中软国际

2008
Annual Report

CHINASOFT INTERNATIONAL LIMITED

中 軟 國 際 有 限 公 司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 354)

* for identification purpose only

Contents

Corporate Information

REGISTERED OFFICE

Century Yard, Cricket Square, Hutchins Drive
P. O. Box 2681 GT
George Town
Grand Cayman
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British West Indies

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Beijing, 100190, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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COMPANY SECRETARY

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

COMPLIANCE OFFICER

Dr. Chen Yuhong

QUALIFIED ACCOUNTANT

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

AUDIT COMMITTEE

Mr. Xu Zeshan
Mr. Zeng Zhijie
Dr. Leung Wing Yin Patrick

AUTHORISED REPRESENTATIVES

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

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Deloitte Touche Tohmatsu

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Services Limited
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PRINCIPAL BANKERS

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Haidian sub-branch
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Haidian District

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Bank of East Asia Harbour View Centre
56 Gloucester Road
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STOCK CODE

354

Financial Summary

RESULTS

	For the year ended 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	293,896	382,275	355,236	811,552	**983,372**
Profit (loss) before taxation	39,052	48,714	(51,972)	131,448	**80,979**
Taxation	(3,841)	(5,718)	(11,881)	(8,908)	**(9,254)**
Profit (loss) for the year	35,211	42,996	(63,853)	122,540	**71,725**
Attributable to:					
Equity holders of the Company	32,205	39,656	(66,593)	115,445	**63,335**
Minority interests	3,006	3,340	2,740	7,095	**8,390**
	35,211	42,996	(63,853)	122,540	**71,725**
Dividend	6,784	7,394	18,309	797	**4,406**

ASSETS AND LIABILITIES

	As at 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	331,325	438,765	661,221	1,362,272	**1,405,047**
Total liabilities	(131,930)	(129,730)	(427,566)	(587,584)	**(534,935)**
	199,395	309,035	233,655	774,688	**870,112**

Milestones 2008

January	• Awarded "IBM Top Industry Solution Provider 2007" by IBM
March	• Signed contract with Ministry of Agriculture in respect of "e-Agriculture" Phase 1 general integration project and the development of related systems, whereby became the integrated service provider for "e-Agriculture" Phase 1 general integration project • Signed comprehensive cooperative agreement with a renowned global information technology service and business solution provider in the US to expand into the medical care market in China together • Signed cooperative agreement on setting up of the "System for management of information system for punishment and prevention of corruption" with the State-owned Assets Supervision and Administration Commission ("SASAC") to fully develop and deploy the said system for the SASAC • Chinasoft International Training Centre signed a cooperative agreement on "establishing training system for international software outsourcing management personnel" with IIOM (International Institute for Outsource Management) • Successfully passed the trial run of National Post Remittance Macro Centralized System
April	• Entered into the memorandum of understanding with the State Food and Drug Administration, under which the Group will utilise the platform software it developed to design a set of unified technology and platform for the FDA and provide integrated services including consultation, project management, application development, technical support and training for the informationalisation of the food and drug system. • Awarded "IBM Asia Pacific Outstanding Business Cooperation Partner 2008" by IBM • Awarded "Top 10 Chinese Enterprises in Software R&D Capacity 2008" and "Top 10 Chinese Enterprises in Software Outsourcing R&D Capacity 2008" at the "Sixth China International Software Cooperation Forum"
May	• Formally launched ResourceOne V4.0.0, the debut version of the fourth generation of the platform product • Awarded "Top 25 China Software Export Enterprises 2007" and "Top 25 China Software Outsourcing Enterprises 2007" • Awarded the "ChinaSourcing First Session BOP Top 10 Outstanding Outsourcing Enterprises" at the 2008 ChinaSourcing Summit • 100% acquisition of Zhongke Jiuhui Information Automation Company Limited

Milestones 2008

June	• Became a top partner for IBM's Service Oriented Architecture (SOA) and constructed an SOA Creative Center together with IBM. • Awarded the "Golden Ants Award Series", the highest award of the state "Gold Card Project" granted by the Office of the State Gold Card Project Coordination Group • Our Group was ranked second in China's outsourcing business in Europe and US markets and fifth among China offshore software outsourcing service providers according to IDC's report "2008-2012 Forecast and Analysis of China Software Offshore Outsourcing Market" • Successfully awarded the tenders of the ticketing system project for two metro lines in a major financial city in China
July	• Signed the contract on "Construction project for application integration platform system" with China Securities Regulatory Commission • Successfully awarded the tenders of "Railroad transport classification project" in major cities in western China • Successfully awarded the tenders of "IC card data center processing system for construction businesses" project • The Excellence Training Center ("ETC") of Chinasoft International was awarded the exclusive license by Sun as the "practical training center for Java advanced technology" in the Greater China region • Awarded "2008 China's Top Ten Innovative Software Products" at the China Software Industry Development cum Corporate Innovation Summit • ResourceOne V4.0 was awarded IBM SOA Specialty Certification and listed in IBM SOA Business Catalogue
August	• Passed expert appraisal of overall design plan for "e-Agriculture Project" (Phase 1) general integration and the development of related systems software project for Ministry of Agriculture • Complete the pilot works and passed trial run for software developed for the supervision of Social Security Fund under "e-Security Project" (Phase 1) for the Ministry of Labour • Complete the compilation, printing and publishing of the English version of "China Software Industry Development Study 2008", a report compiled and translated by the Company as commissioned by China Software Industry Association

Milestones 2008

September

- The information security management system certification supervision and audit was conducted by China Electronics Standardization Institute at Xinzheng Building (欣正大厦). Chinasoft Resource, a member of the Group, passed the annual audit and was issued a new ISO27001 certificate.
- Bus rapid transit (BRT) project, the AFC project of the Group in the major provincial capital city in southern China, was put into operation
- CIMS projects for Central Tobacco Industry Company in a province in eastern China passed inspection
- Successfully awarded the tenders of corporate portal and cooperation office platform project from Central Tobacco Industry Company at provincial level in eastern China
- Awarded 2008 China Software Service Outsourcing "Star Brand" at Asia-Pacific Service Outsourcing International Conference

October

- Successfully awarded the tenders of "e-Audit Project Phase 2 application system integration and development project"
- Successfully passed the project inspection of National Post Remittance Macro Centralized System
- In the construction of ETC, the Group actively established practical training centers for software talents in Beijing, Changsha, Wuxi, Chongqing, Xiamen and Dalian

November

- Successfully awarded the tenders of "Production base MES system project" from Cigarette Factory at provincial level in central and southern China
- Successfully awarded the tenders of "e-Security Project partial unified application software integration implementation project" for the Ministry of Human Resources and Social Security
- The World Expo ticketing system (Phase 1) contracted for by the Group successfully entered the trial run stage
- The Group had over 800 engineers in its Microsoft outsourcing team, ranking it the number one supplier to Microsoft China in term of sales

December

- The shares of the Group transferred from the Growth Enterprise Market to the Main Board of the Hong Kong Stock Exchange for trading
- Formally launched "Multi-pass" project contracted for a provincial capital city in eastern China
- Awarded the title of "Advanced unit in the software and service outsourcing industry development in Dalian"
- Successfully awarded the tenders of "State-owned assets supervision" Phase 1 general integration project, whereby became the integrated service provider for the project and will set up key application systems such as data collection system and data center
- Signed province-wide "Audit Management System Implementation and Service Contract" with three provincial audit bureaus respectively
- Signed the contract on "MES system project" with Cigarette Factory at provincial level in eastern China
- A warded "IT Innovative Enterprise Prize" consecutively at the 2008 China IT Fortune Annual Conference and China Information Supervisor Annual Conference

Managing Director's Report

The year 2008 was the sixth year after the listing of the Group on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited and the first year after the listing of the Group being transfered from the GEM to the Main Board. The year witnessed the progress of the Group toward globalization as well as our steady transformation into an overall IT service provider.

During the reporting period, the Group developed a business strategy of "Consolidation of resource in leading verticals, innovation through interaction", which had enriched Chinasoft International's philosophy of "Integrated Platform of Intelli-ed in China", and further strengthened our business advantages in industrial solutions and IT outsourcing service.

In the reporting period, we set an overall goal of commercial profit coupled with social responsibilities and people's livelihood, promoted the development of China's IT service industry with good business results, brand influence and product quality. With a smooth operation, we achieved a highly efficient construction of information management system for business management. Through all of these, we developed a unified corporate culture with Chinasoft International's characteristics.

In 2008, a steady growth with technological and business innovation

During the reporting period, the Group recorded revenue of RMB 983 million, representing an increase of 21% from the same period last year. The fact that China was hit by a series of natural disasters such as snowstorm and earthquake in 2008, and the change of focus brought forward by the Olympics had caused certain government institutions to adjust their IT buildup plans and postpone the IT implementation originally scheduled in the reporting period. At the same time, the chain effect of the global economic crisis had extended to the Group's solution and IT outsourcing services businesses, which resulted in a slowdown effect in the growth of gain and realization of profit of our business during the reporting period.

During the reporting period, the Group continued to concentrate on technological innovation and further increased its investments in the construction of elementary technology platform, whereby Chinasoft International had become a strategic cooperating unit of the Internet Open Standard Laboratory of China Electronics Standardization Institute for the national SOA standard. Among its proprietary research and development businesses, ResourceOne V4.0.0, the first version of the fourth generation of ResourceOne, was officially released after passing the acceptance test conducted by the expert team from the National High-tech Industry Development Project. "Communications One Card System" of Shanghai Huateng Software Systems Co., Ltd., a subsidiary of the Group focusing on financial and banking businesses, was awarded the "Best Software Platform" of the "Golden Ants Award Series", the highest award of the state "Gold Card Project" granted by the Office of the State Gold Card Project Coordination Group. "Trainable business", "transferable talents" and "reusable services" were combined together for the e-Government business to establish COE in third-tier cities, which was an attempt beneficial to the "unified submission" regardless of the contents, domains or regions of services.

Managing Director's Report

During the reporting period, the Group sustained steady growth in its core business based on the "Human Resources Supply Chain" created by ETC (Excellence Training Center). Industry solution business had not only further established itself in industries with competitive advantages such as government, financial industry, urban construction and manufacturing industry but also continued to expand into new industries; IT outsourcing services business continued to provide quality services to clients and win various commendations from clients..

As at the end of 2008, we employed a total of 4,816 staff, representing a large increase of 453 compared to the same period last year. 36% of the growth in headcount was due to the increase in IT sourcing business, 53% was due to the increase in industry solution. The growth in headcount was fully in line with the balanced development of our different business lines.

During the reporting period, the Group made a service revenue of RMB 166,280,000 from the financial and banking services industry, RMB 237,620,000 from the government and manufacturing services industries, and RMB 338,910,000 from the Hi-tech MNC IT service, information process and project design. Broadening the IT outsourcing field by integrating domestic and overseas resources, together with the business development by cultivating new markets while maintaining big strategic customers, the Group is distinguished by its overall service capacity from the ordinary service providers specialized in sole outsourcing business. Besides "traditional" IT outsourcing services, the Group, leveraging on its leading position in China market, was able to assist overseas clients to have a quick understanding of China market and identify new business opportunities. Meanwhile, the Group was able to, by virtue of its wide network of submission centers, capitalize on global resources and its leading proprietary technical strength to help clients coping with constantly and rapidly changing business challenges.

The Group's Excellence Training Centers supported the construction of the "IT Industry Human Resources Supply Chain" of the Group with comprehensive training for IT talents, meanwhile, Excellence Training Centers realized an interactive and sizable mutual development with the Group's industry solution business and IT services business. In the construction of practical training centers, beside further expanding the business scale of ETC in Beijing, the Group actively promoted the establishment of practical training centers in Wuxi, Changsha, Chongqing, Dalian and Xiamen, gradually forming sizable IT vocational education system.

In 2009, strengthening of our strategic goal of "Integrated Platform of Intelli-ed in China"

The overall objectives of the Group are to spend three to five years to turn the new Chinasoft International that we jointly belong to and making best efforts into a China-based Chinese software service enterprise which serves the globe and of the greatest power, attraction and investment value, and to create a international brand of "Intelli-ed in China" together with local and overseas business partners through the market and human resources in the Greater China Region as the competitive advantages.

Managing Director's Report

2009 is a decisive period for the development of the software industry in China. Being affected by the global condition, the software industry in China suffers from the economic crisis and some software enterprises have a pessimistic future for survival. However, challenges always come along with opportunities, 2009 is also a wonderful time to reduce hidden danger of low-end vicious competition, to promote business upgrading and restructuring, to expand high-end service market, and to further engage in diversified operations. Moreover, the government stimulates the economic development by financing 4 trillions to promote local demands and strengthen the inputs from resident-related industries, which surely gives fresh blood to the downstream industry chain. Providing international resident-related industries with information solutions and promoting the efficiency of social functions are the paths for the development of software and information industry. In addition, to reduce cost, major international enterprises are willing to have their low-end software outsourcing tasks done in China, which increases the total amount in the area. Also, software industry in China is still at its early stage of development and there is huge room for upgrade and so greater benefits comparing with major software countries in the world.

In 2009, the Group will proceed with the development concepts of the corporate to "create, share and grow together", coordinate the interests of customers, shareholders and staff, create a healthy corporate culture and ecological environment, pay attention to the mutual relationship with external business environment, perform its obligations at three levels (society, industry and corporate), take responsibilities and grow and create an integrated platform of "Intelli-ed in China" with the software industry in China together under the guidance of various policies carried out by the State to foster the economic development. I am willing to go with all staff members of the Group as well as all partners who care for the development of IT industry in China!

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

Dr. Chen Yuhong
Managing Director

Beijing, China
29 April, 2009

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended December 31	**2008 RMB'000**	2007 RMB'000	Better/ (Worse) y-o-y
Turnover	**983,372**	811,552	21%
Cost of sales	**(709,227)**	(545,157)	30%
Gross profit	**274,145**	266,395	3%
Gross margin	**27.88%**	32.83%	(4%)
Other operating income	**26,769**	11,714	129%
Selling & distribution costs	**(47,494)**	(45,456)	4%
Administrative expenses (excluding depreciation and amortization)	**(153,459)**	(118,912)	29%
Allowance for doubtful debts	**(16,799)**	(2,820)	496%
EBITDA	**83,162**	110,921	(25%)
EBITDA margin	**8.46%**	13.67%	5%
Depreciation	**(17,733)**	(12,116)	46%
EBITA	**65,429**	98,805	(34%)
Amortization of intangible assets & trademark use right	**(21,586)**	(14,514)	49%
Impairment loss recognized in respect of technical expertise	**–**	(1,735)	N/A
Impairment loss recognized in respect of available-for-sale investment	**–**	(59)	N/A
Impairment loss recognized in respect of goodwill	**(17,387)**	–	N/A
Profit from operations	**26,456**	82,497	(68%)
Finance costs	**(2,842)**	(474)	500%
Share of results of associates	**2,878**	3,323	(13%)
Gain arising from changes in fair value of redeemable convertible preferred shares	**54,487**	46,102	18%
Profit before taxation	**80,979**	131,448	(38%)
Taxation	**(9,254)**	(8,908)	4%
Profit for the year	**71,725**	122,540	(41%)
Net margin	**7.29%**	15.09%	(8%)

Management Discussion and Analysis

The management is pleased to present our audited consolidated income statement for the year ended 31 December 2008 in the above format.

Turnover

Breakdown of turnover of the Group for the year ended 31 December 2008 by category of services and products.

	2008		2007		Increase / (Decrease)	
	Turnover		Turnover		Turnover	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Solutions	**597,306**	**61%**	515,947	64%	81,359	16%
IT outsourcing	**344,737**	**35%**	236,420	29%	108,317	46%
IT consulting and training services	**19,105**	**2%**	19,691	2%	(586)	(3%)
Standalone software and hardware products	**22,224**	**2%**	39,494	5%	(17,270)	(44%)
Total	**983,372**	**100%**	811,552	100%	171,820	21%

For the year ended 31 December 2008, the Group achieved a turnover of RMB983,372,000, representing an increase of 21% when compared to last year. The growth of approximately RMB108.3 million in the IT outsourcing business contributed most to the increase in turnover. A detailed turnover analysis is on the Business Review on page 12.

Gross Profit / Gross Profit Margin / EBITDA / EBITDA Margin / EBITA / EBITA Margin

	2008		2007		Increase / (Decrease)		
	RMB'000	**Margin**	RMB'000	Margin	RMB'000	%	Margin
Gross Profit	**274,145**	**27.88%**	266,395	32.83%	7,750	3%	(4.95%)
EBITDA	**83,162**	**8.46%**	110,921	13.67%	(27,751)	(25%)	(5.21%)
EBITA	**65,429**	**6.65%**	98,805	12.17%	(33,376)	(34%)	(5.52%)

In the reporting period, the gross profit and EBITDA amounted to approximately RMB274,145,000 and RMB83,162,000 respectively, representing an increase of 3% and a decrease of 25% when compared to the year 2007. The gross profit margin and EBITDA margin of the Group were approximately 27.9% and 8.5% respectively (2007: 32.8% and 13.7% respectively), representing decreases of 4.9% and 5.2% compared to the same period last year. The main reasons for the decreases of gross profit margin and EBITDA margin were as follows: (i) the occurrence of various natural disasters such as rainstorms, snowstorms and earthquakes and the organization of the Beijing Olympic Games in 2008 had objectively shifted many priorities of governmental authorities and state-owned enterprises, causing them to postpone most of their IT construction projects and consequently the arrangement of public tenders for these projects. Besides, some of the major projects originally contemplated could not be activated as scheduled, which materially affected the Group's domestic solutions business; (ii) the gross profit margin of HGR's business acquired in the second half of 2007 was lower than that of the original business of the Group; (iii) the gross profit margin from the sales of the Group's non-strategic software and hardware products decreased compared to the same period last year; (iv) the overall labor cost increased substantially as compared to the same period last year due to the implementation of new Labor Law in China; (v) the Group recognized the preliminary investments and expanses of some major projects as costs for the period out of caution; (vi) according to our development strategy, the percentage share of IT sourcing has increased and the gross profit margin of sourcing business was slightly lower than that of solutions business.

Management Discussion and Analysis

The Group recorded a significant drop in the EBITDA and EBITDA margin in the reporting period since the Group took a prudent approach to increase the allowance for doubtful debts provided for the year to approximately RMB16,799,000 in view of the global financial crisis.

EBITA dropped by 34% to RMB65,429,000 approximately due to the depreciation increased by 46% when compared to last year. Also on one hand, an increase of 29% in administrative expenses excluding depreciation and amortization compared to the same period last year as a result of growth in scale of the originally business and the overall acquisition of HGR; and on the other hand, a substantial increase in provision for doubtful debts in 2008 compared to the same period last year due to expected uncertainty arising from the economic crisis and the capital market.

Other Income

During the reporting period, the Group achieved an other income of RMB26,769,000 approximately which mainly included the exchange gain of RMB14.7 million, government grants of RMB4.6 million, tax incentive subsidies of RMB3.3 million, interest income of RMB2 million.

Expenses

The selling and distribution costs increased only by 4% to approximately RMB47,494,000 (2007: RMB45,456,000) compared to an 21% increase in turnover. With the use of a new computer system for project management, the Group has a better control on the selling and distribution costs, which lowers the ratio of selling and distribution costs to turnover to 4.8% for the year 2008 (2007: approximately 5.6%).

The administrative expenses (excluding depreciation of approximately RMB17,733,000) of approximately RMB153,459,000 (2007: RMB118,912,000) was recorded. The increase of 29% when compared to last year was mainly due to the implementation of the new Labour Law in the PRC, which increased the staff cost accordingly, and a full year of administration expenses incurred by HGR Group and its subsidiaries were absorbed in the year after acquiring HGR Group during the third quarter of 2007. The ratio of administrative expenses (net) to turnover was 15.6% (2007: approximately 14.7%).

