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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Chinasoft International Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**中软国际**

**CHINASOFT INTERNATIONAL LIMITED**

**中軟國際有限公司\***

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

**(Stock code: 8216)**

### **CONTINUING CONNECTED TRANSACTIONS**

#### **PROVISION OF SERVICES**

##### **Independent Financial Adviser to the Independent Board Committee**



**VXL FINANCIAL SERVICES LIMITED**

**卓越企业融资有限公司**

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A letter from the Board is set out on pages 4 to 11 of this circular. A letter from the Independent Board Committee is set out on page 12 of this circular. A letter from the Independent Financial Advisor containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 24 of this circular.

A notice convening the EGM to be held at the Company's principal place of business in Hong Kong at Units 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong at 3:30 p.m. on 27 October 2006 is set out on pages 34 to 35 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit with the Company at its principal place of business in Hong Kong at Units 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

This circular will remain on the Growth Enterprise Market website at <http://www.hkgem.com> on the "Latest Company Announcements" pages for at least 7 days from the date of its posting.

\* *for identification purpose only*

9 October 2006

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## CHARACTERISTICS OF GEM

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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## DEFINITIONS

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*In this circular, the following expressions shall have the following meanings unless the context indicates otherwise:*

“Annual Caps”	the annual caps for the transactions contemplated under the Master Services Agreement for each of six financial years ended 31 December 2011;
“associates”	has the ascribed meaning under the GEM Listing Rules;
“Board”	the board of Directors;
“Chinasoft Resources”	北京中軟資源信息科技服務有限公司 (Chinasoft Resources Information Technology Services Limited), a wholly-foreign owned enterprise established in the PRC in April 2004 and a wholly-owned subsidiary of the Company;
“CNSS”	中國軟件與技術服務股份有限公司 (China National Software and Service Company Limited), a joint stock limited company established in the PRC with the A-shares listed on the Shanghai Stock Exchange. CNSS is the holding company of CS&S (HK);
“Company”	Chinasoft International Limited, a company incorporated in the Cayman Islands with limited liability with the Ordinary Shares listed on GEM;
“Commercial Agreement”	the commercial agreement dated 26 September 2006 and entered into between the Company and Microsoft as disclosed in the Previous Circular;
“Completion”	the completion of the subscription by Microsoft and others of the Series A Preferred Shares on the Completion Date;
“Completion Date”	6 January 2006, the date on which Completion took place and since then, Microsoft has become a connected person of the Company;
“connected person”	has the meaning ascribed thereto under the GEM Listing Rules;
“CS&S (HK)”	China National Computer Software & Information Technology Service Corporation (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability in which the total voting rights are held as to approximately 99.3% by CNSS and as to approximately 0.7% by an independent third party which is not a connected person of the Company;

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## DEFINITIONS

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“Director(s)”	the director(s) of the Company;
“EGM”	an extraordinary general meeting of the Company to be held to approve, inter alia, the Master Services Agreement, the transactions contemplated thereunder and the Annual Caps on 27 October 2006;
“GEM”	the Growth Enterprise Market of the Stock Exchange;
“GEM Listing Rules”	The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and its amendments from time to time;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Independent Board Committee”	a committee established by the Board on 2 August 2006 for the purpose of advising the Independent Shareholders on the fairness and reasonableness of the Master Services Agreement, the transactions contemplated thereunder and the Annual Caps, the members of which include all the independent non-executive Directors, namely Mr. HE Ning, Mr. ZENG Zhijie and Dr. LEUNG Wing Yin;
“Independent Financial Adviser” or “VXLFS”	VXL Financial Services Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Master Services Agreement, the transactions contemplated thereunder and the Annual Caps;
“Independent Shareholders”	shareholders of the Company other than Microsoft and its associates;
“Latest Practicable Date”	5 October 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular;
“Master Services Agreement”	the Global Master Services Agreement and Intellectual Property Assignment proposed to be entered into between Microsoft and the Company;

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## DEFINITIONS

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“Microsoft”	Microsoft Corporation, a company incorporated in the State of Washington in the US and a connected person of the Company;
“Ordinary Shares”	ordinary share(s) of HK\$0.05 each in the issued share capital of the Company;
“PRC”	the People’s Republic of China which for the purpose of this circular does not include Hong Kong, The Macau Special Administrative Region of the PRC and Taiwan;
“Previous Circular”	the circular issued by the Company on 2 December 2005 in respect of the issue of the Series A Preferred Shares and the Commercial Agreement;
“RMB”	Renminbi, the lawful currency of the PRC;
“Series A Preferred Share(s)”	the senior redeemable convertible preferred share(s) of HK\$0.05 each in the issued share capital of the Company;
“Services”	the services provided by members of the Group for Microsoft pursuant to the terms of the Master Services Agreement which may include, but without limitation to, the development and/or delivery of any materials, inventories, ideas, designs, concepts, techniques, discoveries, or improvements;
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
“Shareholder(s)”	the shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“US”	the United States of America; and
“US\$”	United States dollars, the lawful currency of the US.

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

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## LETTER FROM THE BOARD

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### CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司\*

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

**(Stock code: 8216)**

*Executive Directors:*

Dr. CHEN Yuhong (*Managing Director*)

Dr. TANG Zhenming

Mr. WANG Hui

*Non-executive Directors:*

Madam TANG Min (*Chairman*)

Dr. CUI Hui

Mr. CHEN Yung Cheng Timothy

Mr. Duncan CHIU

Mr. LIU Zheng

*Independent non-executive Directors:*

Mr. HE Ning

Mr. ZENG Zhijie

Dr. LEUNG Wing Yin

*Registered office:*

Century Yard, Cricket Square

Hutchins Drive, P.O. Box 2681 GT

George Town, Grand Cayman

Cayman Islands

British West Indies

*Principal place of business*

*in Hong Kong:*

Units 4607-08, 46th Floor

COSCO Tower

No. 183 Queen's Road Central

Hong Kong

9 October 2006

*To the Shareholders*

Dear Sir/Madam,

### CONTINUING CONNECTED TRANSACTIONS PROVISION OF SERVICES

#### INTRODUCTION

On 7 August 2006, the Board announced that the Company proposes to enter into the Master Services Agreement with Microsoft for a period of five years commencing from the signing date thereof shortly after the EGM.

