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**中 软 国 际**

**CHINASOFT INTERNATIONAL LIMITED**

**中 軟 國 際 有 限 公 司 \***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 8216)**

## **SHARE TRANSACTION**

### **BUSINESS ACQUISITION AGREEMENT**

The Board is pleased to announce that on 4 July 2006, the Business Acquisition Agreement was entered into pursuant to which Chinasoft HK has agreed to acquire from Opportune Technology the Relevant Business.

The total consideration for the Acquisition is US\$3.0 million (approximately HK\$23.4 million), subject to adjustments, of which Chinasoft HK will pay an initial amount of US\$500,000 (approximately HK\$3.9 million) in cash with the remaining balance of US\$2.5 million (approximately HK\$19.5 million), subject to adjustments, to be settled by the Consideration Shares.

The Acquisition constitutes a share transaction for the Company under Chapter 19 of the GEM Listing Rules, which is subject to the requirements of notification and publication by way of announcement.

### **THE BUSINESS ACQUISITION AGREEMENT DATED 4 JULY 2006**

#### **Parties**

Purchaser: Chinasoft HK

Vendor: Opportune Technology

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiry, Opportune Technology, its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons and their respective associates.

## **The Relevant Business**

Opportune Technology has two principal lines of business: (a) software outsourcing business for Microsoft in respect of certain mobile and embedded division (“**MED**”) systems and software; and (b) software outsourcing business for a leading brand of mobile communication equipment.

Pursuant to the Business Acquisition Agreement, Chinasoft HK has agreed to acquire, and Opportune Technology has agreed to dispose of, the Relevant Business, which includes (i) any business agreements to be entered into with Microsoft for the year ended 30 June 2007 and thereafter regarding the software outsourcing business for Microsoft in respect of certain MED systems and software; and (ii) the Relevant Employees.

As the business agreement entered into between Opportune Technology and Microsoft for the year ended 30 June 2006 regarding the software outsourcing business for Microsoft in respect of MED systems and software has just expired, the Group entered into the Business Acquisition Agreement with Opportune Technology in order to take up such software outsourcing business for Microsoft which includes testing of the MED systems and software used in mobile phones and personal digital assistants.

As Microsoft is a substantial shareholder and thus a connected person of the Company, the transactions between Microsoft and the Group constitute connected transactions of the Company. If the Group enters into any business agreement with Microsoft regarding the software outsourcing business for Microsoft, the Directors undertake to comply with the applicable requirements under Chapter 19 of the GEM Listing Rules in respect of such business agreement.

## **Consideration and payment terms**

Pursuant to the Business Acquisition Agreement, the total consideration for the Acquisition is US\$3.0 million (approximately HK\$23.4 million) which will be settled by way of:

1. an initial payment of US\$500,000 (approximately HK\$3.9 million) in cash by Chinasoft HK (from the internal funds of the Group), within seven Business Days after the fulfillment of the following four conditions:–
  - (i) all the Relevant Employees have entered into employment contracts with Chinasoft HK;
  - (ii) Chinasoft HK has received from Opportune Technology all the relevant documents in respect of the Relevant Business;
  - (iii) Chinasoft HK has received from Opportune Technology the list setting out the amounts of Opportune Technology’s account receivables in respect of the MED software outsourcing services rendered by Opportune Technology to Microsoft (a copy of which is attached to the Business Acquisition Agreement); and
  - (iv) the Group has entered into a master contract with Microsoft for a contract sum of US\$1.5 million (approximately HK\$11.7 million) for the year ending 30 June 2007 within 30 days after the date of the Business Acquisition Agreement (conditions (i) to (iv) collectively, the “**Conditions**”);

2. subject to applicable laws and regulations and all the consents having been obtained, such number of Consideration Shares which amount to an aggregate of US\$500,000 (approximately HK\$3.9 million) based on an issue price of HK\$1.22 which is equivalent to the average closing price of the Ordinary Shares during the period between 23 April 2006 and 6 June 2006 (both dates inclusive), within 60 Business Days after the fulfillment of the Conditions; and

based on the issue price of HK\$1.22 per Consideration Share, the number of the Consideration Shares to be issued as described in this sub-paragraph will be 3,196,721 Ordinary Shares;