The depreciation for the reporting period increased by 46% to approximately RMB17,733,000 (2007: RMB12,116,000) was mainly due to a full year of depreciation of HGR Group was taken up for the year. Also, to cope with the growth of the Group, more fixed assets were acquired during the year and led to an increase in the depreciation charge accordingly.

The amortization of intangible assets and trademark use right increased by 49% to approximately RMB21,586,000 (2007: RMB14,514,000). The increase of RMB7.1 million was mainly contributed by the amortization of customer relationship and development cost. The customer relationship was acquired through acquiring HGR and its subsidiaries during the third quarter of 2007, full year of amortization was recorded for the year ended 2008. The amortization of development cost increased in line with the increase of approximately RMB11.1 million invested in research and development projects for the current reporting period.

Suffering from the financial tsunami, an impairment loss recognized in respect of goodwill of RMB17,387,000 (2007: Nil) was recorded for the year. This impairment loss related to the goodwill arising on acquisition of HGR and its subsidiaries and Japan Powerise.

Taxation

The taxation for the reporting period increased by 3.9% was mainly due to a higher tax rate for newly-acquired overseas subsidiaries and the expiration of the tax preferential period enjoyed by some subsidiaries. Therefore the tax charge increased accordingly and neutralize the drop in tax charge due to decrease in profit. Furthermore, those non-cash items (e.g. impairment loss) were excluded from the tax calculation which also increase the taxable profit for the year.

Profit

For the year ended 31 December 2008, the Company realized net profit for the year of RMB71,725,000, representing a drop of 41% compared to the same period last year except for the effect of non-cash profit and loss from preferred shares, the main reasons for the decrease in net profit and EBITDA were as follows: (i) the increase in depreciation and amortization as a result of growth in scale of fixed and intangible assets; (ii) the effect of non-cash loss arising from cautious evaluation of goodwill and partial impairment made due to expected uncertainty arising from the economic crisis and the capital market.

With respect to professional personnel, we employed a total of 4,816 staff, representing an increase of 453 from 4,363 of the end of last year. 53% of the growth in headcount was due to the increase in solutions business personnel, 36% was due to the increase in IT outsourcing business personnel.

Regarding the business itself, turnover from solutions business and IT outsourcing, two of our main businesses accounted for 63% and 35% of the Group's overall turnover respectively (2007: approximately 64% and 29%), of which revenue from services accounted for 53% and 44% of the overall revenue from services (2007: approximately 52% and 44%).

The ratio of selling and distribution costs to turnover was 4.8%, representing a decrease of 0.8% from 5.6% of last year; the ratio of administrative expenses excluding depreciation and amortization to turnover was 15.6%, representing an increase of 0.9% from 14.7% of the same period last year, but the ratio of administrative expenses excluding depreciation and amortization to revenue from services was 19.9%, representing a decrease of 1.4% from 21.3% of the same period last year. With our further optimization of management structure and enhancement of integration and interaction, supplementing competitive advantage, resources sharing between the business teams, the Group's cost structure will be more reasonable and effective.

EPS

Basic EPS was RMB0.0633 (2007: RMB0.1344)

BUSINESS REVIEW

During the reporting period, the Group's overall business revenue amounted to RMB983 million, representing an increase of 21% compared to the same period last year.

The Group realized the transfer of listing from the Growth Enterprise Market ("GEM") to the Main Board of the Hong Kong Stock Exchange in 2008. During the five years of listing on the GEM of the Hong Kong Stock Exchange, Chinasoft International won the recognition for its comprehensive strength and development potential from investors and the Hong Kong Stock Exchange by leveraging on the right strategic planning and suitable business mode to achieve sustained and stable pace of development.

During the reporting period, the Group had enriched the meaning of "Integrated Platform of Intelli-ed in China" ("中國智造綜合平台"), which was established by Chinasoft International, and advanced its practice of becoming an all-rounded, global IT services provider by adhering to its business development strategy in term of "Consolidation of resource in leading verticals, innovation through interaction" so as to further integrate the competitive advantages of the Group's existing industry solution business and IT outsourcing services business. On one hand, industry solution business maintained its steady and sound development, and based on the extensive business experience and technology and skills accumulated through conducting the business in dominant industries, the Group was able to further expand IT outsourcing services rendered to domestic and overseas clients by the industry and similar industries; on the other hand, with rapid development of the IT outsourcing services business, the Group was able to capitalize on its existing domestic industrial experience to work with MNC clients with an aim to expand their solution businesses in China. By way of introducing advanced industrial management experience worldwide, the Group could deeply identify the business needs of domestic industrial clients and help them expand their solution businesses.

During the reporting period, the Group was committed to set its overall goals as corporate profitability, social responsibility and concern for people's livelihood. With its sustained outstanding results and performance, brand influence and quality products and services, the Group contributed to the continuous advancement of China's IT services industry and progressively established itself as a world famous brand name; meanwhile, the Group achieved excellent outcome in the domain of building corporate management information system and gradually formed unified corporate culture with the characteristics of Chinasoft International by strengthening its internal operation management.

During the reporting period, the Group sustained steady growth in its core business based on the "Human Resources Supply Chain" created by ETC (Excellence Training Center). Industry solution business had not only further established itself in industries with competitive advantages such as government, financial industry, urban construction and manufacturing industry but also continued to expand into new industries; IT outsourcing services business continued to provide quality services to clients and win various commendations from clients.

The fact that China was hit by a series of natural disasters such as snowstorm and earthquake in 2008, and the change of focus brought forward by the Olympics had caused certain government institutions to adjust their IT buildup plans and postpone the IT implementation originally scheduled in the reporting period. At the same time, the chain effect of the global economic crisis had extended to the Group's solution and IT outsourcing services businesses, which resulted in a slowdown effect in the growth of gain and realization of profit of our business during the reporting period.

As at the end of 2008, we employed a total of 4,816 staff, representing a large increase of 453 compared to the same period last year. 36% of the growth in headcount was due to the increase in IT sourcing business, 53% was due to the increase in industry solution. The growth in headcount was fully in line with the balanced development of our different business lines. During the reporting period, the Group endeavored to provide more timely and caring services for its clients by further developing its professional senior management team and attracting a number of management personnel with years of working experience gained in large enterprises in the industry to join Chinasoft International.

Status of Business Development

During the reporting period, the Group continued to reinforce the competitive positions of all its businesses in the existing industries and also attached great importance to expanding into new industries and markets.

Under the influence of macro-economic situations internally and some incidents happened domestically, the Group's results for the reporting period showed slower growth trend despite all its businesses attained steady development.

ResourceOne, the platform product of our proprietary research and development, has been chosen for various "e-" projects of the State; TopLink/TSA+ series products had also been applied for several times in the construction of "cross-bank and cross-area online bank cards businesses in general China Unipay center and national and provincial bank card switching centers" project. During the reporting period, the Group further increased its investments in the construction of elementary technology platform, whereby Chinasoft had become a strategic cooperating unit of the Internet Open Standard Laboratory of China Electronics Standardization Institute for the national SOA standard. Among its proprietary research and development businesses, ResourceOne V4.0.0, the first version of the fourth generation of ResourceOne, was officially released after passing the acceptance test conducted by the expert team from the National High-tech Industry Development Project. Furthermore, ResourceOne was listed in SOA Product Catalogue.

Meanwhile, the Group attached great importance to cooperation with renowned enterprises both internationally and domestically. As a leading partner of IBM SOA, the Group worked together with IBM in setting up Chinasoft International SOA Innovation Center with the aim to jointly promote the technological innovation of the software industry. During the reporting period, a total of 13 staff members of the Group passed IBM SOA Level 2 training and certification.

Government and Manufacturing Industry

The Group's government and manufacture segment cover a customer base comprising mainly government departments and large state-owned enterprises with Chinese characteristics and clear vertical management need in various supervisory business domain.

The Group had for a number of times undertaken e-Government resolutions for Ministry of Agriculture, Ministry of Human Resources and Social Security, State Auditing Administration, State General Administration of Quality Supervision, Inspection and Quarantine, State Food and Drug Administration and the like in respect of food and drug regulation and state-owned enterprise regulation. During the reporting period, with the "e-" projects of national informationization and business and technical competitive advantage accumulated over the years in various supervisory business domains, the Group continued to provide high-level resolutions and IT services to the customers in the government and manufacture segment.

During the reporting period, "trainable business", "transferable talents" and "reusable services" were combined together for the e-Government business to establish COE in third-tier cities, which was an attempt beneficial to the "unified submission" regardless of the contents, domains or regions of services.

During the reporting period, the Group continued to promote the application, implementation and deployment of the two systems of e-Audit project Phase 1 at the city and district levels. The advanced technology, stability, functions and scale of this system as well as our good services were highly recognized by audit system clients. At the same time, the Group successfully bid for the "e-Audit Project (Phase 2) Application System Integration and Development Project" and signed province-wide "Audit Management System Implementation and Service Contract" with three provincial audit bureaus respectively. The core application of "e-Audit Project (Phase 2)" was gradually adopted nationwide: the Land Tax Intranet Audit Project I for a provincial capital city in eastern China successfully passed inspection in January; the Provincial Land Tax Intranet Audit Project in a province in central and southern China was signed in June; trial runs of the Social Security Intranet Audit were expanded; a provincial audit office in central and southern China, and audit bureaus in two municipalities directly under the jurisdiction of the Central Government activated their respective Social Security Intranet Audit Implementation Projects; the promotion of intranet audit system at district and county level was successful as the system was deployed and implemented by over 50 audit authorities at district and county level nationwide at the end of 2008, resulting in the dynamic monitoring of financial funds at district and county level and the establishment of the "immune system" for such funds.

During the reporting period, the Group was awarded the tenders of and activated the "e-Security Project partial unified application software integration implementation project" for the Ministry of Human Resources and Social Security; the general integration of the state-owned assets supervision and administration project (Phase 1) for the State-owned Assets Supervision and Administration Commission (SASAC), of which the Group was the general integration provider and would build key application systems such as data collection system and data center. At the same time, the Group entered into the contract of "e-Agriculture" Project (Phase 1) general integration and development of related systems with Ministry of Agriculture, and became the general integration provider for the project; entered into the cooperation agreement in relation to the "System for management of information system for punishment and prevention of corruption of central enterprises" with the SASAC to develop and deploy the system for the SASAC; and entered into the memorandum of understanding with the State Food and Drug Administration, under which the Group will utilize the platform software it developed to design a set of unified technology and platform for the FDA and provide integrated services including consultation, project management, application development, technical support and training for the informationization of the food and drug system. Meanwhile, "e-Agriculture" Project (Phase 1) general integration and development of related systems project successfully passed expert appraisal of its overall design plan, and the experimental work for the software developed for the supervision of Social Security Fund under "e-Security Project" (Phase 1) for the Ministry of Labour was completed and passed trial run.

The Group was able to provides comprehensive services from management consultancy, business consultation, software development, project implementation to day-to-day system operation maintenance for large and medium-sized manufacturers, our business scope covers ERP, MES, industrial and commercial logistics, industrial and commercial marketing, commercial network set up, data center, office automation, enterprise application integration etc. The Group had successfully provided high-quality services to various industries, including the tobacco, high technology, consumer goods, and food industries.

As a long term strategic partner of the State Tobacco Monopoly Administration, the Group further fueled the promotion and implementation of the "State Tobacco Monopoly Administration carton–level tobacco track and trace system and purchase order information collecting system" project on a nationwide scale during the reporting period. Implementation and deployment services for more than 300 tobacco companies was provided. During the reporting period, the Group was successfully awarded the tender of and activated the corporate portal and cooperation office platform project for a Central Tobacco Industry Company in a province in eastern China, and the MES system project for the production base in Guangzhou of a Central Tobacco Industry Company Limited in central and southern China; signed the contract in relation to the "MES system project for a cigarette factory" of a Central Tobacco Industry Company in a province in eastern China; meanwhile, the Group passed the inspection on its CIMS projects for a Central Tobacco Industry Company in a province in eastern China.

Financial and Banking Services Industry

The business scope of the Group's financial and banking services covers financial payment, settlement, exchange domains and the development and application services of various kinds of card-based businesses and financial management. The Group had focused on providing industry solution and IT outsourcing services for clients from financial and banking institutions and Quasifinancial domains, including public transportation, ticketing classification, social security (card) and civil aviation, over the years.

During the reporting period, "TOP FCS railroad transport 'One ticket all transit' ('一票換乘') funds classification and settlement application software V1.0.0" product developed by the Group was awarded "2008 China's Top Ten Innovative Software Products" at the China Software Industry Development and Corporate Innovation Summit organized by China Software Industry Association. At the 15th anniversary celebration of national "Gold Card Project" organized by the Ministry of Information industry, "Communications One Card System" of Shanghai Huateng Software Systems Co., Ltd., a subsidiary of the Group focusing on financial and banking businesses, was awarded the "Best Software Platform" of the "Golden Ants Award Series", the highest award of the state "Gold Card Project" granted by the Office of the State Gold Card Project Coordination Group.

As the nation's pioneer total integration and software development enterprise to have successfully implemented the "one ticket all transit" and the "Multi-pass" projects for urban railroad transport, the Group had, during the reporting period, signed the contract for the ticketing system project for two metro lines in a major financial city in China.

During the reporting period, the Group was successfully awarded the tenders of and activated projects such as the "application integration platform system construction project" of the China Securities Regulatory Commission, the "one ticket all transit" funds classification and settlement system for railroad transport classification system project in a municipality directly under the jurisdiction of the Central Government, "IC card data center processing system for construction businesses" project, the small enterprise loan management of Bank of Communications, AMLKYC system development of Sumitomo Bank (井住友銀行), new accounting standards conversion system development of Sumitomo Mitsui (三井住友), in addition to being awarded the tenders of and activated the projects such as IC card data center processing system for construction businesses, and social security card and senior citizen card system in a major financial city in China. Meanwhile, the National Post Remittance Macro Centralized System developed by the Group successfully passed the trial run; the World Expo ticketing system (Phase 1) successfully entered the trial run stage; the "Urban Multi-pass" project in a provincial capital city in eastern China was formally launched; bus rapid transit (BRT) project in a provincial capital city in eastern China was officially put into operation.

Hi-tech MNC IT Services

The Group's Hi-tech MNC IT services catered to clients from multinational and technological companies whose headquarters were in Europe and America. The major services provided by the Group to such customers were full range IT technical services, including: corporate customized application development, corporate application integration, business intelligence and data exploration, implementation and deployment of corporate IT systems, independent testing services, software localization and globalization, software product engineering, technical support and maintenance, in-bedded software development.

As one of the leading IT outsourcing services providers in China, the Group's IT outsourcing services business had expanded into various domains such as transportation, financial, consumer packaged goods, telecommunication, life and pharmaceutical and high technology industries, and interacted well with domestic solution business. Besides "traditional" IT outsourcing services, the Group, leveraging on its leading position in China market, was able to assist overseas clients to have a quick understanding of China market and identify new business opportunities. Meanwhile, the Group was able to, by virtue of its wide network of submission centers, capitalize on global resources and its leading proprietary technical strength to help clients coping with constantly and rapidly changing business challenges.

The Group had been issued ISO 9000, ISO 27001 and CMMI 3 certifications. During the reporting period, the Group had over 800 engineers providing outsourcing services for Microsoft and ranked the first in China in term of sales as a supplier for Microsoft. The office premise of the Group's Hi-tech MNC IT outsourcing services business successfully passed information security system certification oversight audit and received the annual audit certificate. The Group was awarded "Top 10 Chinese Enterprises in Software R&D Capacity 2008" and "Top 10 Chinese Enterprises in Software Outsourcing R&D Capacity 2008" at the "Sixth China International Software Cooperation Forum".

Information Processing and Engineering Design IT Services

The Group's IT services business in the domains of information processing and engineering design was targeted at clients in Japanese market. The major services provided by the Group to these clients were: call center, data processing, front-page processing of publications, and CAD services for construction and manufacturing domains.

The Group had over ten years experience in data processing and engineering design domains, providing IT services to more than 100 global companies. At the present, we have almost a thousand staff members providing multilingual IT services in a wide range of industries, both domestically and internationally, such as information technology, manufacturing industry, financial services, education, health care institutions, transportation and government agencies. During the reporting period, the Group further expanded the scale of its data processing and engineering design services business and received various awards from clients. During the reporting period, the Group was awarded "Advanced Unit for Development in Software and Service Outsourcing Industry in Dalian (大連市軟件和服務外包產業發展先進單位)"; and "ChinaSourcing First Session BOP Top 10 Outstanding Outsourcing Enterprises" at the 2008 ChinaSourcing Summit.

Excellence Training Centers (ETC)

During the reporting period, the Group's Excellence Training Centers supported the construction of the "IT Industry Human Resources Supply Chain" of the Group with comprehensive training for IT talents, meanwhile, Excellence Training Centers realized an interactive and sizable mutual development with the Group's industry solution business and IT services business.

In the construction of practical training centers, beside further expanding the business scale of ETC in Beijing, the Group actively promoted the establishment of practical training centers in Wuxi, Changsha, Chongqing, Dalian and Xiamen, forming sizable IT vocational education system. Currently, ETC of Chinasoft International had established cooperation with over 200 higher education institutes on solid practical training for talents and had functioned as the talent bank of the Group, training and providing high caliber software talents to various business departments. The corporate objectives of Chinasoft International integrated the prospect of China and the motive power of the development of investment and economy, in order to make contribution to the longterm goal of implementing a knowledge-based economy of "manufacturing by intelligence" from "only manufacturing" in China.

During the reporting period, traditional IT training business in the training centers developed well. In 2008, ETC of Chinasoft International had further intensive cooperation with a number of multinationals and developed various brand new talent training projects: the Sharepoint talent training project was jointly developed with Microsoft, the SOA practical training center was jointly established with IBM, the Java advanced technology practical training center was jointly constructed with Sun, and maintained good cooperation with multinational companies such as Microsoft, IBM and Sun, a total of 82 classes were offered, with 2,870 students completed such training.

As the training base of the Group, Excellence Training Centers not only provide a large number of back up personnel for the Group internally, but also improve the existing staff's technical and project management ability through sustainable internal training such that they grow up rapidly to become business key personnel meeting work requirements. During the reporting period, a total of 610 internal staff of the Group participated the internal training from the training centers.

Capital Operation

- *100% acquisition of Zhongke Jiuhui Information Automation Company Limited*

  Zhongke Jiuhui is a technical type of manufacturer, it has been focusing on the development in the tobacco industry for years, and possesses ERP/MES core technologies and mature solutions, which may effectively complement each other with the Group in business structures as well as technology solutions. Through the 100% acquisition of Zhongke Jiuhui, the Group may achieve its strategic target of a quick entering into the core business information areas of industrial and commercial enterprises, thus formulate the Group's specialized capability in production execution systems in the tobacco industry, build its competitive edge, and form a solid foundation for the Group's sustainable development in the area of tobacco industry.

- *Further increase of shareholdings of the Group in its controlled subsidiary, Shanghai Chinasoft Resources Information Technology Services Limited*

  During the reporting period, in order to further enhance its ITO business, strengthen and develop its cooperation relationship with strategic clients, the Group agreed with other shareholders of Shanghai Chinasoft Resources to increase percentage of shareholdings of the Group in the subsidiary, thus achieved absolute control over Shanghai Chinasoft Resources, and effectively enhanced the overall strategies of the Group.