The purpose of the Master Services Agreement is to provide a framework of the agreed general terms and conditions for the provision of the Services by members of the Group. Each project to be undertaken by members of the Group for Microsoft under the Master Services Agreement will be subject to specific terms on the amount of fee, particulars of the project and expected timetable.

\* *for identification purpose only*

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## LETTER FROM THE BOARD

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The Directors anticipate that Chinasoft Resources will provide the Services. Other members of the Group may also provide the Services to Microsoft, upon the terms and conditions of the Master Services Agreement, if the Directors consider it appropriate.

To the best knowledge of the Directors, the Master Services Agreement is in the standard form of master services agreement used by Microsoft. Thus the Company intends to obtain the approval of the Independent Shareholders prior to entering into the Master Services Agreement in or about October 2006.

The purpose of this circular is (i) to provide you with further information in respect of the Master Services Agreement; (ii) to set out the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) to set out the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) to give you the notice of the EGM.

### **MASTER SERVICES AGREEMENT**

The following sets forth further information on the Master Services Agreement.

#### **Parties:**

The Company and Microsoft

#### **Provision of the Services:**

Members of the Group will provide to Microsoft the Services with the related particulars set forth in the schedules that members of the Group and Microsoft may execute from time to time pursuant to the general terms and conditions set forth in the Master Services Agreement. The schedules will include the amount of fee and payment method, delivery dates, standards and such other technical specifications, and detailed terms and conditions of the relevant projects. The Directors confirm that the Services will be provided in the ordinary and usual course of the Group and the terms of the provision of the Services including the pricing terms will be on normal commercial terms, i.e. terms determined on arm's length basis or terms no less favourable to the Group than available to independent third parties.

Although the Master Services Agreement will be entered into, it only provides a framework of the agreed terms and conditions for the provision of Services. There is no contractual obligation on the part of the Group to provide Microsoft any minimum amount of the Services, and the Group is not and will not be restricted from providing similar services to third parties.

#### **Ownership of work:**

The Service will be specifically ordered and commissioned by Microsoft. The Company will agree that Microsoft is the lawful owner of the intellectual property arising from the provision of the Services.



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## LETTER FROM THE BOARD

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**Term:**

The term of the Master Services Agreement will be five years commencing from the signing date thereof. The Directors propose to enter into the Master Services Agreement shortly after the EGM, if it is approved by the Independent Shareholders. The Master Services Agreement may be terminated by either party with sixty (60) days' prior written notice.

**Expected annual fee income generated from the provision of the Services:**

The annual income fees that may be generated from the provision of Services under the Master Services Agreement are expected not to exceed the following Annual Caps during the term of the Master Services Agreement:

- (i) US\$7.2 million (approximately HK\$56.16 million) for the year ending 31 December 2006;
- (ii) US\$9.4 million (approximately HK\$73.32 million) for the year ending 31 December 2007;
- (iii) US\$12.2 million (approximately HK\$95.16 million) for the year ending 31 December 2008;
- (iv) US\$15.9 million (approximately HK\$124.02 million) for the year ending 31 December 2009;
- (v) US\$20.7 million (approximately HK\$161.46 million) for the year ending 31 December 2010; and
- (vi) US\$22.4 million<sup>(Note)</sup> (approximately HK\$174.72 million) for the year ending 31 December 2011 (during which the Master Services Agreement will expire in or about October 2011 assuming that the Master Services Agreement is signed in or about October 2006 and is not terminated earlier or renewed).

*Note:* In the announcement of the Company dated 7 August 2006 in respect of the Master Services Agreement, the Annual Cap for the year ending 31 December 2011 was expected to be US\$20.2 million (approximately HK\$157.56 million) on the assumption that the Master Services Agreement had been signed in or about September 2006 and would not be terminated earlier or renewed, and would expire in or about September 2011.

Approval will be sought from the Independent Shareholders on the Master Services Agreement, the transactions contemplated thereunder and the Annual Caps.

The above Annual Caps were determined by reference to (i) the current projects undertaken by Chinasoft Resources and the increased productivity of the Group as a result of the recent acquisitions made by the Group and (ii) the anticipated enhancement of the scope of the Services.

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## LETTER FROM THE BOARD

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The Annual Caps were calculated on the basis that the Group has 400 technicians, each of whom may work for the provision of the Services and may generate an annual fee income of US\$18,000 (approximately HK\$140,400) accordingly. Based on a 30% growth rate of the Group's turnover for the financial year ended 31 December 2005, the Directors expected that the growth rate of the annual fee income arising from the provision of the Services shall be around 30% per annum.

### **REASONS FOR ENTERING INTO THE MASTER SERVICES AGREEMENT**

As at the Latest Practicable Date, apart from the Commercial Agreement, there was no uniform agreement governing the overall business relationship between Microsoft and members of the Group. The Directors consider that it is not in the best interest of the Group that each member of the Group negotiates the terms of services with Microsoft separately. This is particularly the case that the transactions between Microsoft and the Group constitute connected transactions for the Company. The Directors therefore consider that the Master Services Agreement provides a framework of the agreed terms and conditions governing the business relationship between Microsoft and members of the Group. The Directors also consider that the Master Services Agreement will provide a framework of general terms and conditions which are intended to standardize the terms and conditions in relation to the provision of the Services by members of the Group.

The Directors (including the independent non-executive Directors after taking the advice of the Independent Financial Adviser) consider the Master Services Agreement and the transactions contemplated thereunder will be entered into in the ordinary and usual course of the Company and on normal commercial terms, and the terms of the Master Services Agreement and the Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

### **REQUIREMENTS UNDER THE GEM LISTING RULES**

As at the Latest Practicable Date, Microsoft was interested in approximately 50% of the issued Series A Preferred Shares representing 10.24% of the total issued share capital of the Company, and thus is a substantial shareholder (as such term is defined under the GEM Listing Rules) of the Company.

The Directors anticipate that in respect of the provision of the Services, the applicable percentage ratios (other than the profits ratio) calculated in accordance with Chapter 19 of the GEM Listing Rules will, on an annual basis, be more than 2.5% and the annual consideration is expected to be more than HK\$10.0 million. Hence, the entering into the Master Services Agreement, and the projects undertaken by members of the Group thereunder, will constitute non-exempt continuing connected transactions for the Company.