3. subject to applicable laws and regulations and all the consents having been obtained, such number of the Consideration Shares which amount to an aggregate of US\$1.0 million (approximately HK\$7.8 million) based on an issue price equivalent to the higher of (i) the average closing price of the Ordinary Shares during the period between 16 May 2007 and 30 June 2007 (both dates inclusive) and (ii) HK\$0.74 (being the lowest closing price of the Ordinary Shares within the 52 weeks immediately preceding 30 June 2006), after 1 July 2007 and within 30 Business Days after the fulfillment of the following two conditions:

- (i) the revenue (the “**Revenue**”) generated from the MED software outsourcing services rendered to Microsoft for the year ending 30 June 2007 shall be no less than US\$2.2 million (approximately HK\$17.16 million); and
- (ii) completion of the Acquisition and the fulfillment of the Opportune Technology’s obligations under the Business Acquisition Agreement; and

based on the minimum issue price of HK\$0.74 per Consideration Share, the maximum number of the Consideration Shares to be issued as described in this sub-paragraph will be 10,540,541 Ordinary Shares;

4. subject to the applicable laws and regulations and all consents having been obtained, such number of the Consideration Shares which amount to a maximum of US\$1.0 million (approximately HK\$7.8 million) based on an issue price equivalent to the higher of (i) the average closing price of the Ordinary Shares during the period between 16 May 2007 and 30 June 2007 (both dates inclusive) and (ii) HK\$0.74, after 1 July 2007 and within 30 Business Days after the fulfillment of the condition that the Revenue is not less than US\$2.3 million (approximately HK\$17.94 million), in the following manner:

<b>Revenue (R)</b> <i>(US\$ million)</i>	<b>Value of Consideration Shares (the “Earnout”)</b> <i>(US\$ million)</i>	<b>Revenue (R)</b> <i>(US\$ million)</i>	<b>Value of Consideration Shares (the “Earnout”)</b> <i>(US\$ million)</i>
R ≥ 2.3	0.1	R ≥ 2.8	0.6
R ≥ 2.4	0.2	R ≥ 2.9	0.7
R ≥ 2.5	0.3	R ≥ 3.0	0.8
R ≥ 2.6	0.4	R ≥ 3.1	0.9
R ≥ 2.7	0.5	R ≥ 3.2	1.0

based on the minimum issue price of HK\$0.74 per Consideration Share and assuming the Revenue is not less than US\$3.2 million, the minimum and maximum numbers of the Consideration Shares to be issued as described in this sub-paragraph will be 1,054,054 Ordinary Shares and 10,540,541 Ordinary Shares;

5. subject to applicable laws and regulations and all consents having been obtained, such number of the Consideration Shares which amount to the difference between US\$1.0 million (approximately HK\$7.8 million) and the Earnout, based on an issue price equivalent to the higher of (i) the average closing price of the Ordinary Shares during the 45 days immediately preceding the date of the 07/08 Master Contract (as defined hereinafter) (including the date thereof) and (ii) HK\$0.74, provided that the Revenue is no less than US\$2.3 million (approximately HK\$17.94 million) and the Earnout is less than US\$1.0 million (approximately HK\$7.8 million) and within 30 Business Days after the Group has entered into a master contract with Microsoft (the “**07/08 Master Contract**”) for a contract sum of US\$1.5 million (approximately HK\$11.7 million) for the year ended 30 June 2008 in respect of the MED software outsourcing services to be rendered to Microsoft; and

based on the minimum issue price of HK\$0.74 per Consideration Share and assuming only 1,054,054 Ordinary Shares are issued as described in sub-paragraph 4 above, the maximum number of the Consideration Shares to be issued as described in this sub-paragraph will be 9,486,487 Ordinary Shares, being the balance of 10,540,541 Ordinary Shares minus 1,054,054 Ordinary Shares.

The maximum total consideration of US\$3 million (approximately HK\$23.4 million) for the Acquisition was arrived at after arm’s length negotiations between the parties to the Business Acquisition Agreement with reference to and is approximately 0.94 times of the minimum amount of the Revenue of US\$3.2 million (approximately HK\$24.96 million) that entitles Opportune Technology to receive the maximum total consideration of US\$3 million (approximately HK\$23.4 million).

To the best knowledge of the Directors, the consideration for acquisition of software outsourcing business in the PRC is approximately equivalent to one to two times the expected annual revenue to be brought by the business to be acquired in accordance with the industry practice in the PRC. The Directors consider that the maximum total consideration of US\$3.2 million (approximately HK\$24.96 million) is fair and reasonable and in the interests of the Shareholders as a whole.