Management Discussion and Analysis

Awards Received

During the reporting period, the Group had the following rewards and recognitions:

- **Awarded "2007 National Top-tier Domestic Software Enterprise"**

- **Awarded "2008 China's Top Ten Innovative Software Products"**

  Recently, "TOP FCS railroad transport 'One ticket all transit' ('一票換乘') funds classification and settlement application software V1.0.0" product developed by Shanghai Huateng Software Systems Co., Ltd., a member enterprise of the Group, was awarded "2008 China's Top Ten Innovative Software Products" at the China Software Industry Development cum Corporate Innovation Summit organized by China Software Industry Association.

- **Awarded 2008 China Software Service Outsourcing "Star Brand"**

  The Group was awarded 2008 China Software Export and Service Outsourcing "Star Brand" at 2008 Asia-Pacific Service Outsourcing International Conference.

- **Become a top partner for IBM's Service Oriented Architecture (SOA) and will construct an SOA Creative Center together with IBM**

- **Awarded "IBM Asia Pacific Outstanding Business Cooperation Partner 2008" by IBM**

- **Ranked fifth on Outsourcing China's "China Services Outsourcing Enterprises Top 50 Best Practice Ranking"**

- **Awarded "Top 10 Chinese Enterprises in Software R&D Capacity 2008" and "Top 10 Chinese Enterprises in Software Outsourcing R&D Capacity 2008" at the "Sixth China International Software Cooperation Forum"**

- **Awarded "Golden Ants Award Series"**
  "Communications One Card System" of the Group was awarded the "Best Software Platform" of the "Golden Ants Award Series", the highest award of the state "Gold Card Project" granted by the Office of the State Gold Card Project Coordination Group at the fifteenth anniversary of the "Gold Card Project" held by the Ministry of Information Industry.

- **Awarded "ChinaSourcing First Session BOP Top 10 Outstanding Outsourcing Enterprises"**
  Dalian Xinhua, a subsidiary of the Group focusing on BOP business, was awarded the "ChinaSourcing First Session BOP Top 10 Outstanding Outsourcing Enterprises" at the 2008 ChinaSourcing Summit, where the "Award Presentation of ChinaSourcing First Session Outstanding Outsourcing Enterprises" was held during the "ChinaSourcing China Software and Information Services Outsourcing Summit".

- **Chinasoft International was awarded "IBM Top Industry Solution Provider 2007" by IBM.**

- **The Group was awarded "IT Innovative Enterprise Prize" consecutively at the 2008 China IT Fortune Annual Conference and China Information Supervisor Annual Conference**

Future Prospect

The overall objectives of the Group are to spend three to five years to turn the new Chinasoft International that we jointly belong to and making best efforts into a China-based Chinese software service enterprise which serves the globe and of the greatest power, attraction and investment value, and to create a international brand of "Intelli-ed in China" together with local and overseas business partners through the market and human resources in the Greater China Region as the competitive advantages.

2009 is a decisive period for the development of the software industry in China. Being affected by the global condition, the software industry in China suffers from the economic crisis and some software enterprises have a pessimistic future for survival. However, challenges always come along with opportunities, 2009 is also a wonderful time to reduce hidden danger of low-end vicious competition, to promote business upgrading and restructuring, to expand high-end service market, and to further engage in diversified operations. Moreover, the government stimulates the economic development by financing 4 trillions to promote local demands and strengthen the inputs from resident-related industries, which surely gives fresh blood to the downstream industry chain. Providing international resident-related industries with information solutions and promoting the efficiency of social functions are the paths for the development of software and information industry. In addition, to reduce cost, major international enterprises are willing to have their low-end software outsourcing tasks done in China, which increases the total amount in the area. Also, software industry in China is still at its early stage of development and there is huge room for upgrade and so greater benefits comparing with major software countries in the world.

In 2009, the Group will proceed with the development concepts of the corporate to "create, share and grow together", coordinate the interests of customers, shareholders and staff, create a healthy corporate culture and ecological environment, pay attention to the mutual relationship with external business environment, perform its obligations at three levels (society, industry and corporate), take responsibilities and grow and create an integrated platform of "Intelli-ed in China" with the software industry in China together under the guidance of various policies carried out by the State to foster the economic development.

In 2009, the Group will further solidify its position in those industries where it has competitive advantage and set up general strategic alliance within the industries to ensure its competitive advantage in those industries and maintain sustainable development of business.

For 2009, the Group will make use of the dual culture, medium end and high end human resources of Singapore and Hong Kong to create consolidated competitive advantage by combining them with the medium end and low end human resource in China under ETC protection; based on the unique advantage in sectors that we possess competitive advantage in China, with the protection of human resources integration, we will focus on exploring certain European and American strategic clients, pave the concrete development path of developing European and American business on large scale, create the strategy of biological environment complete development.

By sharing the industry opportunity of China's fast growing software industry, in 2009, the Group will enrich the meaning of Chinasoft International being "Top Platform of Intelli-ed in China" with the business development strategy of "innovative, interactive, integrative" and will further advance towards the strategy of becoming a total and global IT services provider.

Biographical Details of Directors and Senior Management

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

DIRECTORS

Executive Directors

Dr. Chen Yuhong *(陳宇紅)*, aged 46, is the managing director and the chief executive officer of the Company and is responsible for the overall business development of the Group. He has over 10 years experience in software development and corporate management. Dr. Chen holds a doctorate degree in optics from 北京理工大學 (Beijing Polytechnic University) in 1991. Prior to joining the Group on 25 April 2000, Dr. Chen was the vice president of CS&S in 2000 and was appointed senior vice-president of CNTC (中軟網絡信息技術有限公司) in December 2003. He has also been appointed a director of Chinasoft Resources. He was a manager of the research department from October 1996 to April 2000. He was also a director of 中軟賽博資源軟件技術(天津)有限公司 (CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd.), an associate company of CS&S from 1999 to March 2002. From June 1991 to October 1996, he was the deputy general manager of China Great Wall Computer Software Co., Ltd.

Dr. Tang Zhenming *(唐振明)*, aged 46, is the senior vice president of the Company. He is responsible for the human resources of the Group and our newly acquired Training Centre. Prior to joining the Group on 25 April 2000, Dr. Tang was employed by Beijing Institute of Technology Industrial Company (北京理工大學產業總公司) as deputy general manager from May 1995 to March 2000 and by American W&P Company, Beijing Office (美國W&P公司北京辦事處) as officer from December 1993 to March 1995. Dr. Tang is also a director of Chinasoft Resources and Wuhan Chinasoft International. He holds a bachelor's degree in vehicle engineering from Tsinghua University (清華大學) in 1985 and a doctorate degree in motor electronic control from Beijing Polytechnic University (北京理工大學) in 1994.

Mr. Wang Hui *(王暉)*, aged 36, is the senior vice president and chief technical officer of the Company. He is responsible for the designing of technical solutions and consulting. Mr. Wang graduated from 天津大學 (Tianjin University) in 1995. He has 6 years experience in systems analysis and in the design of system infrastructure. Prior to joining the Group on 25 April 2000, Mr. Wang was a manager of China Greatwall Computer Software Co., Ltd from 1995 to 2000.

Non-executive Directors

Mr. Su Zhenming *(蘇振明)*, aged 56, is the Chairman of the Company. Mr. Su graduated from Tsinghau University in 1978 with a degree in Electronics Engineering and from the Electronics Department of the Managerial College (電子部管理幹部學院) in 1990 specialising in International Trade. He further completed a postgraduate professional course in Systems Engineering at Xian Electronics Technology University (西安電子科技大學) in 1992. Mr. Su is a senior engineer and had been the Head of Northeastern Electronics Technology Research Centre (東北電子技術研究所) and the Deputy General Manager of China Electronics Information Industry Group Company (中國電子信息產業集團公司). Mr. Su is currently the Vice President of the Alliance of Chinese Chamber of Information Industry and Digitization (3C) Industry (中國信息產業商會數字化(3C)產業聯盟); and a council member of the Communications Studies Branch of the Chinese Institute of Electronics (中國電子學會通信學分會) and the Chinese Association of Industrial Design (中國工業設計協會).

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

Dr. Cui Hui *(崔輝)*, aged 47, is responsible for the financial management of the Group. Dr. Cui has about 20 years experience in corporate management. Dr. Cui graduated from Jilin University (吉林大學) in the PRC in 1983 with a doctorate degree in economics. Prior to joining the Group on 25 April 2000, Dr. Cui worked for CS&S as deputy department head from August 1983 to April 1992, deputy general manager from July 1999 to January 2000 and was the vice president of China National Software & Technology Service Corporation ("CS&S") in 2000. From May 1992 to December 1997, Dr. Cui was the deputy general manager and general manager of Oriental Technology (Beijing) Company Ltd (東方科技(北京)有限公司) . He was the general manager of Chinasoft Tonghe Systems Integration Company Ltd (中軟同和系統集成有限公司) from January 1998 to June 1999. In December 2003, he was appointed senior vice-president of CNTC (中軟網絡信息技術有限公司) (which changed its name to that of CNSS). Dr. Cui currently holds a directorship position in CNSS.

Mr. Duncan Chiu *(邱達根)*, aged 34, has been involved in the management of the Group since joining in January 2000. Mr. Chiu graduated with a bachelor's degree in business administration from Pepperdine University of California in 1996. Mr. Chiu currently serves as vice chairman and treasurer of The Chamber of Hong Kong Listed Companies, vice president of Innovation & Technology Association and is a committee member of All-China Youth Federation. Mr. Chiu is also a director among the Far East Group of companies. He serves as the managing director and chief executive officer of Far East Holdings International Limited ("Far East Holdings") and also a non-executive director of Far East Hotel & Entertainment Limited.

Mr. Liu Zheng *(劉征)*, aged 36, was appointed on 14 June 2002. He has been a general manager of ITG since April 2000. From 1997 to 2000, he was the general manager of DingRong Investment Management Co., Ltd (鼎榮投資管理公司). Mr. Liu worked for China Everbright Bank from 1992 to 1997. Mr. Liu has 10 years experience in the financial industry and graduated from the Finance and Banking Institute of China (中國金融學院) in 1992 with a bachelor's degree in economics.

Dr. Zhang Yaqin *(張亞勤)*, aged 43, was appointed on 31 December 2008. Dr. Zhang is currently the corporate vice president of Microsoft Corporation ("Microsoft") and the chairman of Microsoft China Research & Development Group, responsible for driving Microsoft's overall research and development efforts in China. He joined Microsoft in January 1999 and served as the managing director and chief scientist of Microsoft Research Asia. Dr. Zhang is also a director of Microsoft (China) Company Limited. Microsoft Mobile Technology (Shenzhen) Company Limited and Shanghai MSN Network Communications Technology Company Limited. Dr. Zhang is a Fellow of the Institute of Electrical and Electronics Engineers.

Biographical Details of Directors and Senior Management

Mr. Fang Jun *(方軍)*, aged 47, was appointed on 20 April 2009. Mr. Fang studied accountancy in Shanghai College of Finance and Economics (subsequently renamed as Shanghai University of Finance and Economics) and graduated in 1982. He also holds a master degree in management. Mr. Fang is currently the financial controller of CNSS which is a substantial shareholder of the Company. Before joining CNSS in 2004, Mr. Fang was a financial controller of SED Electronics Group (深圳桑達電子集團有限公司) since 2003. Mr. Fang is also a non-executive director of certain companies in PRC engaged in information technology and investment. These companies are the subsidiaries of CNSS, shares of which are listed in the Shanghai Stock Exchange. Mr. Fang is a member of the Chinese Institute of Certified Public Accountants.

Independent non-executive Directors

Mr. Xu Zeshan *(徐澤善)*, aged 60, was appointed on 8 May 2008. Mr. Xu is a senior engineer and has many years of experience in administration and corporate management. From May 1995 to March 1998, he was the deputy mayor of Zibo in Shandong Province. From March 1998 to December 2002, he was the head of the 49th Research Institute of the Ministry of Information Industry (which was renamed as China Electronics Technology Group Corporation the 49th Research Institute in March 2002). Since January 2003 to present, Mr. Xu acted as the deputy manager and then the manager of China Electronics Technology Group Corporation Industrial Park, the Chairman of the Board of Yangtse River Data Company Limited (長江數據股份有限公司), the chairman of the Board of China Information & Electronics Development Inc. Ltd. (Wuhan) and the managing director of China Electricity Investment Development Company Limited. He is specialized in the research and technological management of sensors and the related systems and was awarded the ministry level Technology Improvement second-ranked prize.

Mr. Zeng Zhijie *(曾之杰)*, aged 41, was appointed on 21 April 2003. Mr. Zeng obtained a master's degree in business administration from Stanford University in June 2001, and is a vice president of Walden International since October 2001, a global venture capital firm with an investment focus on the communications, electronics, software & IT services, semiconductors and life sciences/healthcare industries.

Dr. Leung Wing Yin Patrick *(梁永賢)*, aged 52, was appointed on 22 March 2006. Dr. Leung holds a doctor's degree in accounting from the University of New South Wales, Australia, and a member of Certified Public Accountants of Australia, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute. He is an Assistant Professor and a Doctor Student Supervisor at the School of Accounting and Finance of the Hong Kong Polytechnic University. Dr. Leung previously worked as a consultant in a firm of Certified Public Accountants and as a Senior Lecturer at Charles Sturt University, Australia and the City University of Hong Kong. He has over three years working experience in internal auditing and corporate finance in banks.

SENIOR MANAGEMENT

Mr. Fok Ming Fuk, William *(霍銘福)*, aged 47, is the qualified accountant and company secretary of the Company. He has over twenty years experience in auditing and financial management. Prior to joining the Group on 17 May 2004, Mr. Fok worked as the chief financial officer of Portolan Commerce Solutions, a software developer engaged in enterprise resources planning in Germany. Mr. Fok got a master's degree in business administration from England and is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants, an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Taxation Institute of Hong Kong.

Biographical Details of Directors and Senior Management

Mr. Simon Chung *(鍾鎮銘)*, aged 48, is the chief operating officer of the Company and is responsible for the overall daily operation of the Group. He has over 18 years experience in IT professional services covering account management, service delivery management, technical sales, quality assurance and control, project management and customer support operation in the area of public government, telecom and finance sectors. Prior to joining the Group, he was a project director of Atos Origin responsible for the management of large scale projects and service delivery for major clients in Asia Pacific from 1996 to 2005. He was an information technology officer and manager from 1991 to 1995 for the department of defense in Australia (Navy division). He was an IT database leader in the financial department of a government sector from 1989 to 1991. He holds a bachelor's degree in computing science from the University of Wollongong in Australia.

Ms. Fanny Chan *(孫秀芳)*, aged 50, is the senior vice president of the Company. She is responsible for the outsourcing business in the Group. Prior to joining the Group in April 2007, Ms. Chan worked in many global companies such as IBM, Compaq, HP and AMD. Ms. Chan's working experience ranges cover from North America to Asia pacific region with over 20 years experience in sales and marketing. Ms. Chan was working for IBM from 1985 to 1999 for the software group where she worked on many different management positions. She joined Compaq as marketing director for greater China before joining HP as marketing director for HP Services group in China. Her last position prior to joining the Company was with AMD as regional marketing director for AMD Greater China region. Fanny graduated from University of Toronto with a degree in Science.

Mr. Simon Zhang *(張崇濱)*, aged 46, is the senior vice president of the Company. He is responsible for the outsourcing business in the Group. Prior to joining the Group in 1999, Mr. Zhang worked in Shaanxi Provincial Tourism Bureau after graduated from the Department of Economics of Northwest University in 1987. Mr. Zhang was employed as Chief Business Representative in U.S. Phonenix Medical Equipment Company from 1992 to 1994. From 1994 to 1997, he was the Deputy General Manager and General Manager of Northwestern branch in Weijiang Plastics Co. Ltd., which was a Sino-US joint venture. Mr. Zhang was the General Manager of Chongqing Three Gorges Liner Corporation affiliated to Xi'an China International Travel Corporation from 1997 to 1999.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

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

COMPLIANCE OFFICER

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

Report of the Directors

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 46.

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

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past five years, as extracted from the audited financial statements, is set out on page 3. This summary does not form part of the audited financial statements.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders as at 31 December 2008 are RMB376,099,000 approximately.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 28 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

Report of the Directors

DIRECTORS

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

Executive Directors:

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

Non-executive Directors:

Mr. Su Zhenming	(resigned on 20 April 2009)
Dr. Cui Hui (Chairman)	(appointed as Chairman on 20 April 2009)
Mr. Duncan Chiu	
Mr. Timothy Chen Yung Cheng	(resigned on 2 January 2009)
Mr. Fang Jun	(appointed on 20 April 2009)
Mr. Liu Zheng	
Dr. Zhang Yaqin	(appointed on 31 December 2008)

Independent non-executive Directors:

Mr. He Ning	(resigned on 8 May 2008)
Mr. Xu Zeshan	(appointed on 8 May 2008)
Mr. Zeng Zhijie	
Dr. Leung Wing Yin Patrick	

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

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

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

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

Dr. Tang Zhenming, Mr. Wang Hui, Mr. Su Zhenming, Mr. Timothy Chen Yung Cheng, Mr. Fang Jun and Mr. Liu Zheng, have not entered into service agreements with the Group. The monthly remuneration for Mr. Su Zhenming is HK$10,000. Dr. Tang Zhenming, Mr. Wang Hui, Mr. Timothy Chen Yung Cheng, Dr. Zhang Zaqin, Mr. Fang Jun and Mr. Liu Zheng receive no remuneration for holding their office as non-executive Director.

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

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 note 9 to the financial statements. Save as disclosed in note 9 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 2008, 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 Shares	Approximate percentage of total issued share capital of the Company as at 31 December 2008
Chen Yuhong	66,187,608	6.57%
Cui Hui	20,000,000	1.99%
Wang Hui	9,517,838	0.94%
Tang Zhenming	11,747,765	1.17%

Options to subscribe for Shares

Name of Director	**Exercise Price** (HK$)	**No. of share options outstanding as at 31 December 2008**	**Percentage of total issued share capital of the Company as at 31 December 2008**	**No. of underlying Shares interested in**	Note
Chen Yuhong (Note1)	0.97	1,200,000	0.12%	10,000,000	(4)
	1.78	3,800,000	0.38%		(5)
	1.37	5,000,000	0.50%		(6)
Cui Hui	0.65	500,000	0.05%	500,000	(2)
Duncan Chiu	0.65	1,000,000	0.10%	11,000,000	(2)
	1.37	10,000,000	0.99%		(6)
Tang Zhenming	0.58	80,000	0.01%	6,180,000	(2)
	0.65	1,300,000	0.13%		(3)
	0.97	800,000	0.08%		(4)
	1.78	2,000,000	0.20%		(5)
	1.37	2,000,000	0.20%		(6)
Wang Hui	0.58	250,000	0.02%	7,600,000	(2)
	0.65	1,750,000	0.17%		(3)
	0.97	1,000,000	0.10%		(4)
	1.78	2,000,000	0.20%		(5)
	1.37	2,600,000	0.26%		(6)
Zeng Zhijie	1.78	750,000	0.07%	750,000	(5)

Notes:

(1) An aggregate of 300,000 shares options were exercised by Dr. Chen Yuhong at the exercise price of HK$0.58 each and an aggregate of 1,250,000 share options were exercised by Dr. Chen Yuhong at the exercise price of HK$0.65 each. Hence, following the exercise of these share options and the grant of new share options, the number of share options outstanding reduced to 10,000,000 as at 31 December 2008.

(2) 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

(3) 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

(4) 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

(5) 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

(6) 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 2008 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 2008, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2008 (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 2008, 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 2008, save as disclosed above, none of the Directors was granted any options to subscribe for shares of the Company. As at 31 December 2008, 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 2008, 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 2008.