The Company is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements under rules 20.45 to 20.54 and the requirements of annual review of continuing connected transactions under rules 20.37 to 20.40 of the GEM Listing Rules.

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## LETTER FROM THE BOARD

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Before Microsoft became a connected person of the Company, Chinasoft Resources had started providing software outsourcing services to Microsoft on project basis. The Company entered into the agreements with CS&S (HK) on 28 April 2005 and 17 November 2005 to acquire 51% and 49% of the registered capital of China Resources respectively. Chinasoft Resources became a 51% owned subsidiary of the Company in July 2005. For the six months periods ended 31 December 2005 and 30 June 2006, the revenue of the Group generated from the provision of software outsourcing services to Microsoft amounted to approximately RMB20.7 million and RMB21.5 million (equivalent to approximately HK\$20.1 million and HK\$20.8 million, respectively).

As the applicable percentage ratios (other than the profits ratio) calculated in accordance with Chapter 19 of the GEM Listing Rules in respect of the provision of software outsourcing services to Microsoft by the Group for the six months ended 30 June 2006 (during which Microsoft became a connected person on 6 January 2006) were more than 2.5%, such provision of software outsourcing services constituted non-exempt continuing connected transactions of the Company under the GEM Listing Rules and should have been subject to the reporting, announcement and Independent Shareholders' approval requirements under rules 20.45 to 20.54 and the requirements of annual review of continuing connected transactions under rules 20.37 to 20.40 of the GEM Listing Rules.

After Microsoft became a connected person of the Company, the Company had used its endeavors to enter into a master agreement with Microsoft in order to regulate the provision of the Services and comply with Chapter 20 of the GEM Listing Rules in respect of the provision of the Services which was not complied in full with as at the Latest Practicable Date. After discussions and negotiations with Microsoft, the Master Services Agreement will be entered into, and the Company intends to and will, after obtaining the Independent Shareholders' approval at the EGM, comply in full with all applicable reporting, disclosure and independent shareholders' approval requirements of Chapter 20 of the GEM Listing Rules in respect of the Master Services Agreement.

Following the entering into the Master Services Agreement, the provisions of the Services by different members of the Group will be subject to same general terms and conditions.

In view of the foregoing, the Company will seek the approval of the Independent Shareholders by way of poll on the Master Services Agreement for the five years commencing from the date of signing on the condition that the transactions contemplated thereunder shall not exceed the Annual Caps set out below:

- (i) US\$7.2 million (approximately HK\$56.16 million) for the year ending 31 December 2006;
- (ii) US\$9.4 million (approximately HK\$73.32 million) for the year ending 31 December 2007;
- (iii) US\$12.2 million (approximately HK\$95.16 million) for the year ending 31 December 2008;

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## LETTER FROM THE BOARD

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- (iv) US\$15.9 million (approximately HK\$124.02 million) for the year ending 31 December 2009;
- (v) US\$20.7 million (approximately HK\$161.46 million) for the year ending 31 December 2010; and
- (vi) US\$22.4 million (approximately HK\$174.72 million) for the year ending 31 December 2011.

If there is any material change to the terms of any of the Master Services Agreement mentioned above or that the Annual Caps are exceeded, the Company will have to comply with the relevant provisions of Chapter 20 of the GEM Listing Rules.

As the Master Services Agreement has a term of five years, the Independent Financial Adviser has, pursuant to rule 20.35(1) of the GEM Listing Rules, explained the reasons for the term of the Master Services Agreement of more than three (3) years and confirmed that the Master Services Agreement is entered into on normal business practice for contract of similar kind. The full text of the letter from the Independent Financial Adviser is set out on pages 13 to 24 of this circular.

### GENERAL INFORMATION

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

Microsoft is a leading software company in the world and a company listed on NASDAQ National Market. The principal business activities of Microsoft include the development, licensing, distribution of series of computer software, system software and operating system products. Microsoft also develops numerous hardware and computer systems distributed around the world.

Microsoft has become a connected person of the Company since 6 January 2006 upon Completion. As disclosed in the Previous Circular, the Company entered into the Commercial Agreement for purchase certain equipment, hardware and software from Microsoft. The Master Services Agreement represents another co-operation opportunity between the Group and Microsoft following Completion.

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## LETTER FROM THE BOARD

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### EGM

Set put on pages 34 to 35 in this circular is a notice convening the EGM to be held at the Company's principal place of business in Hong Kong at Units 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong on 27 October 2006 at 3:30 p.m.. Ordinary resolutions will be proposed at the EGM for the Independent Shareholders to consider and if appropriate, to approve by way of poll the Master Services Agreement, the transactions contemplated thereunder and the Annual Caps. Shareholders other than the Independent Shareholders, i.e. Microsoft and its associates, will abstain from voting at the EGM.

The Independent Board Committee has been established to advise the Independent Shareholders on whether or not the Master Services Agreement and the transactions contemplated thereunder will be entered into in the ordinary and usual course of the Company and on normal commercial terms, and the terms of the Master Services Agreement and the Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole. The Independent Financial Adviser was appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Master Services Agreement, the transactions contemplated thereunder and the Annual Caps.

You will find enclosed a form of proxy for use at the EGM. Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's principal place of business in Hong Kong at Unit 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM. Completion and return of the accompanying form of proxy will not preclude you from attending and voting in person at the EGM should you so desire.

### PROCEDURE FOR DEMANDING A POLL

Pursuant to Article 66 of the Articles of Association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless voting by way of a poll is required by the GEM Listing Rules or unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

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## LETTER FROM THE BOARD

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- (c) by any Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to less than one-tenth of the total sum paid up on all the shares conferring the rights.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Shareholder.

According to Rule 17.47(4) of the GEM Listing Rules, a vote of the Shareholders taken at a general meeting to approve connected transactions pursuant to the GEM Listing Rules must be taken on a poll. The resolutions to be proposed at the EGM to approve the Master Services Agreement, the transactions contemplated thereunder and the Annual Caps will therefore be voted by way of a poll.

### RECOMMENDATION

The Independent Board Committee, having taken into account the advice of Independent Financial Adviser, considers that the Master Services Agreement and the transactions contemplated thereunder will be entered into in the ordinary and usual course of the Company and on normal commercial terms, and the terms of the Master Services Agreement and the Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Master Services Agreement, the transactions contemplated thereunder and the Annual Caps.