## **CONSIDERATION SHARES**

The Consideration Shares to be issued to Opportune Technology will be subject to a lock-up period of 18 months from the relevant dates of allotment. Save as the above, the Consideration Shares will rank *pari passu* in all respects with the existing Ordinary Shares. Application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares. The Consideration Shares will be issued pursuant to the general mandate granted to the Directors at the annual general meeting of the Company held on 18 May 2006.

As at the date of this announcement, the total issued share capital of the Company was HK\$47,506,037.75 divided into 755,620,755 Ordinary Shares and 194,500,000 Series A Preferred Shares.

Based on the issue price of HK\$1.22 per Consideration Share for the issuance of the Consideration Shares as mentioned in sub-paragraph 2 above and the minimum issue price of HK\$0.74 per Consideration Share for the issuances of the Consideration Shares as mentioned in sub-paragraphs 3 to 5 above and assuming

all the relevant conditions of such issuances having been fulfilled, the maximum number of the Consideration Shares to be issued will be 24,277,802 Ordinary Shares which represent approximately 3.21% of the total existing issued Ordinary Shares or 2.56% of the total existing issued share capital of the Company and will represent approximately 3.11% of the total issued Ordinary Shares or 2.49% of the then issued share capital of the Company after the issue and allotment of the 24,277,802 Consideration Shares.

The Conversion Price of the Series A Preferred Shares (the “**Conversion Price**”) is subject to a weighted average adjustment (based on the number of issued Series A Preferred Shares and the Ordinary Shares) in the event that the Company issues additional equity securities, or securities or debt convertible or exercisable into such securities, at a purchase price less than the Conversion Price then in effect. As the current issue price of the Consideration Shares is HK\$1.22 per Consideration Share, there is no adjustment to the Conversion Price as at the date of this announcement.

To the best knowledge of the Company, the following table shows the shareholding structure of the Company as at the date of this announcement and the expected shareholding structure after the issuance of the maximum of 24,277,802 Consideration Shares:

<b>Name of Shareholder</b>	<b>Number of Ordinary Shares/ Series A Preferred Shares held and approximate percentage of shareholding (as at the date of this announcement)</b>	<b>Number of Ordinary Shares/ Series A Preferred Shares held and approximate percentage of shareholding (after issue and allotment of the maximum 24,277,802 Consideration Shares)</b>
<i>Ordinary Shares</i>		
China National Computer Software & Technology Service Corporation (Hong Kong) Ltd	199,010,755 (20.95%)	199,010,755 (20.42%)
Far East Technology International Limited	169,889,822 (17.88%)	169,889,822 (17.44%)
Authorative Industries Limited	57,485,834 (6.05%)	57,485,834 (5.90%)
Prosperity International Investment Corporation	37,020,136 (3.90%)	37,020,136 (3.80%)
ITG Venture Capital Limited	36,942,288 (3.89%)	36,942,288 (3.79%)
Opportune Technology	–	24,277,802 (2.49%)
Public & others	255,271,920 (26.87%)	255,271,920 (26.20%)
<b>Total Ordinary Shares</b>	<b>755,620,755 (79.53%)</b>	<b>779,898,557 (80.04%)</b>

<b>Name of Shareholder</b>	<b>Number of Ordinary Shares/ Series A Preferred Shares held and approximate percentage of shareholding (as at the date of this announcement)</b>	<b>Number of Ordinary Shares/ Series A Preferred Shares held and approximate percentage of shareholding (after issue and allotment of the maximum 24,277,802 Consideration Shares)</b>
<i>Series A Preferred Shares</i>		
Microsoft Corporation	97,250,000 (10.24%)	97,250,000 (9.98%)
International Finance Corporation	97,250,000 (10.24%)	97,250,000 (9.98%)
Total Series A Preferred Shares	194,500,000 (20.47%)	194,500,000 (19.96%)
TOTAL :	950,120,755 (100%)	974,398,557 (100%)

## **REASONS FOR THE ACQUISITION**

The Group is principally engaged in the provision of solutions and customized software products, information technology consulting and training services, information technology outsourcing services and standalone software products for government authorities and information technology service providers.