SHARE OPTION SCHEME

As at 31 December 2008, share options allowing for the subscription of an aggregate of 131,416,500 Shares granted to certain directors and employees of the Group pursuant to the Share Option Scheme were outstanding, with terms on the exercise of such share options granted as set out in note 37 to the financial statements and notes 2, 3, 4, 5 and 6 in the section headed "Directors' Interests in Shares" above.

Save as disclosed above, no share options have been granted, exercised or have lapsed pursuant to the Share Option Scheme as at 31 December 2008.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 39 to the financial statements, no contracts of significance in relation to the Group's business to which the Company, any of its subsidiary, its holding company or any subsidiary of its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

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

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

   (i) Lease of Rooms 206-211 on 2nd Floor and Rooms (306-311, 314) and 315 on 3rd Floor in Tower A2 at 18 Changsheng Road, Changping District, Beijing, PRC entered into by Chinasoft Training Centre (中軟總公司計算機培訓中心) with CNSS:

Date	:	30 January, 2008
Floor area of leased premises	:	2,900.54 square meters in aggregate
Term	:	1 January, 2008 to 31 December, 2008
Monthly rental	:	RMB191,435.64
User	:	as office premises

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

Date	:	30 January, 2008
Floor area of leased premises	:	1,114.47 square meters in aggregate
Term	:	1 January, 2008 to 31 December, 2008
Monthly rental	:	RMB81,913.55
User	:	as office premises

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

Date	:	30 January, 2008
Floor area of leased premises	:	2,650.4092 square meters in aggregate
Term	:	1 January, 2008 to 31 December, 2008
Monthly rental	:	RMB194,850.08
User	:	as office premises

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

Date	:	30th January, 2008
Floor area of leased premises	:	1,026 square meters in aggregate
Term	:	1 January, 2008 to 31 December, 2008
Monthly rental	:	RMB75,411.00
User	:	as office premises

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

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

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

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

The various lease agreements entered into between certain subsidiaries of the Group and CNSS constituted a continuing connected transaction of the Company.

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers accounted for approximately 23% of the Group's total turnover and the Group's largest customer accounted for approximately 7.5% of the Group's total turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 26% of the Group's total purchases and the Group's largest supplier accounted for approximately 6.2% of the Group's total purchases.

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in Shares

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of total issued share capital of the Company
China National Computer Software & Information Technology Service Corporation (Hong Kong) Limited ("CS&S (HK)") (Note 1)	Beneficial interest	199.01	19.76%
Chinasoft National Software and Service Company Limited ("CNSS") (Note 1)	Interest of controlled corporation	199.01	19.76%
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)") (Note 2)	Interest of persons acting in concert	199.01	19.76%
Far East Holdings International Limited ("Far East Holdings") (Note 3)	Beneficial interest	134.27	13.33%

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of total issued share capital of the Company
Greater Pacific Capital Partners, LP ("GPC") (Note 4)	Beneficial interest	119.27	11.84%
International Finance Corporation ("IFC") (Note 5)	Beneficial interest	97.25	9.65%
Microsoft Corporation ("Microsoft") (Note 5)	Beneficial interest	97.25	9.65%

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

Save as disclosed above, as at 31 December, 2008, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

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

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

PRE-EMPTIVE RIGHTS

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

COMPETING INTERESTS

As at 31 December 2008, 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. In addition, Mr. Su Zhenming (an non-executive Director) and Dr. Chen Yuhong (an executive Director) had been appointed as directors of CNSS since September 2006 and April 2004 respectively. Although the Directors are of the view that the principal activities of CNSS do not directly compete with those of the Group currently, the Group and CNSS however are both engaged in the provision of information technology outsourcing.

Save as disclosed above, as at 31 December 2008, 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.

POST BALANCE SHEET EVENTS

No any events which happened after the date of the consolidated balance sheet of the Group of 31 December 2008.

AUDITORS

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

On behalf of the Board

Dr. Chen Yuhong
Managing Director

Beijing, 29 April 2009

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. The code provisions in the Code on Corporate Governance Practices 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rule relating to dealings is securities. Having made specific enquiry of all the Directors, the Directors complied with the Model Code regarding securities transactions by the Directors throughout the year ended 31 December 2008.

BOARD OF DIRECTORS

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

Executive directors:

Dr. Chen Yuhong
Mr. Wang Hui
Dr. Tang Zhenming

Non-executive directors:

Mr. Su Zhenming (Chairman)	(resigned on 20 April 2009)
Dr. Cui Hui (Chairman)	(appointed as Chairman on 20 April 2009)
Mr. Duncan Chiu	
Mr. Timothy Chen Yung Cheng	(resigned on 2 January 2009)
Mr. Fang Jun	(appointed on 20 April 2009)
Mr. Liu Zheng	
Dr. Zhang Yaqin	(appointed on 31 December 2008)

Independent non-executive directors:

Mr. He Ning	(resigned on 8 May 2008)
Mr. Xu Zeshan	(appointed on 8 May 2008)
Mr. Zeng Zhijie	
Dr. Leung Wing Yin Patrick	

Corporate Governance Report

During the year ended 31 December 2008, four full board meetings were held on 28 March, 15 May, 14 August & 12 November and the attendance of each director is set out as follows:

Name of Director	Number of board meetings attended in 2008	Attendance rate
Executive Directors:		
Dr. Chen Yuhong	4	100%
Mr. Wang Hui	4	100%
Dr. Tang Zhenming	4	100%
Non-executive Directors:		
Mr. Su Zhenming (resigned on 20 April 2009)	4	100%
Dr. Cui Hui	4	100%
Mr. Duncan Chiu	4	100%
Mr. Timothy Chen Yung Cheng (resigned on 2 January 2009)	4	100%
Mr. Fang Jun (appointed on 20 April 2009)	0	N/A
Mr. Liu Zheng	4	100%
Dr. Zhang Yaqin (appointed on 31 December 2008)	0	N/A
Independent non-executive Directors:		
Mr. He Ning (resigned on 8 May 2008)	1	100%
Mr. Xu Zeshan (appointed on 8 May 2008)	3	100%
Mr. Zeng Zhijie	4	100%
Dr. Leung Wing Yin Patrick	4	100%

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

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

Mr. Su Zhenming, Dr Chen Yuhong, Dr. Cui Hui and Mr. Fang Jun are directors of CNSS, a substantial shareholder of the Company. Dr. Chen Yuhong and Dr. Cui Hui have been appointed as senior vice presidents of CNSS since December, 2003. Mr. Duncan Chiu is a director of Far East Holdings, a substantial shareholder of the Company. Save as aforesaid, there are no other relationships among the members of the Board.

The three independent non-executive Directors appointed by the Company have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Dr. Cui Hui and Mr. Duncan Chiu were re-designated as non-executive Directors for a term of two years from 22 March 2006 and are subject to termination by one month's notice by the Company or himself. Mr. Timothy Chen Yung Cheng was appointed as a non-executive Director for two years from 22 March 2006 and resigned with effective from 2 January 2009. Dr. Zhang Yaqin and Mr. Fang Jun were appointed as non-executive Directors, from 31 December 2008 and 20 April 2009 respectively, subject to termination by one month's notice by the Company or himself. The term of appointment of Mr. Liu Zheng as a non-executive Director expired on 20 June 2005 and has continued subject to termination by one month's notice by the Company or himself.

REMUNERATION COMMITTEE

The remuneration committee was established on 28 June 2005. During the year under review, the chairman of the committee was Mr. Su Zhenming and other members included Dr. Chen Yuhong, Mr. Xu Zeshan, Mr. Zeng Zhijie and Dr. Leung Wing Yin Patrick. Dr. Chen Yuhong is an executive Director, Mr. Su Zhenming is a non-executive Director and the remaining three members are independent non-executive Directors.

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

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

Name of Director	Number of Meetings attended in 2008	Attendance rate
Mr. Su Zhenming	1	100%
Dr. Chen Yuhong	1	100%
Mr. Xu Zeshan	1	100%
Mr. Zeng Zhijie	1	100%
Dr. Leung Wing Yin Patrick	1	100%

The board of Directors considered that the existing terms of appointment and levels of remuneration of the Directors are fair and reasonable, and resolved that a review be carried out again in the year ending 31 December 2009.

The Company adopted a share option scheme on 2 June 2003, which serves as an incentive to attract, retain and motivate talented eligible staff, including the Directors. Details of the share option scheme are set out in note 37 to the financial statements. The emolument payable to Directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 9 to the financial statements.

NOMINATION OF DIRECTORS

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

Name of member	Number of meetings attended in 2008	Attendance rate
Mr. Su Zhenming	1	100%
Dr. Chen Yuhong	1	100%
Mr. Duncan Chiu	1	100%
Dr. Leung Wing Yin Patrick	1	100%

Prior to the convening of the annual general meeting of the Company in May 2008, the board of Directors resolved that Dr. Cui Hui, Mr. Liu Zheng and Dr. Chen Yuhong or Mr. He Ning should retire and stand for re-election at the annual general meeting in accordance with the requirements under the Articles of Association of the Company.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of accounts for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2008, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

THE AUDIT COMMITTEE

The Company established an audit committee on 2 June 2003 and amended its written terms of reference to comply with the requirements in the Code on Corporate Governance Practices 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 2008, the audit committee comprised of four independent non-executive Directors, Mr. He Ning, 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 quarterly basis during the year ended 31 December 2007.

The Group's unaudited quarterly and interim results and audited annual results during the year ended 31 December 2008 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

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

Name of member	Number of meetings attended in 2008	Attendance rate
Mr. He Ning	1	100%
Mr. Xu Zeshan	3	100%
Mr. Zeng Zhijie	4	100%
Dr. Leung Wing Yin Patrick	4	100%

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group was required to pay an aggregate of approximately RMB3.3 million to the external auditors for their services including audit, due diligence and other advisory services.

INTERNAL CONTROL

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

INVESTORS RELATIONS

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

Deloitte.
德勤

TO THE MEMBERS OF CHINASOFT INTERNATIONAL LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Chinasoft International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 134, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs for the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 32(c) to the consolidated financial statements relating to contingent purchase consideration which may be payable by the Group. The consolidated financial statements of the Group for the years ended 31 December, 2007 and 31 December, 2008 do not include any adjustments in respect of the contingent purchase consideration. However, the ultimate outcome of the matters set out in note 32(c) as well as the potential financial impact on the Group, if any, cannot presently be determined with certainty.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Turnover	5	**983,372**	811,552
Cost of sales		**(709,227)**	(545,157)
Gross profit		**274,145**	266,395
Other income, gains and losses		**26,769**	11,714
Selling and distribution costs		**(47,494)**	(45,456)
Administrative expenses		**(171,192)**	(131,028)
Allowance for doubtful debts		**(16,799)**	(2,820)
Amortisation of intangible assets and prepaid lease payments		**(21,586)**	(14,514)
Impairment loss recognised in respect of intangible assets		**–**	(1,735)
Impairment loss recognised in respect of available-for-sale investment		**–**	(59)
Impairment loss recognised in respect of goodwill	14	**(17,387)**	–
Finance costs	6	**(2,842)**	(474)
Share of results of associates	15	**2,878**	3,323
Gain arising from changes in fair value of redeemable convertible preferred shares	27	**54,487**	46,102
Profit before taxation		**80,979**	131,448
Taxation	7	**(9,254)**	(8,908)
Profit for the year	8	**71,725**	122,540
Attributable to:			
Equity holders of the Company		**63,335**	115,445
Minority interests		**8,390**	7,095
		71,725	122,540
Dividend	10	**4,406**	797
Earnings (loss) per share	11		
Basic		**RMB0.0633**	RMB0.1344
Diluted		**RMB(0.0020)**	RMB0.0492

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	12	**79,038**	68,723
Intangible assets	13	**79,724**	76,155
Goodwill	14	**446,607**	445,005
Interests in associates	15	**14,469**	11,591
Available-for-sale investment	16	**–**	109
Prepaid lease payments	17	**1,034**	1,276
Prepayment for acquisition of technical knowhow		**2,318**	–
Deferred tax assets	26	**2,517**	1,806
		625,707	604,665
Current assets			
Inventories	18	**21,939**	51,713
Trade and other receivables	19	**397,420**	432,553
Prepaid lease payments	17	**166**	177
Amounts due from customers for contract work	20	**69,891**	36,701
Amounts due from related companies	23	**2,490**	1,524
Pledged deposits	21	**21,630**	4,504
Bank balances and cash	21	**265,804**	230,435
		779,340	757,607
Current liabilities			
Amounts due to customers for contract work	20	**17,769**	10,428
Trade and other payables	22	**282,122**	284,504
Bills payable	24	**13,163**	35,132
Amounts due to related companies	23	**22**	14,031
Dividend payable to shareholders		**82**	238
Taxation payable		**6,705**	4,528
Borrowings	25	**70,555**	10,000
Consideration payable on acquisition of technical expertise		**–**	731
Consideration payable on acquisition of a subsidiary	32(c)	**–**	2,923
Consideration payable on acquisition of additional interest in a subsidiary	14	**8,447**	–
		398,865	362,515
Net current assets		**380,475**	395,092
Total assets less current liabilities		**1,006,182**	999,757

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Non-current liabilities			
Borrowings	25	–	16,814
Deferred tax liabilities	26	**8,371**	7,170
Redeemable convertible preferred shares	27	**127,699**	201,085
		136,070	225,069
		870,112	774,688
Capital and reserves			
Share capital	28	**52,178**	51,398
Share premium	29	**516,306**	505,483
Reserves	29	**256,857**	178,788
Equity attributable to equity holders of the Company		**825,341**	735,669
Minority interests		**44,771**	39,019
Total equity		**870,112**	774,688

The consolidated financial statements on pages 46 to 134 were approved and authorised for issue by the board of directors on 29 April 2009 and are signed on its behalf by:

Dr. Chen Yuhong
DIRECTOR

Mr. Duncan Chiu
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to the equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000 (note 29)	Translation reserve RMB'000	Share options reserve RMB'000	General reserve fund RMB'000 (note 29)	Statutory enterprise expansion fund RMB'000 (note 29)	Statutory surplus reserve fund RMB'000 (note 29)	Accumulated profits RMB'000 (note 29)	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2007	40,184	128,899	(6,942)	11,243	9,714	8,868	341	20,528	212,835	20,820	233,655
Exchange differences arising from translation of foreign operations and net gain recognised directly in equity	–	–	5,718	–	–	–	–	–	5,718	–	5,718
Profit for the year	–	–	–	–	–	–	–	115,445	115,445	7,095	122,540
Total recognised income for the year	–	–	5,718	–	–	–	–	115,445	121,163	7,095	128,258
New issue of shares (see note 28(b))	10,237	364,674	–	–	–	–	–	–	374,911	–	374,911
Expenses on issue of shares	–	(807)	–	–	–	–	–	–	(807)	–	(807)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	11,104	11,104
Recognition of equity-settled share-based payments	–	–	–	15,779	–	–	–	–	15,779	–	15,779
Issue of ordinary shares upon exercise of share options	977	13,514	–	(1,906)	–	–	–	–	12,585	–	12,585
Appropriations	–	–	–	–	6,079	–	164	(6,243)	–	–	–
Dividend recognised as distribution (see note 10)	–	(797)	–	–	–	–	–	–	(797)	–	(797)
At 31 December 2007	51,398	505,483	(1,224)	25,116	15,793	8,868	505	129,730	735,669	39,019	774,688
Exchange differences arising from translation of foreign operations and net loss recognised directly in equity	–	–	(114)	–	–	–	–	–	(114)	–	(114)
Profit for the year	–	–	–	–	–	–	–	63,335	63,335	8,390	71,725
Total recognised income for the year	–	–	(114)	–	–	–	–	63,335	63,221	8,390	71,611
New issue of shares (see note 28(a))	396	9,593	–	–	–	–	–	–	9,989	–	9,989
Acquisition of additional interest in subsidiaries (see note 14)	–	–	–	–	–	–	–	–	–	(2,338)	(2,338)
Capital contribution from a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	300	300
Recognition of equity-settled share-based payments	–	–	–	15,940	–	–	–	–	15,940	–	15,940
Issue of ordinary shares upon exercise of share options	384	5,636	–	(1,092)	–	–	–	–	4,928	–	4,928
Appropriations	–	–	–	–	–	–	1,207	(1,207)	–	–	–
Dividend recognised as distribution (see note 10)	–	(4,406)	–	–	–	–	–	–	(4,406)	–	(4,406)
Dividend paid to minority interests	–	–	–	–	–	–	–	–	–	(600)	(600)
At 31 December 2008	**52,178**	**516,306**	**(1,338)**	**39,964**	**15,793**	**8,868**	**1,712**	**191,858**	**825,341**	**44,771**	**870,112**

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 RMB'000	2007 RMB'000
Operating activities		
Profit before taxation	**80,979**	131,448
Adjustments for:		
Finance costs	**2,842**	474
Share of results of associates	**(2,878)**	(3,323)
Interest income	**(1,901)**	(1,338)
Dividend income from held-for-trading investment	**–**	(5)
Amortisation of intangible assets and prepaid lease payments	**21,586**	14,514
Impairment loss recognised in respect of intangible assets	**–**	1,735
Impairment loss recognised in respect of available-for-sale investment	**–**	59
Impairment loss recognised in respect of goodwill	**17,387**	–
Gain arising from changes in fair value of redeemable convertible preferred shares	**(54,487)**	(46,102)
Net foreign exchange gain	**(11,548)**	(2,082)
Depreciation of property, plant and equipment	**17,733**	12,116
Loss on disposal of property, plant and equipment	**183**	509
Allowance for doubtful debts	**16,799**	2,820
Allowance for inventories	**3,408**	1,735
Share option expenses	**15,940**	15,779
Operating cash flows before movements in working capital	**106,043**	128,339
Decrease (increase) in inventories	**26,518**	(16,649)
Decrease (increase) in trade and other receivables	**24,624**	(118,159)
(Increase) decrease in amounts due from customers for contract work	**(30,883)**	13,258
Decrease in held-for-trading investment	**–**	501
Increase in amounts due to customers for contract work	**7,341**	7,012
(Decrease) increase in trade and other payables	**(10,539)**	105,912
(Decrease) increase in bills payable	**(21,969)**	10,880
Cash generated from operations	**101,135**	131,094
Income taxes paid	**(11,209)**	(8,493)
Taxation refund	**2,426**	–
Net cash from operating activities	**92,352**	122,601

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Investing activities			
Interest received		**1,901**	1,338
Dividend income from held-for-trading investment		**–**	5
Dividend income from an associate		**–**	184
Acquisition of subsidiaries	32(a)(b)	**(10,552)**	(44,682)
Payment for acquisition of a subsidiary and technical expertise in prior year,		**(3,654)**	(2,711)
Payment for acquisition of software		**–**	(1,196)
Payment for acquisition of technical knowhow		**(4,850)**	–
Prepayment for acquisition of technical knowhow		**(2,318)**	–
Proceeds from disposal of property, plant and equipment		**825**	219
Proceeds from disposal of available-for-sale investment		**109**	–
Research and development costs paid		**(11,085)**	(9,779)
Purchases of property, plant and equipment		**(28,891)**	(20,765)
(Increase) decrease in pledged deposits		**(17,126)**	(3,030)
Net cash used in investing activities		**(75,641)**	(80,417)
Financing activities			
New bank loan raised		**54,064**	10,000
Repayment of borrowings		**(10,000)**	–
Proceeds from issue of shares		**–**	53,804
Expenses on issue of shares		**–**	(807)
Proceeds from exercise of share options		**4,928**	12,585
Interest on borrowings		**(1,961)**	–
Interest paid on redeemable convertible preferred shares		**(7,639)**	(10,162)
Dividend paid to equity holders of the Company		**(4,562)**	(633)
Dividend paid to minority interests		**(600)**	–
Capital contribution from a minority shareholder of a subsidiary		**300**	–
Decrease in interest payable to redeemable convertible preferred shareholders		**(124)**	(1,876)
(Increase) decrease in amounts due from related companies		**(966)**	2,654
Decrease in amounts due to related companies		**(14,009)**	(3,923)
Net cash from financing activities		**19,431**	61,642
Net increase in cash and cash equivalents		**36,142**	103,826
Cash and cash equivalents at beginning of the year		**230,435**	133,571
Effect of foreign exchange rate changes		**(773)**	(6,962)
Cash and cash equivalents at end of the year, representing bank balances and cash		**265,804**	230,435

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

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 (the "GEM") 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 solutions and information technology ("IT") system, provision of IT consulting, training, outsourcing services and sale of standalone software and hardware products.