You are advised to read carefully the letter from the Independent Board Committee (which contains its recommendation to the independent Shareholders as to voting at the EGM) on page 12, the letter from the Independent Financial Adviser (which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Master Services Agreement, the transactions contemplated thereunder and the Annual Caps, and the principal factors and reasons it considered in arriving at its opinion) on pages 13 to 24 and other information as set out in this circular. In addition, your attention is drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
for and on behalf of  
**Chinasoft International Limited**  
**Dr. CHEN Yuhong**  
*Managing Director*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**CHINASOFT INTERNATIONAL LIMITED**

**中軟國際有限公司\***

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

**(Stock code: 8216)**

*To the Shareholders*

9 October 2006

Dear Sir/Madam,

We refer to the circular of the Company dated 9 October 2006 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed by the Board to consider the terms of the Master Services Agreement and to advise the Independent Shareholders in connection with the Master Services Agreement as to whether, in our opinion, the Master Services Agreement will be entered into in the ordinary and usual course of the Company and on normal commercial terms, and the terms of the Master Services Agreement and the Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole. VXLFS has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board, and the letter from VXLFS to us which contains its advice in relation to the Master Services Agreement, the transactions contemplated thereunder and the Annual Caps together with the principal factors taken into consideration in arriving at such, as set out in the Circular.

Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter of advice, we consider that the Master Services Agreement will be entered into in the ordinary and usual course of the Company and on normal commercial terms, and the terms of the Master Services Agreement and the Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Master Services Agreement, the transactions contemplated thereunder and the Annual Caps at the EGM.

Yours faithfully,

Independent Board Committee

**Mr. HE Ning    Mr. ZENG Zhijie    Dr. LEUNG Wing Yin**

*Independent non-executive Directors*

\* *for identification purpose only*

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## LETTER FROM VXLFS

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*The following is the text of a letter of advice from VXLFS in connection with its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Master Services Agreement and the Annual Caps for the purpose of inclusion in this circular.*

VXL Financial Services Limited  
Unit 3214, 32nd Floor  
Cosco Tower  
Grand Millennium Plaza (High Block)  
183 Queen's Road Central  
Hong Kong



9 October 2006

*To the Independent Board Committee and the Independent Shareholders of  
Chinasoft International Limited*

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS**

#### **PROVISION OF SERVICES**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Master Services Agreement and the Annual Caps, details of which are set out in the “Letter from the Board” contained in the circular dated 9 October 2006 (the “Circular”) issued by the Company to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular, unless the otherwise defined herein.

The Independent Board Committee, comprising the three independent non-executive Directors, namely Mr. He Ning, Mr. Zeng Zhijie and Dr. Leung Wing Yin, has been established to consider and to advise the Independent Shareholders (i) whether the terms of the Master Services Agreement and the Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) whether the Independent Shareholders should vote in favour of the Master Services Agreement and the adoption of the Annual Caps. As the independent financial adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in this regard. Any vote of the Independent Shareholders at the EGM shall taken by poll. Microsoft and its associates will abstain from voting in relation to the resolutions approving the Master Services Agreement, the transaction contemplated thereunder and the Annual Caps at the EGM.

VXLFS is independent from and not connected with the Company and its subsidiaries or any of their substantial shareholders, directors or chief executive, or any of their respective associates, and is qualified to give independent advice to the Independent Board Committee and the Independent Shareholders.



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## LETTER FROM VXLFS

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In formulating our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided to us, including the draft of the Master Services Agreement provided to us on 9 October 2006 (the “Draft Master Services Agreement”), by the Company and its directors and management. We have assumed that all statements of beliefs, opinions, assumptions and intentions made by the Directors in the Circular were made reasonably after due and careful enquiry and were based on honestly-held opinion and that all the information, facts, opinions and representations made to us or contained or referred to in the Circular were true, accurate and complete in all respects at the time they were made and continued to be true, accurate and complete in all respects as at the date of this letter and may be relied upon. We have also assumed the Master Services Agreement to contain the same terms and conditions stipulated under the Draft Master Services Agreement. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Company and its directors and management. The Directors have confirmed to us that, to the best of their knowledge, no material facts have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement in the Circular misleading.

We consider that we have reviewed currently available information and documents, which are available under the present circumstances to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to suspect that any relevant information or reports have been withheld, nor are we aware of any facts or circumstances which would render the information provided and the representations made to us to be untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information included in the Circular and the information provided by the Company and its directors and management, nor have we conducted any form of independent investigation into the business, affairs, operations, financial position or future prospects of the Company or Microsoft or any of their respective subsidiaries or associates.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our advice in respect of the Master Services Agreement and the Annual Caps, we have considered the following principal factors and reasons:

#### **1. Background to and reasons for entering into the Master Services Agreement and setting the Annual Caps**

The Group is principally engaged in the provision of solutions and customised software products, information technology (“IT”) consulting and training services, IT outsourcing services and standalone software products for government authorities and IT service providers.

We note that China Resources, a wholly-owned subsidiary of the Company, had started providing software outsourcing services to Microsoft on a project basis before Microsoft became a connected person of the Company in January 2006. We also note that Microsoft, whose shares are listed on NASDAQ National Market, is a leading software company in the world. The principal business activities of Microsoft include the development, licensing,

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## LETTER FROM VXLFS

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distribution of a series of computer software, system software and operating system products. Microsoft also develops numerous hardware and computer systems distributed around the world. For the six-month periods ended 31 December 2005 and 30 June 2006, the Group's revenue generated from the provision of software outsourcing services to Microsoft amounted to approximately RMB20.7 million and RMB21.5 million, respectively (equivalent to approximately HK\$20.1 million and HK\$20.8 million, respectively). We have been advised by the Directors that the Group intends to continue to provide the Services to Microsoft (the "Transactions"), and it is anticipated that all members of the Group (including Chinasoft Resources) may provide the Services to Microsoft under the terms and conditions of the Master Services Agreement, if the Directors consider it appropriate.

The Directors have confirmed that, as at the Latest Practicable Date, save for the Commercial Agreement, there was no uniform agreement governing the overall business relationship between Microsoft and the Group. Taking into account that transactions between the Group and Microsoft will constitute connected transactions for the Company under the GEM Listing Rules, the Company proposes to enter into the Master Services Agreement with Microsoft so as to govern the business relationship between Microsoft and the Group and to standardise the terms and conditions in relation to the Transactions. It is expected that the Master Services Agreement will be executed shortly after obtaining the Independent Shareholders' approval at the EGM.

