will be published and despatched to the shareholders in due course.

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

Hong Kong, 28 March 2011

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

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

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

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

* *For identification purposes only*