Particulars of the Company's subsidiaries at 31 December 2008 and 2007 are set out as follows:

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2008 %	2007 %	**2008** %	2007 %	
Chinasoft International Holdings Limited	Samoa/ Hong Kong ("HK")	US$1	**100**	100	**–**	–	Investment holding
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)")	HK	HK$100	**–**	–	**100**	100	Investment holding and trading of standalone software products
Chinasoft International Treasury Management (Hong Kong) Limited	HK	HK$1	**–**	–	**100**	100	Securities trading

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2008 %	2007 %	2008 %	2007 %	
Chinasoft Resource (International) Limited	HK	HK$100,000	–	–	100	100	Provision of IT outsourcing services
Chinasoft International Inc.	United States of America ("USA")	US$0.01	–	–	100	100	Provision of IT outsourcing services
北京中軟國際信息技術有限公司 Chinasoft International Information Technology Limited ("Chinasoft Beijing")	People's Republic of China ("PRC")	RMB50,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services, software development and trading of standalone software and hardware products
中軟國際(廣州)信息技術有限公司 Chinasoft International (Guang Zhou) Information Technology Limited ("Chinasoft Guangzhou")	PRC	HK$5,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟國際(杭州)信息技術有限公司 Chinasoft International (Hang Zhou) Information Technology Limited ("Chinasoft Hangzhou")	PRC	HK$5,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟總公司計算機培訓中心	PRC	RMB500,000	–	–	100	100	Provision of IT consultancy and training services
北京中軟国际教育科技有限公司 Beijing Chinasoft International Education Technology Co., Ltd. ("Chinasoft Education")*	PRC	RMB1,000,000	–	–	70	–	Development of educational software

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company: Directly 2008 %	Directly 2007 %	Indirectly 2008 %	Indirectly 2007 %	Principal activities
無錫中軟国际信息技術培訓有限公司 Wuxi Chinasoft International Information Technology Training Co., Ltd. ("Wuxi Chinasoft Training")*	PRC	RMB2,000,000	–	–	**70**	–	Provision of IT consultancy and training services
中軟國際(昆明)信息技術有限公司 Chinasoft International (Kunming) Information Technology Limited ("Chinasoft Kunming")	PRC	HK$8,000,000	–	–	**100**	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟國際(湖南)信息技術有限公司 Chinasoft International (Hunan) Information Technology Limited ("Chinasoft Hunan")	PRC	US$1,000,000	–	–	**100**	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟賽博資源軟件技術(天津)有限公司 CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd. ("Cyber Resources")	PRC	RMB5,000,000	–	–	**76**	76	Provision of IT outsourcing services
廈門中軟海晟信息技術有限公司	PRC	RMB30,000,000	–	–	**51**	51	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
北京中科久輝信息自动化有限公司 Sino Sunnyever Automation and Information Co., Ltd. ("Sino Sunnyever") (note 32(b))	PRC	RMB8,000,000	–	–	**100**	–	Provision of solutions

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2008	2007	**2008**	2007	
			%	%	**%**	%	
北京中軟資源信息科技服務有限公司 Chinasoft Resources Information Technology Services Limited ("Chinasoft Resources Beijing")	PRC	US$800,000	**–**	–	**100**	100	Provision of IT outsourcing services
深圳市中軟資源技術服務有限公司 Shenzhen Chinasoft Resources Information Technology Services Limited ("Chinasoft Resources Shenzhen")	PRC	RMB5,000,000	**–**	–	**100**	100	Provision of IT outsourcing services
上海中軟資源技術服務有限公司 Shanghai Chinasoft Resources Information Technology Services Limited (note 14) ("Chinasoft Resources Shanghai")	PRC	RMB3,000,000	**–**	–	**80**	60	Provision of IT outsourcing services
日本創智株式会社 Japan Powerise Co., Ltd. ("Japan Powerise") (note 32(a))	Japan	JPY22,500,000	**–**	–	**100**	–	Provision of IT outsourcing services
Hinge Global Resource Inc. ("HGR")	Cayman Islands/PRC	US$3,956,000	**97.35**	97.35	**–**	–	Investment holding and provision of IT outsourcing services
上海華騰軟件系統有限公司 Shanghai Huateng Software Systems Co., Ltd. ("Shanghai Huateng")	PRC	US$8,000,000	**–**	–	**86.43**	86.43	Development and provision of IT system
大連全數科技有限公司 Dalian Digitall Technology Co., Ltd. ("Dalian Digitall")	PRC	JPY25,000,000	**–**	–	**58.41 (note)**	58.41	Provision of IT outsourcing services

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2008 %	2007 %	2008 %	2007 %	
大連信華軟件技術有限公司 Dalian Xinhua Software Co., Ltd. ("Dalian Xinhua Software")	PRC	US$150,000	–	–	97.35	97.35	Provision of IT outsourcing services
大連信華信息技術有限公司 Dalian Xinhua Infotech Co., Ltd. ("Dalian Xinhua Infotech")	PRC	US$250,000	–	–	97.35	97.35	Provision of IT outsourcing services
株式會社東京信華 Kabushiki Kaisha Tokyo Xinhua ("Tokyo Xinhua")	Japan	JPY10,000,000	–	–	97.35	97.35	Provision of IT outsourcing services
DoubleBridge Technologies, Inc. ("DoubleBridge")	USA	US$2,204,400	–	–	97.35	97.35	Provision of IT outsourcing services
北京道達技術有限公司 Beijing Daoda Technology Co., Ltd. ("Beijing Daoda")	PRC	US$1,300,000	–	–	97.35	97.35	Provision of IT outsourcing services
DoubleBridge Technologies Hong Kong Limited ("DoubleBridge HK")	HK	HK$1,000,000	–	–	97.35	97.35	Dormant

* Newly incorporated

None of the subsidiaries had any debt securities subsisting at 31 December 2008 or at any time during the year.

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

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

In the current year, the Group has applied, for the first time, the following amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK (IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK (IFRIC) – Int 12	Service Concession Agreement
HK (IFRIC) – Int 14	HKAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendments)	Improving Disclosure about Financial Instrument[2]
HKFRS 8	Operating Segments[2]
HK (IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK (IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK (IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK (IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK (IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK (IFRIC) – Int 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 July 2009.
4 Effective for annual periods ending on or after 30 June 2009.
5 Effective for annual periods beginning on or after 1 July 2008.
6 Effective for annual periods beginning on or after 1 October 2008.
7 Effective for transfers on or after 1 July 2009.

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

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. 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. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations

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

When a business combination agreement provides for an adjustment to the cost of the acquisition contingent on future events, the Group includes the amount of that adjustment in the cost of the acquisition at the acquisition date if the adjustment is probable and can be measured reliably. If the adjustment is not included in the cost of acquisition at acquisition date because it is not probable or cannot be measured reliably, this additional consideration should be treated as an adjustment to cost of acquisition when it becomes probable or can be measured reliably in subsequent periods.

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

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

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

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

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

Goodwill arising on acquisitions on or after 1 January 2005

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

Goodwill arising on acquisitions on or after 1 January 2005 – continued

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

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

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

Interests in associates

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Acquisition of additional interest in subsidiaries

Acquisitions of additional interest in subsidiaries are recorded at historical cost and the excess of the cost of acquisition over the carrying amount of net assets acquired is recognised as goodwill.

Revenue recognition

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

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

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

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

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

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

Project-based IT development contracts

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Project-based IT development contracts – continued

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

Government grants

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

Tax incentive subsidies are recognised as other income when they becomes receivable.

Leasing

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

The Group as lessee

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

Retirement benefit costs

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

Borrowing costs

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

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

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

Intangible assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Research and development expenditures

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

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

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

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

Prepaid lease payments

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

Inventories

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments

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

Financial assets

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

Effective interest method

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

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

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

Financial liabilities and equity

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

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

Effective interest method

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity – continued

Financial liabilities at fair value through profit or loss

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

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

Other financial liabilities

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

Equity instruments

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

Derecognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies

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

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

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

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

Equity-settled share-based payment transactions

Share options granted to employees and customers of the Group

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

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Equity-settled share-based payment transactions – continued

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

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Allowance for doubtful debts

In determining whether there is objective evidence of allowance for doubtful debts, the Group takes into consideration the collectability, aging analysis of trade receivables and estimation of future cash flows. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. The amount of the allowance for doubtful debts is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, an allowance for doubtful debts may arise. As at 31 December 2008, the carrying amount of trade receivables is RMB332,293,000 (2007: RMB382,921,000) (net of allowance for doubtful debts of RMB34,783,000) (2007: RMB17,984,000).

Estimated impairment of goodwill of HGR and its subsidiaries, Japan Powerise and Sino Sunnyever

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2008, the Group recognised an impairment loss of RMB17,387,000 (2007: nil) in relation to goodwill arising on acquisition of HGR and its subsidiaries and Japan Powerise. As at 31 December 2008, the carrying amount of goodwill is RMB300,341,000 (2007: RMB304,848,000). Details of the recoverable amount calculation are disclosed in note 14.

Estimated impairment of goodwill (other than HGR and its subsidiaries, Japan Powerise and Sino Sunnyever)

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated. The Group has obtained business valuations of the relevant CGUs prepared by independent professional valuers for the purpose of goodwill impairment testing. The valuations are based on an estimation of a weighted average of market value multiples as determined by comparable companies in the relevant industry. As at 31 December 2008, the carrying amount of goodwill was RMB146,266,000 (2007: RMB140,157,000). Details of the business valuations are disclosed in note 14. Should there be any change in the market conditions, it may lead to a change in the results of the valuations and an impairment to goodwill may be required.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Project-based IT development contracts

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

Fair value of redeemable convertible preferred shares

The fair value of the liability component of the redeemable convertible preferred shares is based on a discounted cash flow model using quoted benchmark interest yield curves as at balance sheet date and by obtaining lender quotes for borrowing of similar maturity to estimate the credit risk margin. The fair value of the derivative component of the redeemable convertible preferred shares is calculated using the binomial option pricing model. The model involves estimates on time to maturity, risk free rate, the Company's share price volatility and others. As at 31 December 2008, the carrying amount of the redeemable convertible preferred shares is RMB127,699,000 (2007: RMB201,085,000).

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

Earn-out payment for the acquisition of HGR

As disclosed in note 32(c), the consolidated financial statements for the years ended 31 December 2007 and 31 December 2008 do not include any contingent purchase consideration in relation to the acquisition of HGR. The final earn-out payment will be determined based on the ultimate outcome of the special audit to be carried out and concluded no later than 31 July 2009.

5. TURNOVER AND SEGMENT INFORMATION

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

Business segments

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

Segment information about these businesses is presented as follows:

INCOME STATEMENT

For the year ended 31 December 2008

	Solutions RMB'000	IT outsourcing RMB'000	IT consulting and training services RMB'000	Sale of standalone software and hardware products RMB'000	Consolidated RMB'000
Turnover	597,306	344,737	19,105	22,224	983,372
Segment result	(6,930)	13,905	(1,646)	20,508	25,837
Unallocated other income, gains and losses					26,769
Unallocated corporate expenses					(26,150)
Share of results of associates	2,878	–	–	–	2,878
Finance cost					(2,842)
Gain arising from changes in fair value of redeemable convertible preferred shares					54,487
Profit before taxation					80,979
Taxation					(9,254)
Profit for the year					71,725

5. TURNOVER AND SEGMENT INFORMATION – continued

Business segments – continued

BALANCE SHEET

As at 31 December 2008

	IT solutions RMB'000	IT outsourcing RMB'000	IT consulting and training services RMB'000	Sale of standalone software and hardware products RMB'000	Consolidated RMB'000
ASSETS					
Segment assets	640,233	436,399	9,771	12,107	1,098,510
Interests in associates	14,469	–	–	–	14,469
Unallocated corporate assets					292,068
Consolidated total assets					1,405,047
LIABILITIES					
Segment liabilities	263,622	45,534	562	6,514	316,232
Unallocated corporate liabilities					218,703
Consolidated total liabilities					534,935

OTHER INFORMATION

For the year ended 31 December 2008

	IT solutions RMB'000	IT outsourcing RMB'000	IT consulting and training services RMB'000	Sale of standalone software and hardware product RMB'000	Consolidated RMB'000
Capital additions	39,643	13,249	1,199	–	54,091
Depreciation of property, plant and equipment	8,030	8,823	867	13	17,733
Amortisation of intangible assets and prepaid lease payments	12,117	9,246	223	–	21,586
Impairment of goodwill	–	17,387	–	–	17,387
Allowance for doubtful debts	16,794	5	–	–	16,799
Allowance for inventories	3,408	–	–	–	3,408
Loss on disposal of property, plant and equipment	120	63	–	–	183

5. TURNOVER AND SEGMENT INFORMATION – continued

Business segments – continued

INCOME STATEMENT

For the year ended 31 December 2007

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

5. TURNOVER AND SEGMENT INFORMATION – continued

Business segments – continued

BALANCE SHEET

As at 31 December 2007

	IT solutions RMB'000	IT outsourcing RMB'000	IT consulting and training services RMB'000	Sale of standalone software and hardware products RMB'000	Consolidated RMB'000
ASSETS					
Segment assets	671,235	440,472	1,874	246	1,113,827
Interests in associates	11,591	–	–	–	11,591
Unallocated corporate assets					236,854
Consolidated total assets					1,362,272
LIABILITIES					
Segment liabilities	282,514	47,952	3,081	9,582	343,129
Unallocated corporate liabilities					244,455
Consolidated total liabilities					587,584

5. TURNOVER AND SEGMENT INFORMATION – continued

Business segments – continued

OTHER INFORMATION

For the year ended 31 December 2007

	IT solutions RMB'000	IT outsourcing RMB'000	IT consulting and training services RMB'000	Sale of standalone software and hardware product RMB'000	Consolidated RMB'000
Capital additions	45,581	30,820	6,086	–	82,487
Depreciation of property, plant and equipment	6,441	5,022	598	55	12,116
Amortisation of intangible assets and prepaid lease payment	6,956	7,248	310	–	14,514
Allowance for doubtful debts	2,820	–	–	–	2,820
Allowance for inventories	1,735	–	–	–	1,735
Impairment of intangible assets	–	1,735	–	–	1,735
Loss on disposal of property, plant and equipment	6	503	–	–	509

Geographical segments

The Group's four divisions operate in three principal geographical areas – the People's Republic of China (including Hong Kong) (the "PRC"), the United States of America (the "USA") and Japan. The following table provides an analysis of the Group's sales by geographical markets, irrespective of the origin of the goods and services:

	PRC RMB'000	**USA** RMB'000	**Japan** RMB'000	**Elimination** RMB'000	**Total** RMB'000
Segment turnover	872,654	94,084	16,634	–	983,372
Intersegment sales	66,507	–	–	(66,507)	–
	939,161	94,084	16,634	(66,507)	983,372

No geographical segment information of the Group is shown for the year 2007 as the operating businesses of the Group are substantially carried out in the PRC. The Group's assets and liabilities are substantially located in the PRC in 2008 and 2007.

6. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest on borrowings wholly repayable within five years:		
Bank loan	**1,961**	158
Imputed interest expense on loan from a related party	**881**	316
	2,842	474

7. TAXATION

	THE GROUP	
	2008 RMB'000	2007 RMB'000
The charge comprises:		
PRC Enterprise Income Tax:		
Current year	**10,877**	11,267
Under (over) provision in prior year	**26**	(2,960)
	10,903	8,307
Hong Kong Profits Tax	**37**	(7)
The US Federal and State Income taxes	**–**	6
Japan Income Tax	**15**	–
	10,955	8,306
Deferred tax (note 26)	**(1,701)**	602
	9,254	8,908

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5% which is effective from the year of assessment 2008/2009. Hong Kong Profit tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2007: 33%) unless subject to tax exemption set out below. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

7. TAXATION – continued

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

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

Pursuant to the resolution of National Development and Reform Commission, dated 31 December 2008, Chinasoft Beijing had been designated as a supported software enterprise and its income tax rate was reduced from 25% to 10% (2007: 10%).

Pursuant to certificate issued by Yunnan Provincial Science and Technology Department dated 15 December 2008, Chinasoft Kunming had been designated as a High and New Technology Enterprise and its income tax rate was reduced from 25% to 15% (2007: nil).

Pursuant to an approval document issued by the State Bureau of Tianjin Economic and Technology Development Zone dated 20 February 2003, Cyber Resources was established before the end of the year 1995 and was approved as a production enterprise and its income tax rate was reduced from 33% to 15%. With effect from 2008, the tax rate will be progressively increased to 25% in a five-year transitional period under the Implementation Regulations of the New Law. Cyber Resources is subject to the income tax computed at the rate of 18% for the year ended 31 December 2008 (2007: 15%).

Pursuant to 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 7.5% for the year ended 31 December 2008 (2007: 7.5%).

In addition, Chinasoft Shenzhen is located in the Special Economic Zone and the applicable tax rate was 15% before the effective date of the New 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 18% in 2008. Pursuant to an approval document issued by the State Bureau of Shenzhen Nanshan District dated 1 March 2005, Chinasoft Resources Shenzhen had been designated as a newly established software enterprise. As a result, Chinasoft Resources Shenzhen was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction commencing from the first profit-making year with effect from 2004. As a result, Chinasoft Resources Shenzhen is subject to the income tax at the rate of 9% for the year ended 31 December 2008 (2007: 7.5%).

7. TAXATION – continued

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 computed at the rate of 12.5% for the three years ended 31 December 2010 (2007: nil).