As stated in the "Letter from the Board" in the Circular, the purpose of the Master Services Agreement is to provide a framework of the agreed general terms and conditions for the provision of the Transactions, and each project to be undertaken by the Group under the Master Services Agreement will be subject to specific terms on the amount of fee, the particulars of the project and the expected timetable. We note that there is no contractual obligation on the part of the Group to provide Microsoft any minimum amount of the Services, and the Group is not and will not be restricted from providing similar services to third parties, and that the terms of the provision of the Services including the pricing terms will be on normal commercial terms, i.e. terms determined on arm's length basis or terms no less favourable to the Group than those available to independent third parties.

In view of the foregoing and in particular given that (i) Microsoft is a reputable worldwide software company; (ii) the nature of the Transactions falls within the principal business of the Group; and (iii) the Transactions are of revenue nature, we concur with the views of the Directors that the entering into of the Master Services Agreement and the Transactions will be conducted in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole. Furthermore, as the Transactions will take place on a regular and frequent basis in the Group's ordinary and usual course of business, we are of the view that it would be impractical for the Company to strictly comply with the GEM Listing Rules requirements regarding "connected transactions" on each occasion when they arise. In this respect, we consider that it is in the interests of the Company and the Shareholders as a whole to have the Master Services Agreement in place and to adopt the Annual Caps as that would help to facilitate the smooth operation and development of the Group's business for the periods covered by the Master Services Agreement.

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## LETTER FROM VXLFS

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### **2. Principal terms of the Master Services Agreement**

Pursuant to the Draft Master Services Agreement, the Master Services Agreement is to be entered into for a term of five years commencing from the date thereof, provided that the Group must complete all work in progress unless otherwise agreed by Microsoft. As stated in the “Letter from the Board” in the Circular, the purpose of the Master Services Agreement is to provide a framework of the agreed general terms and conditions for the Transactions, and each project to be undertaken by the Group under the Master Services Agreement will be subject to specific terms on the amount of fee, the particulars of the project and the expected timetable. We note, and have also been confirmed by the Company, that there is no contractual obligation on the part of the Group to provide Microsoft any minimum amount of the Services, and the Group is not and will not be restricted from providing similar services to third parties. The Company has further confirmed that all the terms of the Master Services Agreement are normal commercial terms and that the master services agreements entered into between the Group and its independent customers are under the terms and conditions, including the time period covered thereby, which are similar to those stipulated under the Master Services Agreement, and therefore it is a normal business practice for the Company to enter into contracts in relation to software outsourcing services with the Group’s customers (including Microsoft and independent customers) to be of five-year term.

#### *(i) Duration of the Master Services Agreement*

Pursuant to Rule 20.35(1) of the GEM Listing Rules, the duration of the Master Services Agreement must not exceed three years. As stated in the “Letter from the Board” in the Circular, to the best knowledge of the Directors, the Master Services Agreement is in the standard form of master services agreement used by Microsoft. In this regard, we have discussed with the senior management of the Company the rationale for the duration of the Master Services Agreement, and have been confirmed that the form of the Master Services Agreement was provided by Microsoft which is generally used by Microsoft for contractual arrangements of similar kind. The Company confirmed that all the terms of the Master Services Agreement, including the time period covered thereby, are its standard terms that could not be changed substantially for the purpose of engaging the software outsourcing business with Microsoft. Given the above, the Company confirmed that all the terms of the Master Services Agreement, including the time period covered thereby, are entered into in the normal business practice of the Group, albeit that the Group has not entered into similar contracts with Microsoft. We have also been confirmed by the Company that the entering into of the Master Services Agreement with Microsoft is a prerequisite for the Group’s bids for all Services in the future and is regarded as a consent to the Group acting as an official vendor of Microsoft. In view of the above, the Company believes that the form of the Master Services Agreement is used by Microsoft in its software outsourcing business and the nature of the Transactions between the Group and Microsoft requires the Master Services Agreement to be of a term more than three years.

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## LETTER FROM VXLFS

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The Company has further confirmed that the five-year term is not unusual and unduly onerous to the Group, but is beneficial to the Group as a whole on the basis that the Master Services Agreement will provide a general framework for the software outsourcing business between members of the Group and Microsoft. With the Master Services Agreement in place, the Company considers that the business of the Group will continue to be benefited from the five-year co-operation relationship with Microsoft.

In order to assess whether or not it is a normal business practice for contracts of this type to be of a duration longer than three years, we have made references to other international IT services providers (the “Comparables”). Given the similar nature in terms of the respective principal business of the Group, Microsoft and the Comparables as well as the respective transactions contemplated under the Master Services Agreement and the IT outsourcing agreements of the Comparables, we consider that references of the Comparables can be used in assessing the duration of the Master Services Agreement. The table below summaries the terms of the relevant IT outsourcing agreements of the Comparables:

Name of Comparables	Nature of agreements	Term
Atos Origin SA (“Atos”) <i>(Note 1)</i>	– provision of IT systems	7 years
	– provision of IT outsourcing services including operation and development of back office applications and company-specific software	10 years
Computer Sciences Corporation (“CSC”) <i>(Note 2)</i>	– provision of IT outsourcing services including software applications support <i>(Note 3)</i>	Over 5 years
	– provision of management of software applications development and maintenance work	7 years
	– provision of IT services	9 years
	– provision of business process outsourcing and IT outsourcing services	10 years
International Business Machines Corporation (“IBM”) <i>(Note 2)</i>	– provision of implementation of IT solution and maintenance and management of IT system	3 and a half years
	– provision of IT solution for systems management	5 years

Sources: Websites of New York Stock Exchange ([www.nyse.com](http://www.nyse.com)), IBM ([www-03.ibm.com](http://www-03.ibm.com)), CSC ([www.csc.com](http://www.csc.com)) and Atos ([www.atosorigin.com](http://www.atosorigin.com)).