The Acquisition will provide an opportunity for the Group to participate in the Relevant Business which is expected to create synergistic benefits to the current business of the Group. The total consideration of the Acquisition will be, to a large extent, settled by reference to the anticipated performance of the Relevant Business up to the financial year ending 30 June 2008. The Directors believe that the Acquisition is in the best interests of the Group. Microsoft is one of the target customers of the Group and the further strengthening of the business relationship with it in the area of MED software outsourcing business will benefit the Group as a whole.

Following completion of the Business Acquisition Agreement, the Relevant Business will be part of the business of the Group.

The Directors consider that the Acquisition would further enhance the position of the Group in terms of its IT outsourcing capability in China and the earning base of the Group in the long run and believe that the terms of the Business Acquisition Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

## **GENERAL INFORMATION**

The relevant percentage ratios in respect of the Business Acquisition Agreement are less than 5 per cent. The Business Acquisition Agreement constitutes a share transaction for the Company under Chapter 19 of the GEM Listing Rules, which is subject to the requirements of notification and publication.



Opportune Technology has two principal lines of business: (a) software outsourcing business for Microsoft in respect of certain MED systems and software and (b) software outsourcing business for a leading brand of mobile communication equipment.

## **DEFINITIONS USED IN THIS ANNOUNCEMENT**

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

“Acquisition”	the acquisition of the Relevant Business pursuant to the terms and conditions of the Business Acquisition Agreement;
“Board”	the board of Directors;
“Business Acquisition Agreement”	an agreement dated 4 July 2006 entered into between the Chinasoft HK and Opportune Technology in relation to the Acquisition;
“Business Days”	the days on which banks in the PRC are generally open for business other than Saturday;
“Chinasoft HK”	Chinasoft International (Hong Kong) Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company;
“Company”	Chinasoft International Limited, a company incorporated in Cayman Islands with limited liability, the Ordinary Shares of which are listed on GEM;
“connected person”	has the meaning ascribed thereto under the GEM Listing Rules;
“Consideration Shares”	such number of new Ordinary Shares agreed to be issued to Opportune Technology as part of the consideration pursuant to the Business Acquisition Agreement;
“Directors”	the directors of the Company;
“GEM”	the Growth Enterprise Market of the Stock Exchange;
“GEM Listing Rules”	The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and its amendments from time to time;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;

“Opportune Technology”	北京正辰科技發展有限責任公司 (Opportune Technology Co. Ltd.), a limited liability company incorporated in the PRC and the Vendor of the Relevant Business set forth in the Business Acquisition Agreement;
“Ordinary Shares”	ordinary share(s) of HK\$0.05 each in the issued share capital of the Company;
“PRC”	the People’s Republic of China which for the purpose of this announcement does not include Hong Kong, The Macau Special Administrative Region of the PRC and Taiwan;
“Relevant Business”	(i) any business agreements to be entered into with Microsoft for the year ended 30 June 2007 and thereafter regarding the software outsourcing business for Microsoft in respect of certain MED systems and software; and (ii) the Relevant Employees;
“Relevant Employees”	all the 62 employees (including engineers, technicians and software programmers) currently employed by Opportune Technology for the MED software outsourcing services rendered by Opportune Technology to Microsoft;
“RMB”	Renminbi, the lawful currency of the PRC;
“Series A Preferred Share(s)”	the senior redeemable convertible preferred share(s) of HK\$0.05 each in the issued share capital of the Company;
“Shareholder(s)”	the shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“US\$”	United States dollars, the lawful currency of the United States of America.

*Unless otherwise specified, the Renminbi and US dollars amounts shown in this announcement have been translated into Hong Kong dollars at exchange rates of HK\$1.00 = RMB1.03 and HK\$7.80 = US\$1.00. Such translation should not be construed as a representation that the RMB amounts have been, could have been or could be converted into HK\$, as the case may be, at this or any other rates or at all.*

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

Hong Kong, 4 July 2006



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

**Executive Directors:**

Dr. CHEN Yuhong (*Managing Director*)

Dr. TANG Zhenming

Mr. WANG Hui

**Non-executive Directors:**

Madam TANG Min (*Chairman*)

Dr. CUI Hui

Mr. CHEN Yung Cheng Timothy

Mr. Duncan CHIU

Mr. LIU Zheng

**Independent non-executive Directors:**

Mr. HE Ning

Mr. ZENG Zhijie

Dr. LEUNG Wing Yin

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:-(1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*This announcement will remain on the “Latest Company Announcements” page of the GEM website at <http://www.hkgem.com> for at least seven days from its date of publication.*

*\* For identification purposes only*