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

	2008	2007
	RMB'000	RMB'000
Profit before taxation	**80,979**	131,448
Tax at PRC Enterprise Income Tax rate of 25% (2007: 33%)	**20,245**	43,378
Tax effect of share of results of associates	**(720)**	(1,097)
Tax effect attributable to tax exemptions and concessions granted to PRC subsidiaries	**(15,298)**	(33,053)
Tax effect of expenses not deductible for tax purpose	**18,064**	20,495
Tax effect of income not taxable for tax purpose	**(17,745)**	(21,839)
Under (over) provision in prior year	**26**	(2,960)
Tax effect of utilisation of tax losses previously not recognised	**(75)**	(430)
Tax effect of tax losses not recognised	**2,866**	3,009
Effect of different tax rate of subsidiaries	**(148)**	(32)
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**(349)**	–
Effect of different tax rate used in recognition of deferred tax	**2,388**	1,437
Tax charge for the year	**9,254**	8,908

8. PROFIT (LOSS) FOR THE YEAR

	2008 RMB'000	2007 RMB'000
Profit (loss) for the year has been arrived at after charging:		
Directors' remuneration (note 9)	10,019	6,480
Other staff costs	353,190	227,888
Retirement benefit costs	28,250	15,467
Share option expenses (excluding Directors)	9,215	12,145
Total staff costs	400,674	261,980
Less: Staff costs capitalised as development costs	(10,317)	(9,449)
	390,357	252,531
Share option expenses		
– granted to customers	–	57
	–	57
Allowance for inventories	3,408	1,735
Research and development costs expensed	16,329	5,070
Less: Government grants	(641)	(915)
	15,688	4,155
Auditor's remuneration	3,336	5,187
Cost of inventories recognised as an expense	217,851	242,521
Depreciation of property, plant and equipment	17,733	12,116
Loss on disposal of property, plant and equipment	183	509
Minimum lease payments in respect of buildings	35,914	31,830
and after crediting:		
Dividend income from held-for-trading investment	–	5
Gain on fair value change on held-for-trading investment	–	29
Interest income from bank balances and cash	1,901	1,338
Government grants	4,623	3,198
Net foreign exchange gain (loss)	11,548	1,059
Tax incentive subsidies	3,275	3,428

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

Details of emoluments to the directors of the Company for the year ended 31 December 2008 are as follows:

	Executive director			Non-executive director						Independent non-executive director				
	Chen Yuhong	Wang Hui	Tang Zhenming	Duncan Chiu	Cui Hui	Liu Zheng	Timothy Chen Yung Cheng	Zhang Yaqin	Su Zhenming	He Ning	Xu Zeshan	Zeng Zhijie	Leung Wing Yin Patrick	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees for:														
Executive directors	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executive directors	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Independent non-executive directors	–	–	–	–	–	–	–	–	–	38	–	107	–	145
Other emoluments for executive directors:														
Salaries and other benefits	1,190	820	629	–	–	–	–	–	–	–	–	–	–	2,639
Share option expense	2,013	1,067	901	–	–	–	–	–	–	–	–	–	–	3,981
Retirement benefit costs	23	23	23	–	–	–	–	–	–	–	–	–	–	69
	3,226	1,910	1,553	–	–	–	–	–	–	–	–	–	–	6,689
Other emoluments for non-executive directors:														
Salaries and other benefits	–	–	–	120	107	–	–	–	107	–	–	–	–	334
Share option expense	–	–	–	2,615	–	–	–	–	–	–	–	–	–	2,615
	–	–	–	2,735	107	–	–	–	107	–	–	–	–	2,949
Other emoluments for independent non-executive directors:														
Salaries and other benefits	–	–	–	–	–	–	–	–	–	–	–	–	107	107
Share option expense	–	–	–	–	–	–	–	–	–	–	–	129	–	129
	–	–	–	–	–	–	–	–	–	–	–	129	107	236
Total directors' remuneration	3,226	1,910	1,553	2,735	107	–	–	–	107	38	–	236	107	10,019

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

Directors' emoluments – continued

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

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

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

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2007: three) were directors of the Company whose emoluments were included above. The emolument of the remaining one (2007: two) highest paid individuals was as follows:

	2008	2007
	RMB'000	RMB'000
Salaries and other benefits	**728**	1,453
Share option expenses	**259**	489
Retirement benefit costs	**11**	23
Discretionary bonus	**168**	427
	1,166	2,392

Their emoluments were within the following bands:

	No. of employees	
	2008	2007
Nil to HK$1,000,000 (equivalent to RMB889,700) (2007: RMB937,000)	**1**	2
	1	2

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

None of the directors waived any emoluments during either year.

10. DIVIDEND

	2008	2007
	RMB'000	RMB'000
Dividend recognised as distribution during the year:		
Final paid – HK0.5 cents per share (2007: HK0.1 cents), equivalent to RMB0.5 cents per share	**4,406**	797

11. EARNINGS (LOSS) PER SHARE

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

	2008	2007
	RMB'000	RMB'000
Earnings for the purposes of calculating basic earnings per share	**63,335**	115,445
Exchange adjustment	**(11,260)**	(15,033)
Gain arising from changes in fair value of redeemable convertible preferred shares	**(54,487)**	(46,102)
(Loss)/earnings for the purposes of calculating diluted (loss)/earnings per share	**(2,412)**	54,310

	Number of shares	
	2008	2007
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,000,707,872**	858,956,125
Effect of dilutive potential ordinary shares:		
Issuable under the Company's share option scheme	**15,033,789**	49,368,226
Conversion of the redeemable convertible preferred shares	**194,500,000**	194,500,000
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,210,241,661**	1,102,824,351

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For the year ended 31 December 2008

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST					
At 1 January 2007	6,928	41,993	8,752	–	57,673
Exchange adjustments	(13)	(88)	(1)	–	(102)
Additions	3,764	15,617	1,384	–	20,765
Acquired on acquisition of subsidiaries (note 32(c))	3,618	13,916	964	–	18,498
Disposals	–	(1,091)	–	–	(1,091)
At 31 December 2007	14,297	70,347	11,099	–	95,743
Exchange adjustments	(17)	(89)	(4)	–	(110)
Additions	4,361	12,627	1,840	10,063	28,891
Acquired on acquisition of subsidiaries (note 32(a)(b))	–	213	–	–	213
Disposals	–	(4,150)	(415)	–	(4,565)
At 31 December 2008	**18,641**	**78,948**	**12,520**	**10,063**	**120,172**
DEPRECIATION					
At 1 January 2007	3,317	10,560	1,470	–	15,347
Exchange adjustments	(13)	(67)	–	–	(80)
Provided for the year	1,967	9,109	1,040	–	12,116
Eliminated on disposals	–	(363)	–	–	(363)
At 31 December 2007	5,271	19,239	2,510	–	27,020
Exchange adjustments	(11)	(51)	–	–	(62)
Provided for the year	2,899	13,664	1,170	–	17,733
Eliminated on disposals	–	(3,536)	(21)	–	(3,557)
At 31 December 2008	**8,159**	**29,316**	**3,659**	**–**	**41,134**
CARRYING VALUES					
At 31 December 2008	**10,482**	**49,632**	**8,861**	**10,063**	**79,038**
At 31 December 2007	9,026	51,108	8,589	–	68,723

13. INTANGIBLE ASSETS

	Development costs	Technical knowhow	Software	Contract-based customer-related intangible	Technical expertise	Customer relationship	Patent	Trade name	Technology	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST										
At 1 January 2007	24,462	6,722	120	19,704	11,080	–	–	–	–	62,088
Acquired on acquisitions (note 32(c))	–	–	–	–	1,414	26,464	717	–	–	28,595
Additions	9,779	–	4,850	–	–	–	–	–	–	14,629
At 31 December 2007	34,241	6,722	4,970	19,704	12,494	26,464	717	–	–	105,312
Acquired on acquisitions (note 32(a)(b))	–	–	–	–	–	1,441	–	968	6,643	9,052
Additions	11,085	4,850	–	–	–	–	–	–	–	15,935
At 31 December 2008	**45,326**	**11,572**	**4,970**	**19,704**	**12,494**	**27,905**	**717**	**968**	**6,643**	**130,299**
AMORTISATION/ IMPAIRMENT										
At 1 January 2007	7,211	1,674	29	1,970	2,310	–	–	–	–	13,194
Impairment loss recognised for the year	–	–	–	–	1,735	–	–	–	–	1,735
Provided for the year	5,251	872	23	3,941	2,310	1,764	67	–	–	14,228
At 31 December 2007	12,462	2,546	52	5,911	6,355	1,764	67	–	–	29,157
Provided for the year	7,065	1,642	540	3,941	1,712	5,509	200	145	664	21,418
At 31 December 2008	**19,527**	**4,188**	**592**	**9,852**	**8,067**	**7,273**	**267**	**145**	**664**	**50,575**
CARRYING VALUES										
At 31 December 2008	**25,799**	**7,384**	**4,378**	**9,852**	**4,427**	**20,632**	**450**	**823**	**5,979**	**79,724**
At 31 December 2007	21,779	4,176	4,918	13,793	6,139	24,700	650	–	–	76,155

13. INTANGIBLE ASSETS – continued

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

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

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

14. GOODWILL

	RMB'000
COST	
At 1 January 2007	141,145
Arising on acquisition of subsidiaries (note 32 (c))	304,848
At 31 December 2007	445,993
Arising on acquisition of subsidiaries (note 32 (a) (b))	12,880
Arising on acquisition of additional interest in subsidiary (note)	6,109
At 31 December 2008	**464,982**
IMPAIRMENT	
At 1 January 2007 and 31 December 2007	988
Impairment loss recognised for the year	17,387
At 31 December 2008	**18,375**
CARRYING VALUES	
At 31 December 2008	**446,607**
At 31 December 2007	445,005

14. GOODWILL – continued

Note: In October 2008, the Group acquired 20% additional interest of a subsidiary, Chinasoft Resources Shanghai for a cash consideration of RMB8,447,000. The carrying value of the net assets acquired are RMB2,338,000.

Impairment testing on goodwill

As explained in note 5, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, the carrying amount of goodwill (net of impairment loss) as at 31 December 2008 and 2007 has been allocated as follows:

	2008	2007
	RMB'000	RMB'000
Solutions		
– HGR and its subsidiaries (note 1)	**134,188**	134,188
– Sino Sunnyever	**2,669**	–
	136,857	134,188
IT outsourcing		
– Cyber Resources	**31,963**	31,963
– Chinasoft Resources Beijing	**80,968**	80,968
– HGR and its subsidiaries (note 1)	**163,484**	170,660
– Chinasoft Resources Shanghai	**6,109**	–
	282,524	283,591
IT consulting and training services	**830**	830
Chinasoft Beijing (note 2)	**26,396**	26,396
	446,607	445,005

Notes:

(1) The total carrying amount of goodwill of RMB297,672,000 was resulted from the acquisition of HGR and its subsidiaries in 2007. The goodwill contributes to the cash flows of both the solutions and IT outsourcing business segments.

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

14. GOODWILL – continued

During the year ended 31 December 2008, the Group recognised an impairment loss of RMB17,387,000 (2007: nil), including goodwill arising on acquisition of HGR and its subsidiaries of RMB7,176,000 and goodwill arising from the acquisition of Japan Powerise of RMB10,211,000 in the current year (note 32(a)).

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

IT outsourcing (other than HGR and its subsidiaries and Japan Powerise)

The recoverable amount of this CGU is fair value less costs to sell and has been determined based on the valuation at 31 December 2008 and 2007 prepared by independent professional valuers. The valuation is based on the management's 2008 financial information and a weighted average of market value of invested capital over earnings before interest and taxation of 14 (2007: 26) and that over earnings of 17 (2007: 29) based on comparable companies in the relevant industry.

IT consulting and training services

The recoverable amount of this CGU is fair value less costs to sell and has been determined based on the valuation at 31 December 2008 and 2007 prepared by independent professional valuers. The valuation is based on the management's 2008 financial information and a weighted average of market value of invested capital over earnings before interest and taxation of 14 (2007: 26) and that over earnings of 17 (2007: 29) based on comparable companies in the relevant industry.

Chinasoft Beijing

The recoverable amount of this CGU is fair value less costs to sell and has been determined based on the valuation at 31 December 2008 and 2007 prepared by independent professional valuers. The valuation is based on the management's 2008 financial information and a weighted average of market value of invested capital over earnings before interest and taxation of 14 (2007: 26) and that over earnings of 17 (2007: 29) based on comparable companies in the relevant industry.

HGR and its subsidiaries

The recoverable amounts of HGR and its subsidiaries (the "HGR Group"), representing the solution and IT outsourcing CGUs respectively, have been determined based on a value in use calculation. These two CGUs generate cash flows separately and the cash flow projections of the respective CGUs are based on financial budgets approved by management covering a five-year period, and a discount rate of 17% (2007: 16.9%). The cash flows of the respective CGUs beyond the five-year period are extrapolated using a steady 3% (2007: 3%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Since the CGUs specialise in the solutions and IT outsourcing businesses, management of the Group believes that the projected growth rates are reasonable. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the past performance of the CGUs and management's expectations for the market development. As at 31 December 2008, the goodwill in relation to the IT outsourcing CGU amounting to RMB7,176,000 was impaired.

14. GOODWILL – continued

Japan Powerise

The recoverable amount of Japan Powerise representing that for the CGU of IT outsourcing business segment, has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 18.15%. The cash flows of Japan Powerise beyond the five-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Since Japan Powerise specialises in the IT outsourcing businesses, management of the Group believes that the projected growth rates are reasonable. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the past performance of Japan Powerise and management's expectations for the market development. As at 31 December 2008, the goodwill in relation to the acquisition of Japan Powerise amounting to RMB10,211,000 was fully impaired.

Sino Sunnyever

The recoverable amount of Sino Sunnyever representing that for the CGU of Solution business segment has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 19.65%. The cash flows of Sino Sunnyever beyond the five-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Since Sino Sunnyever specialises in the Solution business, management of the Group believes that the projected growth rates are reasonable. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the past performance of Sino Sunnyever and management's expectations for the market development.

15. INTERESTS IN ASSOCIATES

	2008	2007
	RMB'000	RMB'000
Unlisted cost of investments in associates	**6,500**	6,500
Share of post-acquisition profits, net of dividend received	**7,969**	5,091
	14,469	11,591

Included in the unlisted cost of investments in associates is goodwill of RMB3,052,000 (2007: RMB3,052,000) arising on acquisition of China Tobacco in 2005.

15. INTERESTS IN ASSOCIATES – continued

Particulars of the Group's associates at 31 December 2008 and 2007 are as follows:

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

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

	2008 RMB'000	2007 RMB'000
Total assets	**65,482**	54,775
Total liabilities	**(34,093)**	(31,302)
Net assets	**31,389**	23,473
Group's share of net assets of associates	**11,417**	8,539
Revenue	**78,468**	91,086
Profit for the year	**7,921**	8,834
Group's share of profits of associates for the year	**2,878**	3,323

16. AVAILABLE-FOR-SALE INVESTMENT

The Group's AFS investment in 2007 represents a 15% interest in unlisted equity securities of 上海意達電子商務有限公司, a private entity incorporated in the PRC. During 2008, the Group disposed of the AFS investment at a consideration of RMB109,000.

17. PREPAID LEASE PAYMENTS

	RMB'000
COST	
At 1 January 2007 and 31 December 2007	1,887
Exchange adjustment	(104)
At 31 December 2008	**1,783**
AMORTISATION	
At 1 January 2007	148
Provided for the year	286
At 31 December 2007	434
Exchange adjustment	(19)
Provided for the year	168
At 31 December 2008	**583**
CARRYING VALUES	
At 31 December 2008	**1,200**
At 31 December 2007	1,453

	2008	2007
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Non-current assets	**1,034**	1,276
Current assets	**166**	177
	1,200	1,453

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

18. INVENTORIES

	2008 RMB'000	2007 RMB'000
Computer hardware, equipment and software products	**21,939**	51,713

19. TRADE AND OTHER RECEIVABLES

	2008 RMB'000	2007 RMB'000
Trade receivables	**363,713**	373,490
Less: Allowance for doubtful debts	**(34,783)**	(17,984)
	328,930	355,506
Trade receivable from an associate	**–**	491
Trade receivables from related companies	**3,363**	26,924
	332,293	382,921
Advances to suppliers	**9,888**	8,187
Deposits, prepayments and other receivables	**55,239**	41,445
	397,420	432,553

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

	2008 RMB'000	2007 RMB'000
Within 90 days	**175,561**	152,256
Between 91 – 180 days	**26,288**	87,884
Between 181 – 365 days	**29,045**	96,747
Between 1 – 2 years	**89,530**	40,669
Over 2 years	**11,869**	5,365
	332,293	382,921

19. TRADE AND OTHER RECEIVABLES – continued

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 when sales are made. 44% (2007: 15%) 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 RMB173,328,000 (2007: RMB324,302,000) 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 considers these balances impaired. The Group does not hold any collateral over these balances. The average age of these receivables is 271 days (2007: 259 days).

Aging of trade receivables which are past due but not impaired

	2008	2007
	RMB'000	RMB'000
Within 90 days	**16,596**	93,637
Between 91 – 180 days	**26,288**	87,884
Between 181 – 365 days	**29,045**	96,747
Between 1 – 2 years	**89,530**	40,669
Over 2 years	**11,869**	5,365
Total	**173,328**	324,302

The Group has provided full impairment 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

	2008	2007
	RMB'000	RMB'000
Balance at beginning of the year	**17,984**	15,764
Impairment losses recognised on receivables	**16,799**	2,820
Amounts written off as uncollectible	**–**	(590)
Impairment losses reversed	**–**	(10)
Balance at end of the year	**34,783**	17,984

20. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2008 RMB'000	2007 RMB'000
Contracts in progress at the balance sheet date		
Contract costs incurred plus recognised profits less recognised losses	**464,557**	188,129
Less: progress billings	**(412,435)**	(161,856)
	52,122	26,273
Analysed for reporting purposes as		
Amounts due from contract customers	**69,891**	36,701
Amounts due to contract customers	**(17,769)**	(10,428)
	52,122	26,273

At 31 December 2008, retentions held by customers for contract works amounted to RMB2,122,000 (2007: RMB147,000). Advances received from customers for contract work is nil (2007: RMB800,000).

21. PLEDGED DEPOSITS/BANK BALANCES

Pledged deposits

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

The deposits carry interest at the prevailing market interest rate. The average interest rate for the year was 0.36% (2007: 0.72%) per annum. The pledged deposits will be released upon the settlement of relevant trade facilities.

Bank balances

The amounts comprise short-term bank deposits carry at the prevailing market interest rates which range from 1.71% to 4.14% (2007: from 2.25% to 2.80%) per annum.

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

	2008 RMB'000	2007 RMB'000
Hong Kong Dollars	**2,614**	4,633
United States Dollars	**149**	1,342
Japanese Yen	**30**	–

22. TRADE AND OTHER PAYABLES

	2008 RMB'000	2007 RMB'000
Trade payables	**149,145**	151,649
Trade payable to an associate	**2,114**	–
Trade payable to a related company (note)	**354**	–
Deposits received from customers	**6,033**	38,315
Other payables and accrued charges	**124,476**	94,540
	282,122	284,504

An aged analysis of trade payables is as follows:

	2008 RMB'000	2007 RMB'000
Within 90 days	**88,543**	67,079
Between 91 – 180 days	**14,480**	23,508
Between 181 – 365 days	**13,493**	30,131
Between 1 – 2 years	**22,178**	23,147
Over 2 years	**12,919**	7,784
	151,613	151,649

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: Trade payable to a related company represents a payable to a subsidiary of one of the Company's shareholders

23. AMOUNTS DUE FROM/TO RELATED COMPANIES

The amounts due from/to related companies are unsecured, non-interest bearing and repayable on demand. The amounts are due from/to the Group's minority interests.

24. BILLS PAYABLE

An aged analysis of bills payable is as follows:

	2008 RMB'000	2007 RMB'000
Within 90 days	12,551	29,292
Between 91 – 180 days	612	5,840
	13,163	35,132

25. BORROWINGS

	2008 RMB'000	2007 RMB'000
Bank loan, unsecured (note (1))	54,064	10,000
Loan from a related party, unsecured (note (2))	16,491	16,814
	70,555	26,814
Carrying amount repayable:		
Within one year	70,555	10,000
More than one year, but not exceeding two years	–	16,814
	70,555	26,814
Less: Amounts due within one year shown under current liabilities	–	(10,000)
	70,555	16,814

	2008 RMB'000	2007 RMB'000
Total borrowings		
Interest free	16,491	16,814
At fixed rates	–	10,000
At floating rates (note (3))	54,064	–
	70,555	26,814

25. BORROWINGS – continued

	2008 RMB'000	2007 RMB'000
Analysis of borrowings by currency		
Denominated in RMB	**54,064**	10,000
Denominated in United States dollar	**16,491**	16,814
	70,555	26,814

Notes:

(1) Secured by corporate guarantee of the Company.