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*Notes:*

1. Atos, which is the IT services provider for the Beijing Olympic Games in 2008, is quoted on the Paris Eurolist Market and trades as Atos Origin, Atos Consulting, Atos Euronext Market Solutions and Atos Worldline.
2. The respective shares of CSC and IBM are listed on New York Stock Exchange.
3. This IT outsourcing agreement contains additional provisions under which CSC's customer may engage CSC in further project work as required in support of future IT development programs.

We note from the table above that the Comparables have entered into IT outsourcing agreements of terms ranging from three and a half years to ten years, and the term of the Master Services Agreement falls within such range. Taking into account the duration of similar IT outsourcing agreements of the Comparables and the confirmations by the Company referred to the above, we confirm that it is normal business practice for the Master Services Agreement to be of such duration.

Having considered the above and the following factors:

- the leading position of Microsoft in the software industry;
- the benefits of the Master Services Agreement to be concurred to the Group whereby it can continue to secure the co-operation relationship with Microsoft so as to be available for pursuing and take advantage of future co-operation opportunities as they may arise from time to time;
- the Transactions are of revenue nature which will generate income to the Group should they become materialised;
- no contractual obligation has been imposed on the Group to provide Microsoft any minimum amount of the Services and to restrict the Group from providing similar services to third parties; and
- the terms of the provision of the Services including the pricing terms will be on normal commercial terms i.e. terms determined on arm's length basis or terms no less favourable to the Group than those available to independent third parties;

we regard it fair and reasonable for the Company to enter into the Master Services Agreement for a term of five years.

***(ii) Pricing term of the Transactions***

We note that the Group will provide to Microsoft the Services with the particulars (including the proposed fee amount) set forth in the schedules that the Group and Microsoft may execute from time to time pursuant to the general terms and conditions set forth in the Master Services Agreement. Pursuant to the Draft Master Services Agreement, the Group is not obligated to perform any Services, and Microsoft and its

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## LETTER FROM VXLFS

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members have not contracted for any Services, unless and until a schedule is executed by both parties. Pursuant to the Draft Master Services Agreement, all Services awarded to the Group will be awarded on the basis of the total bid cost (fixed fee) of any project. As stated in the “Letter from the Board” in the Circular, the pricing terms for the Transactions will be on normal commercial terms, i.e. terms determined on arm’s length basis or terms no less favourable to the Group than those available to independent third parties.

We understand from the Directors that apart from the Transactions, the Group had in the past conducted and will continue to conduct similar transactions with independent third parties and that the services provided by the Group to independent third parties are based on normal commercial terms. We have ascertained with, and have also been confirmed by, the Directors that the Transactions will be conducted in accordance with similar terms and conditions as compared to those of the transactions entered into between the Group and independent third parties and on normal commercial terms. As advised by the Directors, the fee agreed between the Group and its customers (including Microsoft and independent third parties) for all services provided by the Group generally has been and will continue to be determined after arm’s length negotiations with reference to the prevailing market rate and the expected manpower for the relevant project.

Having considered the above, we consider that the terms of the Master Services Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM VXLFS

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### 3. The Annual Caps

In line with the duration of the Master Services Agreement, the Directors propose to set caps on the Transactions for each of the six years ending 31 December 2011. Set out below is a summary of the Annual Caps:

<b>Financial year</b>	<b>The Annual Cap US\$</b>
Year ending 31 December 2006	7.2 million (equivalent to approximately HK\$56.16 million)
Year ending 31 December 2007	9.4 million (equivalent to approximately HK\$73.32 million)
Year ending 31 December 2008	12.2 million (equivalent to approximately HK\$95.16 million)
Year ending 31 December 2009	15.9 million (equivalent to approximately HK\$124.02 million)
Year ending 31 December 2010	20.7 million (equivalent to approximately HK\$161.46 million)
Year ending 31 December 2011	22.4 million <sup>Note</sup> (equivalent to approximately HK\$174.72 million)

*Note:* Assuming that the Master Services Agreement is signed in or about October 2006 and no early termination and renewal, the expiration of the Master Services Agreement will be in or about October 2011, and therefore this annual cap represents the expected pro-rata fee income to be generated from the Transactions for the ten months ending 31 October 2011.

We note that the Directors have made reference to the following factors in determining the Annual Caps detailed above:

- (i) the current projects undertaken by Chinasoft Resources and the increased productivity of the Group as a result of the recent acquisitions made by the Group;
- (ii) the anticipated enhancement of the scope of the Services;
- (iii) an annual fee income rate of US\$18,000 (equivalent to approximately HK\$140,400) per technician; and
- (iv) a 30% growth rate of the Group's turnover for the financial year ended 31 December 2005.



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## LETTER FROM VXLFS

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In assessing the reasonableness and fairness of the Annual Caps, we have reviewed the relevant information and also discussed with the management of the Company on the underlying principal assumptions and bases considered in the determination of the Annual Caps, including (i) the market position of Microsoft in the software industry; (ii) the Group's revenue of approximately RMB21.5 million (equivalent to approximately HK\$20.8 million) generated from the provision of software outsourcing services to Microsoft for the six months ended 30 June 2006; (iii) the expected fee income generated from the current projects undertaken by Chinasoft Resources; (iv) the current number of technicians available for the provision of the Services being 400 technicians in aggregate; (v) the variety of the Services covered under the Master Services Agreement; (vi) the vendors' and customers' coverage under the Master Services Agreement including, but not limited to, the respective subsidiaries of the Company and Microsoft; (vii) the expected enhancement of the Group's capability resulting from the enhanced productivity of the Group; (viii) the expected business opportunities arising from the recent acquisition of business from Opportune Technology Co. Ltd. ("Opportune Technology"); (ix) the annual growth rate of approximately 30% in the Chinese software industry in recent years; and (x) the expected annual growth in revenue arising from the Transactions to be at the 30% growth rate of the Group's total turnover for the year ended 31 December 2005.

We note that the annual cap for the year ending 31 December 2006 of US\$7.2 million (equivalent to approximately HK\$56.16 million) (the "2006 Annual Cap") was calculated on the basis that the Group has 400 technicians, each of whom may work for the provision of the Services and may generate an annual fee income of US\$18,000 (equivalent to approximately HK\$140,400) (the "Annual Income Rate") accordingly. We understand from the Company that the Annual Income Rate was determined mainly with reference to (i) the historical annual fee income rate of approximately US\$16,000 (equivalent to approximately HK\$124,800) per technician, which is calculated based on the Group's revenue of approximately RMB21.5 million (equivalent to approximately HK\$20.8 million) generated from the provision of software outsourcing services to Microsoft for the six months ended 30 June 2006 and the then 338 technicians of the Group; and (ii) the anticipated enhancement of the scope of the Services. We have reviewed the breakdown of the Group's monthly turnover derived from the provision of software outsourcing services to Microsoft for the eight months ended 31 August 2006, and note that the aggregate value of the transactions between the Group and Microsoft for the relevant period represents approximately 50% of the 2006 Annual Cap.

We also note that the annual caps for the remaining five years ending 31 December 2011 were calculated based on the 2006 Annual Cap and the assumption that the expected annual growth in income to be generated from the Transactions will be at the 30% growth rate of the Group's total turnover for the year ended 31 December 2005. Such 30% growth rate is in line with the expected compound annual growth rate of approximately 36.2% for the PRC IT outsourcing market from 2006 to 2009 as described in a report issued by an international research house in July 2005. According to the Company's annual report 2005, we note that the Group's total turnover was on an upward trend during the four financial years ended 31 December 2005 with a growth rate of approximately 45%, 77% and 30% for each of the three years ended 31 December 2005, respectively. In view of the aforesaid expected market growth rate and historical growth rates of the Group's total turnover, we



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## LETTER FROM VXLFS

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consider that it is reasonable for the Directors to anticipate an upward trend in the annual fee income to be generated from the Transactions with a steady growth rate of 30% for each of the remaining five years ending 31 December 2011.

We have been confirmed by the Directors that in the past, the provision of the software outsourcing services to Microsoft was only undertaken by Chinasoft Resources and mainly involved technical services for software coding and testing. Nevertheless, pursuant to the Draft Master Services Agreement, the Transactions can be effected between any respective members of Microsoft and the Group, and the services to be covered under the Master Services Agreement will be extended to include, without limitation, any materials, inventions, ideas, designs, concepts, techniques, discoveries, or improvements developed and/or delivered by the Group. As stated in the “Letter from the Board” in the Circular, it is anticipated that all members of the Group (including Chinasoft Resources) may provide the Services to Microsoft in the future under the terms and conditions of the Master Services Agreement, if the Directors consider it appropriate. The Directors further confirmed that save for the Services, the Master Services Agreement also covers those businesses recently acquired from Opportune Technology including the software outsourcing business for Microsoft in respect of certain mobile and embedded division (“MED”) systems and software as detailed in the Company’s announcement dated 4 July 2006.

As stated in the Company’s announcement dated 4 July 2006, save for the aforesaid acquired business, the Company has also acquired all the 62 employees (including engineers, technicians and software programmers) which were then employed by Opportune Technology for the MED software outsourcing services rendered by Opportune Technology to Microsoft. As confirmed by the Directors, all the existing 400 technicians of the Group (including the aforesaid 62 employees acquired from Opportune Technology) possess the relevant skills and expertise to carry out the Services.

Having considered the above, we regard it fair and reasonable for the Directors to anticipate the total annual fee income that the Group may be made under the Transactions for the six years ending 31 December 2011 respectively based on the foresaid assumptions and bases. In this regard, we consider that the Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. However, as the Annual Caps relate to future events and do not represent forecast of the total fee income to be generated from the Transactions for the six years ending 31 December 2011, we therefore express no opinion as to how closely the actual fee income in aggregate to be generated from the Transactions for the six years ending 31 December 2011 corresponds with the Annual Caps.

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## LETTER FROM VXLFS

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#### 4. Conditions of the Master Services Agreement and the requirements under the GEM Listing Rules

Pursuant to the Draft Master Services Agreement, the Master Services Agreement is to be entered into for a term of five years commencing from the date thereof, provided that the Group must complete all work in progress unless otherwise agreed by Microsoft. As stated in the “Letter from the Board” in the Circular, the purpose of the Master Services Agreement is to provide a framework of the agreed general terms and conditions for the Transactions, and each project to be undertaken by the Group under the Master Services Agreement will be subject to specific terms on the amount of fee, the particulars of the project and the expected timetable. Pursuant to the Draft Master Services Agreement, the Group is not obligated to perform any Services, and Microsoft and its members have not contracted for any Services, unless and until a schedule is executed by both parties.

The Transactions are subject to review by the independent non-executive Directors and the Company’s auditors under Rules 20.37 and 20.38 of the GEM Listing Rules. The independent non-executive Directors must confirm in the annual report and accounts that the Transactions have been entered into:

- in the ordinary and usual course of business of the Company;
- either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, no terms on less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Furthermore, the GEM Listing Rules require that the Company’s auditors must provide a letter to the Board (with a copy provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company), confirming that the Transactions:

- have received the approval of the Board;
- are in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group;
- have been entered into in accordance with the relevant agreement governing the transactions; and
- have not exceeded that cap disclosed in the Company’s previous announcement.

Given the above, we are of the opinion that there will be sufficient procedures and arrangements in place to ensure that the Transactions will be conducted on terms that are fair and reasonable.

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## LETTER FROM VXLFS

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### RECOMMENDATION

Having taken into account the principal factors and reasons as discussed above and in particular the following:

- the background and nature of the Transactions and the reasons for the entering into of the Master Services Agreement;
- the basis of determination of the Annual Caps; and
- the procedures and arrangements in place in relation to the control and review of the Transactions,

and assuming the terms and conditions of the Master Services Agreement to be entered into between the Company and Microsoft shall contain the same terms and conditions stipulated under the Draft Master Services Agreement, we consider that the terms of the Master Services Agreement and the Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders, and also the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Master Services Agreement and the adoption of the Annual Caps.