(2) The loan from a related party represents a loan from a former shareholder of HGR that was assumed by the Group when the Group acquired HGR in 2007. The loan is unsecured and interest free. At 31 December 2008, the loan was repayable in February 2009, which has subsequently been extended to February 2010. The imputed interest rate on this loan is 5.26% (2007: 5.26%) per annum.

(3) Interests on RMB borrowing are changed at interest rates announced by the People's Bank of China.

At the balance sheet date, the Group had the following undrawn trade facilities:

	2008 RMB'000	2007 RMB'000
Expiring within one year	**60,344**	10,000

26. DEFERRED TAXATION

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

	Deferred development costs	Technical expertise	Customer relationship	Technology	Trade name	Accrued expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	(2,588)	–	–	–	–	–	(2,588)
Arising from acquisition of subsidiaries (note 32(c))	–	(212)	(3,970)	–	–	2,008	(2,174)
(Charge) credit to the consolidated income statement	(680)	14	266	–	–	(202)	(602)
At 31 December 2007	(3,268)	(198)	(3,704)	–	–	1,806	(5,364)
Arising from acquisition of subsidiaries (note 32(a) (b))	–	–	(317)	(1,661)	(213)	–	(2,191)
(Charge) credit to the consolidated income statement	(603)	35	710	166	32	1,012	1,352
Effect of change in tax rate	–	33	617	–	–	(301)	349
At 31 December 2008	**(3,871)**	**(130)**	**(2,694)**	**(1,495)**	**(181)**	**2,517**	**(5,854)**

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

	2008	2007
	RMB'000	RMB'000
Deferred tax assets	**2,517**	1,806
Deferred tax liabilities	**(8,371)**	(7,170)
	(5,854)	(5,364)

At the balance sheet date, the Group had unused tax losses available for offset against future profits of approximately RMB24,689,000 (2007: RMB13,513,000) which may be carried forward indefinitely except losses of approximately RMB7,757,000 (2007: RMB1,716,000) which will expire from 2010 to 2013 (2010: RMB1,488,000, 2011: RMB216,000, 2012: RMB839,000, 2013: RMB5,214,000). No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams.

26. DEFERRED TAXATION – continued

Under the New Law of PRC, withholding tax is imposed on dividends declared in respect of profit earned by PRC subsidiaries from 1 January 2008 onwards at 5% or 10% according the relevant tax treaties. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of the PRC subsidiaries generated during 2008 amounting to RMB51,669,000 (2007: Nil) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

27. REDEEMABLE CONVERTIBLE PREFERRED SHARES

	Number of shares	Nominal amount HK$'000
Redeemable convertible preferred shares (the "Series A Preferred Shares") of HK$0.05 each:		
Authorised		
Balance at 31 December 2007 and 2008	625,000,000	31,250
Issued and fully paid		
Issued during the year and balance at 31 December 2007 and 2008	194,500,000	9,725

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

The Series A Preferred Shares are denominated in Hong Kong 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.

27. REDEEMABLE CONVERTIBLE PREFERRED SHARES – continued

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

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

At 31 December 2008 and 2007, the fair value of the liability component of the Series A Preferred Shares was estimated by using market interest rates of 16.19% and 11.59% 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:

	2008	2007
Share price	**HK$0.58**	HK$1.40
Exercise price	**HK$0.8**	HK$0.8
Time to maturity	**3 years**	4 years
Risk free rate	**0.786%**	2.94%
Share price volatility	**63.42%**	41.99%

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

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 2007	129,455	142,927	272,382
Exchange adjustment	(7,761)	(7,272)	(15,033)
Loss (gain) arising from changes in fair value	6,059	(52,161)	(46,102)
Interest paid	(10,162)	–	(10,162)
As at 31 December 2007	117,591	83,494	201,085
Exchange adjustment	(6,849)	(4,411)	(11,260)
Loss (gain) arising from changes in fair value	1,455	(55,942)	(54,487)
Interest paid	(7,639)	–	(7,639)
As at 31 December 2008	**104,558**	**23,141**	**127,699**

Included in the gain arising from changes of fair value is an interest expense of RMB7,634,000 (2007: RMB8,286,000) determined using the effective interest method.

28. SHARE CAPITAL

	Number of shares	**Nominal amount**
		HK$'000
Ordinary shares of HK$0.05 each:		
Authorised		
At 1 January 2007, 31 December 2007 and 2008	1,500,000,000	75,000

	Notes	**Number of shares**	**Amount**	**Amount shown in the financial statements**
			HK$	RMB'000
Issued and fully paid				
At 1 January 2007		758,817,476	37,940,874	40,184
Issue of new shares	(b)	211,087,399	10,554,370	10,237
Exercise of share options		19,933,500	996,675	977
At 31 December 2007		989,838,375	49,491,919	51,398
Issue of new shares	(a)	8,790,313	439,516	396
Exercise of share options		8,650,000	432,500	384
At 31 December 2008		**1,007,278,688**	**50,363,935**	**52,178**

28. SHARE CAPITAL – continued

Notes:

(a) Pursuant to an resolution passed by the directors of the Company on 14 November 2007, 8,790,313 new shares of the Company of HK$0.05 each were allotted and issued as fully paid to the shareholder of Japan Powerise as the consideration shares of HK$1.26 (equivalent to RMB1.136) each for the acquisition of 100% equity interest of Japan Powerise (see note 32 (a)).

(b) On 19 April 2007, the Company entered into a subscription agreement with ABN AMRO Bank N.V., London Branch ("ABN AMRO"). Under the Subscription Agreement, ABN AMRO has conditionally agreed to subscribe for a total of 32,300,000 new shares of the Company of HK$0.05 each at the price of HK$1.70 (equivalent to RMB1.68) per share. The new shares were allotted and issued as fully paid to ABN AMRO on 30 April 2007.

Pursuant to a resolution passed by the directors of the Company on 4 July 2006 and after the achievement of the revenue and the entering into a master contract with Microsoft as described in the announcement of the Company dated 4 July 2006, 7,918,782 new shares of the Company of HK$0.05 each were allotted and issued on 6 November 2007 as fully paid to Beijing Opportune Technology Development Company Ltd. ("Opportune Technology") as the second portion of consideration shares of HK$1.97 (equivalent to RMB1.89) each for the acquisition of the Mobile and Embedded Division of Opportune Technology. About the detail information see note 33.

Pursuant to an ordinary resolution passed by the shareholders of the Company on 9 July 2007, 170,868,617 new shares of the Company of HK$0.05 each were allotted and issued as fully paid to the shareholders of HGR as the consideration shares of HK$1.85 (equivalent to RMB1.67) each for the acquisition of approximately 97.35% equity interest of HGR (see note 32(c)).

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

29. SHARE PREMIUM AND RESERVES

Share premium

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

Pursuant to an ordinary resolution passed by the shareholders of the Company on 8 May 2008, dividend for 2008 in the amount of RMB4,406,000 (2007: RMB797,000) was paid and distributed out of the share premium account.

29. SHARE PREMIUM AND RESERVES – continued

General reserve fund and statutory enterprise expansion fund

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

Statutory surplus reserve fund

As stipulated by the relevant laws and regulations in the PRC, 廈門中軟海晟信息技術有限公司, Sino Sunnyever and Chinasoft Resources Shenzhen is required to provide for the statutory surplus reserve fund and the statutory public welfare fund. Appropriations to such funds are made out of 5% to 10% of the net profit after taxation as reported in the statutory financial statements of 廈門中軟海晟信息技術有限公司, Sino Sunnyever and Chinasoft Resources Shenzhen prepared in accordance with accounting principles generally accepted in the PRC.

30. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 25, redeemable convertible preferred shares disclosed in note 27, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, share premium, reserves and accumulated profits.

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

31. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2008 RMB'000	2007 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**747,347**	619,384
AFS financial assets	**–**	109
Financial liabilities		
FVTPL designated as at FVTPL (see below)	**127,699**	201,085
Amortised cost	**368,358**	326,058

Redeemable convertible preferred shares

	2008 RMB'000	2007 RMB'000
Cumulative gain in fair value attributable to changes in credit risk (note)	**8,406**	2,227
Gain in fair value attributable to changes in credit risk recognised during the year (note)	**6,179**	2,227
Difference between carrying amount and maturity amount of the principal amount of HK$155,600,000		
At fair value	**104,375**	117,591
Amount payable at maturity	**(136,984)**	(145,782)
	(32,609)	(28,191)

Note: The redeemable convertible preferred shares of the Company contain the liability component and embedded derivatives are designated as financial liability at FVTPL on initial recognition. With respect to the liability component, the gain in fair value attributable to change in credit risk is calculated as the difference between total change in fair value of the liability component decrease of RMB4,535,000 (2007: increase of RMB3,833,000) and the change in fair value of the liability component due to change in market conditions alone amounting increase of RMB10,714,000 (2007: decrease of RMB1,606,000). The change in fair value of the liability component due to market conditions was calculated using benchmark interest yield curves as at the balance sheet date holding credit risk rate constant. The fair value of the liability component was estimated by discounting future cash flows using quoted benchmark interest yield curves as at the balance sheet date and by obtaining lender quotes for borrowing of similar maturity to estimate credit risk margin.

31. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies

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

Market risk

(i) *Currency risk*

Several subsidiaries of the Company have bank balances and cash and trade receivables denominated in foreign currencies arising from income generated from provision of services, which expose the Group to foreign currency risk. Approximately 11.6% (2007: 9.2%) of the Group's income generated from provisions of services is denominated in currencies other than the functional currency of the group entity providing the services. In addition, redeemable convertible preferred shares, a loan from a related party of the Group and trade payable are denominated in foreign currencies.

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

	Liabilities		**Assets**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong dollars	**128,144**	201,085	**5,200**	4,633
US dollars	**17,602**	16,814	**30,759**	16,849
Japanese Yen	**234**	–	**6,065**	1,751

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

31. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

(i) Currency risk – continued

Sensitivity analysis

The Group is mainly exposed to Hong Kong dollar, US dollar and Japanese Yen.

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

	Hong Kong dollars Impact		**US dollars Impact**		**Japanese Yen Impact**	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Profit (loss) for the year	**6,570**	9,823 (a)	**398**	(2) (b)	**(69)**	– (c)

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

(b) This is mainly attributable to the exposure on US dollar trade receivables, bank balances and a loan from a related party at year end.

(c) This is mainly attributable to the exposure on Japanese Yens trade receivables, bank balances at year end.

31. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to redeemable convertible preferred shares (see note 27 for details) and a loan from a related party (see note 25 for details).

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

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both the liability component of the redeemable convertible preferred shares and floating rate bank borrowings (see note 25) at the balance sheet date. A 50 basis points (2007: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

In respect of the liability component of the redeemable convertible preferred shares and floating rate bank borrowings, if interest rates had been 50 basis points (2007: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2008 would increase/decrease by RMB1,620,000 (2007: RMB2,023,000). This is attributable to the Group's exposure to fair value change on the liability component of its redeemable convertible preferred shares.

In respect of short-term bank deposits, if interest rates had been 10 basis points (2007: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2008 would increase/decrease by RMB287,000 (2007: increase/decrease by RMB1,124,000). This is attributable to the Group's exposure to interest rates on its short-term bank deposits and floating rate bank borrowings.

31. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

(iii) Other price risk

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

Sensitivity analysis

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

If the Company's share price had been 5% higher/lower and all other variables were held constant, the Group's profit for the year (as a result of changes in fair value of conversion option component of redeemable convertible preferred shares) would decrease/increase by RMB2,767,000 and (2007: decrease/increase by RMB9,741,000).

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

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses, if necessary, are made for irrecoverable amounts.

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

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

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 91.7% (2007: 92%) of the total trade receivable as at 31 December 2008. Trade receivables consist of a large number of customers, spread across diverse industries. In addition, there is concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings. Other than the above, the Group does not have any other significant concentration of credit risk.

31. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk

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

As at 31 December 2008, the Group has available unutilised general borrowing facilities of approximately RMB60,344,000 (2007: RMB10,000,000). Details of which are set out in note 25.

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

Liquidity tables

	Less than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	1-2 years RMB'000	2+ years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2008 RMB'000
2008						
Trade and other payables	276,089	–	–	–	276,089	276,089
Bills payable	13,163	–	–	–	13,163	13,163
Amounts due to related companies	22	–	–	–	22	22
Dividend payable to shareholders	82	–	–	–	82	82
Borrowing	21,701	34,641	–	–	56,342	54,064
Consideration payables	8,447	–	–	–	8,447	8,447
Loan from a related party	17,087	–	–	–	17,087	16,491
Redeemable convertible preferred shares	3,789	3,774	7,547	146,658	161,768	127,699
	340,380	38,415	7,547	146,658	533,000	496,057

31. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity tables – continued

	Less than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	1-2 years RMB'000	2+ years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31.12.2007 RMB'000
2007						
Trade and other payables	246,189	–	–	–	246,189	246,189
Bills payable	35,132	–	–	–	35,132	35,132
Amounts due to related companies	14,031	–	–	–	14,031	14,031
Dividend payable to shareholders	238	–	–	–	238	238
Fixed-rate borrowing	328	10,109	–	–	10,437	10,000
Consideration payables	3,654	–	–	–	3,654	3,654
Loan from a related party	–	–	18,262	–	18,262	16,814
Redeemable convertible preferred shares	4,030	4,009	8,018	163,823	179,880	201,085
	303,602	14,118	26,280	163,823	507,823	527,143

Fair value

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

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

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

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

32. ACQUISITION OF SUBSIDIARIES

(a) In April 2008, the Group acquired a 100% equity interest of Japan Powerise for a total consideration of RMB13,113,000, comprising both cash consideration and the issue of consideration shares. Japan Powerise is engaged in business of provision of IT outsourcing services. Acquisition of the subsidiary was accounted for using the purchase method.

	Acquiree's carrying amount	**Fair value adjustments**	**Fair value**
	RMB'000	RMB'000	RMB'000
Net assets acquired:			
Property, plant & equipment	19	–	19
Intangible assets			
– Customer relationship	–	1,441	1,441
– Trade name	–	968	968
Trade and other receivables	5,081	–	5,081
Bank balances and cash	442	–	442
Trade and other payables	(4,514)	–	(4,514)
Tax payable	(5)	–	(5)
Deferred tax liability	–	(530)	(530)
	1,023	1,879	2,902
Goodwill on acquisition			10,211
Total consideration			13,113
Satisfied by:			
Cash			3,124
Shares issued (Note 28(a))			9,989
			13,113
Net cash outflow arising on acquisition:			
Cash consideration paid			(3,124)
Bank balances and cash acquired			442
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			(2,682)

32. ACQUISITION OF SUBSIDIARIES – continued

(b) In June 2008, the Group acquired a 100% equity interest of Sino Sunnyever for a cash consideration of RMB8,016,000. Sino Sunnyever is engaged in business of development and provision of IT system. Acquisition of the subsidiary was accounted for using the purchase method.

	Acquiree's carrying amount	Fair value adjustments	Fair value
	RMB'000	RMB'000	RMB'000
Net assets acquired:			
Property, plant & equipment	194	–	194
Intangible assets			
– Technology	–	6,643	6,643
Inventory	152	–	152
Amount due from customer for contract work	2,307	–	2,307
Trade and other receivables	1,209	–	1,209
Bank balances and cash	146	–	146
Trade and other payables	(3,643)	–	(3,643)
Deferred tax liability	–	(1,661)	(1,661)
	365	4,982	5,347
Goodwill on acquisition			2,669
Total consideration			8,016
Satisfied by:			
Cash			8,016
Net cash outflow arising on acquisition:			
Cash consideration paid			(8,016)
Bank balances and cash acquired			146
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			(7,870)

32. ACQUISITION OF SUBSIDIARIES – continued

(b) – continued

Note: The goodwill arising on the acquisition of Sino Sunnyever is attributable to the anticipated profitability of the provision of the Group's services in the solutions and the anticipated future operating synergies from the combination.

Japan Powerise and Sino Sunnyever contributed RMB11,832,000 and RMB6,307,000 respectively to the Group's turnover and profit of RMB361,000 and RMB1,102,000 respectively to the Group's profit for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2008, total Group turnover for the year would have been RMB991,403,000, and profit for the year would have been RMB70,132,000. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

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

32. ACQUISITION OF SUBSIDIARIES – continued

(c) – continued

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

	Acquiree's carrying amount RMB'000	Fair value adjustments RMB'000	Fair value RMB'000
Net assets acquired:			
Property, plant and equipment	18,498	–	18,498
Intangible assets			
– technical expertise	–	1,414	1,414
– customer relationship	–	26,464	26,464
– patent	717	–	717
Available-for-sale investment	168	–	168
Deferred tax assets	2,008	–	2,008
Inventories	4,362	–	4,362
Trade and other receivables	74,428	–	74,428
Amounts due from customers for contract work	48,289	–	48,289
Amounts due from related companies	4,178	–	4,178
Bank balances and cash	38,801	–	38,801
Amounts due to customers for contract work	(3,416)	–	(3,416)
Trade and other payables	(74,629)	–	(74,629)
Amounts due to related companies	(17,453)	–	(17,453)
Borrowing	(17,298)	–	(17,298)
Deferred tax liabilities	–	(4,182)	(4,182)
	78,653	23,696	102,349
Minority interests			(11,104)
Goodwill on acquisition			304,848
Total consideration			396,093
Satisfied by:			
Cash			83,483
Settlement of other receivable			3,560
Consideration payable			2,923
Shares issued (note)			306,127
			396,093
Net cash outflow arising on acquisition:			
Cash consideration paid			83,483
Bank balances and cash acquired			(38,801)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			(44,682)

32. ACQUISITION OF SUBSIDIARIES – continued

(c) – continued

Note: The consideration for the acquisition of HGR was satisfied partly by the issuance of 170,868,617 ordinary shares of the Company with nominal value per share of HK$0.05 each during the year. The fair value of the consideration shares, determined using the published price available at the date of acquisition at HK$1.85, amounted to RMB306,127,000 (equivalent to HK$316,107,000).

During the year ended 31 December, 2008, the Group received letters from lawyers acting for certain shareholders who sold their shares of HGR to the Group ("Selling Shareholders") in 2007. The legal letters relate to contingent purchase consideration as set out in the share sale and purchase agreement ("SPA") in connection with the acquisition of HGR in 2007. Under the SPA, the Selling Shareholders would be entitled to a payment of the contingent purchase consideration if the audited net profit of HGR for the year ended 31 December, 2007 ("2007 Net Profit") was above a certain amount as set out in the SPA. In accordance with the terms of the SPA, if the 2007 Net Profit exceeds US$3.16 million, the amount of the earn-out payment shall be equal to 15.5 times the 2007 Net Profit less the consideration of US$45.04 million that was paid in 2007. The total final consideration (including the earn-out payment) may not be more than US$55 million. The earn-out payment would be settled (a) by cash in respect of not more than 30% and not less than 10% of the contingent consideration; and (b) by issuing to those Selling Shareholders who have elected to receive the Company's shares such number of the Company's shares as shall have a total value equal to the remaining balance of the contingent consideration.

Subsequent to the balance sheet date, the Group agreed with the Selling Shareholders for a special audit of the financial statements of HGR for the year ended 31 December, 2007 to be carried out and concluded no later than 31 July 2009. In the opinion of the directors of the Company, the 2007 Net Profit of HGR was lower than the amount set out in the SPA and hence, no additional consideration would be payable by the Group. Accordingly, the consolidated financial statements for the years ended 31 December, 2007 and 31 December, 2008 do not include any adjustments in respect of the contingent purchase consideration. However, the ultimate outcome of the special audit and the amount of additional consideration, as well as the potential financial impact on the Group, if any, cannot presently be determined with certainty.

The goodwill arising on the acquisition of HGR is attributable to the anticipated profitability of the provision of the Group's services in the IT solutions market and the anticipated future operating synergies from the combination. Any earn-out payment finally determined to be payable pursuant to the special audit referred to above would adjust the measurement of the goodwill.

Since the Group's acquisition of HGR on 31 August 2007, HGR has contributed RMB122,427,000 and RMB11,343,000 to the Group's turnover and profit, respectively, for the year ended 31 December 2007.

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

In July 2006, the Group acquired the Mobile and Embedded Division from Opportune Technology. The acquisition of the Mobile and Embedded Division comprised the acquisitions of the contract-based customer relationship with Microsoft and employees with strong expertise in the outsourcing operation of Microsoft. Acquisition of the contract-based customer-related intangible and technical expertise was accounted for as intangible assets (see note 13).

34. MAJOR NON-CASH TRANSACTIONS

In April 2008, the Group acquired a 100% equity interest in Japan Powerise for a total consideration of RMB13,113,000. Part of the consideration was satisfied by the assurance of new share of the Company (see note 32(a)).

Pursuant to a resolution passed by the directors of the Company and after the achievement of the revenue and the entering into a master contract with Microsoft, the issuance of the second portion of consideration shares of the Company for the acquisition of the Mobile and Embedded Division of Opportune Technology was effected on 6 November 2007 (see note 28(b)).

In August 2007, the Group acquired a 97,35% equity interest in HGR for a total consideration of RMB396,093,000. Part of the consideration was satisfied by the issuance of new shares of the Company (see note 32(c)).

35. OPERATING LEASE COMMITMENTS

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

	2008	2007
	RMB'000	RMB'000
Within one year	**22,089**	21,588
In the second to fifth year inclusive	**21,742**	34,867
	43,831	56,455

Operating lease payments represent rentals payable by the Group for certain premises for training office properties and storeroom. Certain lease agreements for offices properties were replaced by new agreements entered into during the year. Leases are negotiated for lease terms ranging from one year to two years (2007: a half year to two years) for the Group and rentals are normally fixed during the lease period.

36. CAPITAL COMMITMENT

	2008 RMB'000	2007 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of technical know-how and software	2,898	13,096
Commitment to acquire 100% equity interest in a subsidiary	–	15,909
Commitment to acquire business	880	–

37. SHARE OPTION SCHEME

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

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

37. SHARE OPTION SCHEME – continued

The movements of the share options granted to the directors and employees of the Group during the year ended 31 December 2008 are as follows:

					Number of share options				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2008	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 12.31.2008
Directors:									
Dr. Chen Yuhong	13.8.2003	HKD0.58	13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	300,000	–	(300,000)	–	–
	13.5.2004	HKD0.65	13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	1,250,000	–	(1,250,000)	–	–
	30.3.2006	HKD0.97	Nil	30.3.2006 – 29.3.2016	300,000	–	–	–	300,000
			30.3.2006 – 29.3.2007	30.3.2007 – 29.3.2016	300,000	–	–	–	300,000
			30.3.2006 – 29.3.2008	30.3.2008 – 29.3.2016	300,000	–	–	–	300,000
			30.3.2006 – 29.3.2009	30.3.2009 – 29.3.2016	300,000	–	–	–	300,000
	10.4.2007	HKD1.78	Nil	10.4.2007 – 9.4.2017	950,000	–	–	–	950,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	950,000	–	–	–	950,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	950,000	–	–	–	950,000
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	950,000	–	–	–	950,000
	14.4.2008	HKD1.37	Nil	14.4.2008 – 13.4.2011	–	2,500,000	–	–	2,500,000
			14.4.2008 – 13.4.2009	14.4.2009 – 13.4.2011	–	2,500,000	–	–	2,500,000
Mr. Duncan Chiu	13.5.2004	HKD0.65	Nil	13.5.2004 – 12.5.2014	250,000	–	–	–	250,000
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	250,000	–	–	–	250,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	250,000	–	–	–	250,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	250,000	–	–	–	250,000
	14.4.2008	HKD1.37	Nil	14.4.2008 – 13.4.2011	–	5,000,000	–	–	5,000,000
			14.4.2008 – 13.4.2009	14.4.2009 – 13.4.2011	–	5,000,000	–	–	5,000,000

37. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2008	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 12.31.2008
Directors:									
Dr. Cui Hui	13.5.2004	HKD0.65	Nil	13.5.2004 – 12.5.2014	125,000	–	–	–	125,000
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	125,000	–	–	–	125,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	125,000	–	–	–	125,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	125,000	–	–	–	125,000
Mr. Wang Hui	13.8.2003	HKD0.58	13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	250,000	–	–	–	250,000
	13.5.2004	HKD0.65	13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	875,000	–	–	–	875,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	875,000	–	–	–	875,000
	30.3.2006	HKD0.97	Nil	30.3.2006 – 29.3.2016	250,000	–	–	–	250,000
			30.3.2006 – 29.3.2007	30.3.2007 – 29.3.2016	250,000	–	–	–	250,000
			30.3.2006 – 29.3.2008	30.3.2008 – 29.3.2016	250,000	–	–	–	250,000
			30.3.2006 – 29.3.2009	30.3.2009 – 29.3.2016	250,000	–	–	–	250,000
	10.4.2007	HKD1.78	Nil	10.4.2007 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	500,000	–	–	–	500,000
	14.4.2008	HKD1.37	Nil	14.4.2008 – 13.4.2011	–	1,300,000	–	–	1,300,000
			14.4.2008 – 13.4.2009	14.4.2009 – 13.4.2011	–	1,300,000	–	–	1,300,000

37. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2008	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 12.31.2008
Directors:									
Dr. Tang Zhengming	13.8.2003	HKD0.58	13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	80,000	–	–	–	80,000
	13.5.2004	HKD0.65	Nil	13.5.2004 – 12.5.2014	–	–	–	–	–
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	–	–	–	–	–
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	650,000	–	–	–	650,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	650,000	–	–	–	650,000
	30.3.2006	HKD0.97	Nil	30.3.2006 – 29.3.2016	200,000	–	–	–	200,000
			30.3.2006 – 29.3.2007	30.3.2007 – 29.3.2016	200,000	–	–	–	200,000
			30.3.2006 – 29.3.2008	30.3.2008 – 29.3.2016	200,000	–	–	–	200,000
			30.3.2006 – 29.3.2009	30.3.2009 – 29.3.2016	200,000	–	–	–	200,000
	10.4.2007	HKD1.78	Nil	10.4.2007 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	500,000	–	–	–	500,000
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	500,000	–	–	–	500,000
	14.4.2008	HKD1.37	Nil	14.4.2008 – 13.4.2011	–	1,000,000	–	–	1,000,000
			14.4.2008 – 13.4.2009	14.4.2009 – 13.4.2011	–	1,000,000	–	–	1,000,000
Mr. Zeng Zhijie	10.4.2007	HKD1.78	Nil	10.4.2007 – 9.4.2017	187,500	–	–	–	187,500
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	187,500	–	–	–	187,500
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	187,500	–	–	–	187,500
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	187,500	–	–	–	187,500
					17,980,000	19,600,000	(1,550,000)	–	36,030,000

37. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2008	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 12.31.2008
Other employees	13.8.2003	HKD0.58	13.8.2003 – 12.8.2004	13.8.2004 – 12.8.2013	–	–	–	–	–
			13.8.2003 – 12.8.2005	13.8.2005 – 12.8.2013	1,717,500	–	(600,000)	–	1,117,500
			13.8.2003 – 12.8.2006	13.8.2006 – 12.8.2013	1,897,500	–	–	–	1,897,500
			13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	1,897,500	–	–	–	1,897,500
	13.5.2004	HKD0.65	Nil	13.5.2004 – 12.5.2014	–	–	–	–	–
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	7,434,000	–	(6,500,000)	–	934,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	8,025,000	–	–	–	8,025,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	8,025,000	–	–	–	8,025,000
	30.3.2006	HKD0.97	Nil	30.3.2006 – 29.3.2016	2,550,000	–	–	–	2,550,000
			30.3.2006 – 29.3.2007	30.3.2007 – 29.3.2016	3,100,000	–	–	–	3,100,000
			30.3.2006 – 29.3.2008	30.3.2008 – 29.3.2016	3,100,000	–	–	–	3,100,000
			30.3.2006 – 29.3.2009	30.3.2009 – 29.3.2016	3,100,000	–	–	–	3,100,000
	10.4.2007	HKD1.78	Nil	10.4.2007 – 9.4.2017	5,525,000	–	–	–	5,525,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	5,525,000	–	–	–	5,525,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	5,525,000	–	–	–	5,525,000
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	5,525,000	–	–	–	5,525,000
	13.6.2008	HKD1.212	Nil	13.6.2008 – 12.6.2011	–	3,930,000	–	–	3,930,000
			13.6.2008 – 12.6.2009	13.6.2009 – 12.6.2011	–	3,930,000	–	–	3,930,000
			13.6.2008 – 12.6.2010	13.6.2010 – 12.6.2011	–	5,240,000	–	–	5,240,000
	7.4.2008	HKD1.144	Nil	4.7.2008 – 3.7.2011	–	5,532,000	–	–	5,532,000
			4.7.2009 – 3.7.2011	4.7.2009 – 3.7.2011	–	5,532,000	–	–	5,532,000
			4.7.2010 – 3.7.2011	4.7.2010 – 3.7.2011	–	7,376,000	–	–	7,376,000

37. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2008	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 12.31.2008
Customers	13.5.2004	HKD0.65	Nil	13.5.2004 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	2,000,000	–	–	–	2,000,000
					88,926,500	51,140,000	(8,650,000)	–	131,416,500
Exercisable at the end of the year									73,076,000
Weighted average exercise price					1.09	1.18	0.64	–	1.04

37. SHARE OPTION SCHEME – continued

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

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

37. SHARE OPTION SCHEME – continued

					Number of share options				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2007	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31.12.2007
Directors:									
Dr. Cui Hui	13.5.2004	HK$0.65	Nil	13.5.2004 – 12.5.2014	125,000	–	–	–	125,000
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	125,000	–	–	–	125,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	125,000	–	–	–	125,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	125,000	–	–	–	125,000
Mr. Wang Hui	13.8.2003	HK$0.58	13.8.2003 – 12.8.2004	13.8.2004 – 12.8.2013	250,000	–	(250,000)	–	–
			13.8.2003 – 12.8.2005	13.8.2005 – 12.8.2013	250,000	–	(250,000)	–	–
			13.8.2003 – 12.8.2006	13.8.2006 – 12.8.2013	250,000	–	(250,000)	–	–
			13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	250,000	–	–	–	250,000
	13.5.2004	HK$0.65	Nil	13.5.2004 – 12.5.2014	875,000	–	(875,000)	–	–
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	875,000	–	(875,000)	–	–
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	875,000	–	–	–	875,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	875,000	–	–	–	875,000
	30.3.2006	HK$0.97	Nil	30.3.2006 – 29.3.2016	250,000	–	–	–	250,000
			30.3.2006 – 29.3.2007	30.3.2007 – 29.3.2016	250,000	–	–	–	250,000
			30.3.2006 – 29.3.2008	30.3.2008 – 29.3.2016	250,000	–	–	–	250,000
			30.3.2006 – 29.3.2009	30.3.2009 – 29.3.2016	250,000	–	–	–	250,000
	10.4.2007	HK$1.78	Nil	10.4.2007 – 9.4.2017	–	500,000	–	–	500,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	–	500,000	–	–	500,000
			10.4.2008 – 9.4.2009	10.4.2009 – 9.4.2017	–	500,000	–	–	500,000
			10.4.2009 – 9.4.2010	10.4.2010 – 9.4.2017	–	500,000	–	–	500,000

37. SHARE OPTION SCHEME – continued

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

37. SHARE OPTION SCHEME – continued

					Number of share options				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2007	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31.12.2007
Directors:									
Mr. Timothy Chen Yung Cheng	10.4.2007	HK$1.78	Nil	10.4.2007 – 9.4.2007	–	250,000	–	(250,000)	–
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	–	250,000	–	(250,000)	–
			10.4.2008 – 9.4.2009	10.4.2009 – 9.4.2017	–	250,000	–	(250,000)	–
			10.4.2009 – 9.4.2010	10.4.2010 – 9.4.2017	–	250,000	–	(250,000)	–
					18,120,000	9,550,000	(8,690,000)	(1,000,000)	17,980,000
Other employees	13.8.2003	HK$0.58	13.8.2003 – 12.8.2004	13.8.2004 – 12.8.2013	1,897,500	–	(1,897,500)		–
			13.8.2003 – 12.8.2005	13.8.2005 – 12.8.2013	1,897,500	–	(180,000)		1,717,500
			13.8.2003 – 12.8.2006	13.8.2006 – 12.8.2013	1,897,500	–	–		1,897,500
			13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	1,897,500	–	–		1,897,500
	13.5.2004	HK$0.65	Nil	13.5.2004 – 12.5.2014	8,025,000	–	(8,025,000)		–
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	8,025,000	–	(591,000)		7,434,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	8,025,000	–	–		8,025,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	8,025,000	–	–		8,025,000
	30.3.2006	HK$0.97	Nil	30.3.2006 – 29.3.2016	3,100,000	–	(550,000)		2,550,000
			30.3.2006 – 29.3.2007	30.3.2007 – 29.3.2016	3,100,000	–	–		3,100,000
			30.3.2006 – 29.3.2008	30.3.2008 – 29.3.2016	3,100,000	–	–		3,100,000
			30.3.2006 – 29.3.2009	30.3.2009 – 29.3.2016	3,100,000	–	–		3,100,000
	10.4.2007	HK$1.78	Nil	10.4.2007 – 9.4.2017	–	10,887,500	–	(5,362,500)	5,525,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	–	10,887,500	–	(5,362,500)	5,525,000
			10.4.2008 – 9.4.2009	10.4.2009 – 9.4.2017	–	10,887,500	–	(5,362,500)	5,525,000
			10.4.2009 – 9.4.2010	10.4.2010 – 9.4.2017	–	10,887,500	–	(5,362,500)	5,525,000

37. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 1.1.2007	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31.12.2007
Customers	13.5.2004	HK$0.65	Nil	13.5.2004 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	2,000,000	–	–	–	2,000,000
					78,210,000	53,100,000	(19,933,500)	(22,450,000)	88,926,500
Exercisable at the end of the year									58,319,000
Weighted average exercise price					0.70	1.78	0.64	1.78	1.09

No share options were cancelled during the year ended 31 December 2008 (2007: 22,450,000).

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$1.06 (2007: 1.87).

The estimated fair value of the share options granted on 14 April 2008 (“A”) ranged from HK$0.34 to HK$0.38. The estimated value of the share options granted on 13 June 2008 (“B”) ranged from HK$0.32 to HK$0.40. The estimated fair value of the share options granted on 4 July 2008 (“C”) ranged from HK$0.30 to HK$0.38. During the year ended 31 December 2007, the estimated fair values of the share options granted on 10 April 2007 ranged from HK$0.55 to HK$0.73. Fair values were calculated using the Binomial model. The variables and assumptions used in computing the fair value of the share options are based on the directors’ best estimate. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

	2008 A	**2008** B	**2008** C	2007
Share price on grant date	**HK$1.26**	**HK$1.20**	**HK$1.14**	HK$1.78
Exercise price	**HK$1.37**	**HK$1.21**	**HK$1.14**	HK$1.78
Expected volatility	**48.22%**	**49.17%**	**49.40%**	42.03%
Time to maturity	**3 years**	**3 years**	**3 years**	10 years
Risk-free rate	**1.51%**	**3.39%**	**2.97%**	4.23%
Expected dividend yield	**0.37%**	**0.42%**	**0.44%**	1.1%

37. SHARE OPTION SCHEME – continued

Expected volatility was determined by using the historical volatility of the Company's share price over a period of 784 days (2007: 1,040 days).

The Group recognised a total expense of RMB15,940,000 for the year ended 31 December 2008 (2007: RMB15,779,000) in relation to share options granted by the Company.

38. RETIREMENT BENEFIT SCHEMES

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

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

During the year, the total cost of retirement benefit contributions charged to the consolidated income statement of RMB16,819,000 (2007: RMB15,560,000) represents contributions to the schemes made by the Group at rates specified in the rules of the respective schemes. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

39. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with the following companies:

	Notes	2008 RMB'000	2007 RMB'000
Provision of IT outsourcing services			
– Microsoft	(a) & (i)	**–**	44,625
– Microsoft (China) Co., Ltd.	(a) & (i)	**–**	56,206
– 日本國株式會社 CDI	(b) & (ii)	**10,486**	3,728
– Viador Inc.	(c) & (iii)	**4,919**	2,075
– 大連中軟軟件有限公司	(d) & (iv)	**1,953**	–
Rental expenses			
– CNSS	(e), (f) & (v)	**7,064**	4,659
Subcontracting costs			
– Chinasoft Wuhan	(g)	**2,151**	800
Provision of technical development services			
– CNSS	(e), (f) & (v)	**–**	1,369

Notes:

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

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

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

(d) 大連中軟軟件有限公司 is a subsidiary of CNSS.

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

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

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

39. RELATED PARTY TRANSACTIONS – continued

Notes: – continued

(i) During the year, Microsoft ceased to be a connected person of the Company as its interest in the shares of the Company dropped below 10% by dilution. Therefore, the transactions with Microsoft are not disclosed for the year. At 31 December 2007, an amount of RMB24,017,000 was included in trade and other receivables in the consolidated balance sheet in respect of provision of IT outsourcing services to Microsoft and Microsoft (China) Co., Ltd..

(ii) During the year, Dalian Digitall provided IT outsourcing services of RMB10,486,000 (2007: RMB3,728,000) to 日本國株式會社 CDI. At 31 December 2008, an amount of RMB1,144,000 (2007: RMB1,465,000) was included in trade and other receivables in the consolidated balance sheet.

(iii) During the year, HGR and Chinasoft Resources Beijing provided IT outsourcing services of RMB3,104,000 (2007: RMB2,075,000) and RMB1,815,000 (2007: nil) to Viador Inc. respectively. At 31 December 2008, an amount of RMB2,208,000 (2007: RMB467,000) was included in trade and other receivables in the consolidated balance sheet.

(iv) During the year, Chinasoft Resources Shanghai provided IT outsourcing services of RMB1,953,000 (2007: nil) to 大連中軟軟件有限公司.

(v) During both years, 中軟總公司計算機培訓中心, Cyber Resources, Chinasoft Resources Beijing and Chinasoft Beijing, subsidiaries of the Company, entered into rental agreements with CNSS ranging from 12 months to 21 months. Pursuant to the rental agreements, 中軟總公司計算機培訓中心, Cyber Resources, Chinasoft Resources Beijing and Chinasoft Beijing rented the premises from CNSS for training, as office and storeroom. The transactions under the rental agreements constituted non-exempt continuing connected transactions for the Company under the Listing Rules as CNSS is a connected person (as defined under the Listing Rules) of the Company. At 31 December 2008, an amount of RMB126,000 (2007: RMB126,000) was included in amounts due to related companies in the consolidated balance sheet.

Compensation of key management personnel

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

	2008	2007
	RMB'000	RMB'000
Short-term employee benefits	**7,192**	6,077
Retirement benefit costs	**173**	158
Share option expenses	**4,261**	3,692
	11,626	9,927

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