Yours faithfully,  
For and on behalf of  
**VXL Financial Services Limited**  
**Gary Mui**  
*Director*

**RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading in any material respect;
- (b) there are no matters the omission of which would make any statement in this circular misleading in any material respect; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

**DIRECTORS' INTERESTS**

As at the Latest Practicable Date, the interest of the Directors in the shares and underlying shares of the Company 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, or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in rule 5.46 of the GEM Listing Rules were as follows:

**(a) Long positions in Ordinary Shares**

<b>Name of Directors</b>	<b>Capacity</b>	<b>Nature of Interest</b>	<b>Number of Ordinary Shares Held</b>	<b>Approximate percentage of total issued ordinary share capital</b>
CHEN Yuhong	Beneficial Owner	Personal	22,967,472	3.04%
CUI Hui	Beneficial Owner	Personal	20,000,000	2.65%
TANG Zhenming	Beneficial Owner	Personal	10,207,765	1.35%
WANG Hui	Beneficial Owner	Personal	7,017,838	0.93%

## (b) Options to subscribe for Ordinary Shares

Name of Director	Exercise Price (HK\$)	No. of share options outstanding as at the Latest Practicable Date	Approximate percentage of total issued ordinary share capital	Note
CHEN Yuhong	0.58	1,200,000	0.16%	(1)
	0.65	5,000,000	0.66%	(2)
	0.97	1,200,000	0.16%	(3)
CUI Hui	0.65	500,000	0.07%	(2)
Duncan CHIU	0.65	1,000,000	0.13%	(2)
TANG Zhenming	0.58	320,000	0.04%	(1)
	0.65	2,600,000	0.34%	(2)
	0.97	800,000	0.11%	(3)
WANG Hui	0.58	1,000,000	0.13%	(1)
	0.65	3,500,000	0.48%	(2)
	0.97	1,000,000	0.13%	(3)

*Notes:*

- (1) These share options were offered on 13 August 2003 under the share option scheme of the Company adopted on 2 June 2003 (the “Share Option Scheme”) and accepted on 27 August 2003. The share options are exercisable for a period of ten years from the date of offer, subject to the following conditions:

Exercisable Period Commencing	Exercisable Period Ending	Number of share options exercisable
13/08/2004	12/08/2013	25% of the total number of share options granted
13/08/2005	12/08/2013	25% of the total number of share options granted
13/08/2006	12/08/2013	25% of the total number of share options granted
13/08/2007	12/08/2013	25% of the total number of share options granted

- (2) These share options were offered on 13 May 2004 under the Share Option Scheme and accepted on 10 June 2004. The share options are exercisable for a period of ten years from the date of offer, subject to the following conditions:

<b>Exercisable Period Commencing</b>	<b>Exercisable Period Ending</b>	<b>Number of share options exercisable</b>
13/05/2004	12/05/2014	25% of the total number of share options granted
13/05/2005	12/05/2014	25% of the total number of share options granted
13/05/2006	12/05/2014	25% of the total number of share options granted
13/05/2007	12/05/2014	25% of the total number of share options granted

- (3) These share options were offered on 30 March 2006 under the Share Option Scheme and accepted on 27 April 2006. The share options are exercisable for a period of ten years from the date of offer, subject to the following conditions:

<b>Exercisable Period Commencing</b>	<b>Exercisable Period Ending</b>	<b>Number of share options exercisable</b>
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

### SHARE OPTION SCHEME

As at the Latest Practicable Date, share options to subscribe for an aggregate of 78,210,000 Ordinary Shares were granted to certain directors and employees of the Group pursuant to the Share Option Scheme with terms on the exercise of the share options granted as set out in Notes (1), (2) and (3) in the section headed “Directors’ Interests” in this appendix.

Save as disclosed above, no option has been granted, exercised and lapsed pursuant to such Share Option Scheme as at the Latest Practicable Date.

## SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at the Latest Practicable Date, the following persons, not being a Director or chief executive of the Company, had an interest in the Ordinary Shares which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO:

## Long positions in Ordinary Shares

Name	Type of interest	Approximate number of Ordinary Shares (million)	Approximate percentage of total issued ordinary share capital
CS&S(HK) ( <i>Note 1</i> )	Beneficial interest	199.01	26.34%
CNSS ( <i>Note 1</i> )	Interest of controlled corporation	199.01	26.34%
Chinasoft International (Hong Kong) Limited (“Chinasoft (HK)”) ( <i>Note 2</i> )	Interest of persons acting in concert	199.01	26.34%
Far East Technology International Limited (“Far East Technology”) ( <i>Note 3</i> )	Beneficial interest	170.13	22.52%
International Finance Corporation (“IFC”) ( <i>Note 4</i> )	Beneficial interest	97.25	12.87%
Microsoft ( <i>Note 4</i> )	Beneficial interest	97.25	12.87%

## Notes:

1. CNSS is taken to be interested in the Ordinary Shares which CS&S (HK) is interested in.
2. Chinasoft (HK) and CS&S (HK) are parties to agreements to acquire interest in the Company which includes provisions imposing restrictions with respect to the disposal of interests acquired, and Chinasoft (HK) is taken to be interested in the Ordinary 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 Technology. Mr. Duncan Chiu is a director of Far East Technology.

4. IFC and Microsoft were interested in 97,250,000 Ordinary Shares which could be issued to each of them upon the conversion of the 97,250,000 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.

So far as was known to the Directors, as at the Latest Practicable Date, the following persons (other than members of the Group) were directly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the following members of the Group (other than the Company) and the amount of each of such person's interest were as follows:

<b>Name of member of the Group</b>	<b>Name of substantial shareholder</b>	<b>Nature and amount of interest</b>	<b>Approximate percentage of shareholding</b>
上海中軟資源技術服務有限公司 (Shanghai Chinasoft Resources Information Technology Services Limited)	上海東瑞信息諮詢服務有限公司 (Shanghai Dong Rui Information Consultation Services Co., Ltd.)	equity interest in the amount of RMB600,000	20%
上海中軟資源技術服務有限公司 (Shanghai Chinasoft Resources Information Technology Services Limited)	嚴雋鈺 (Yan Juanyu)	equity interest in the amount of RMB600,000	20%

Save as disclosed above, as at the Latest Practicable Date so far as was known to the Directors, (a) none of the Directors or chief executive of the Company had any interest or short position in any shares or underlying shares or interest in debentures of the Company or any associated corporations (within the meaning of 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, or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules; (b) there was no person known to the Directors who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was or was expected to be, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or had any options in respect of such capital.



**LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation, arbitration or claim of material importance known by the Directors to be pending or threatened against any member of the Group.

**DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors has entered into any service contract with any member of the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

**EXPERT**

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
VXL Financial Services Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date:

- (a) VXLFS did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, since 31 December 2005 (being the date to which the latest published audited consolidated accounts of the Group were made up) or which were proposed to be so acquired or, disposed of by or leased to, the Company or any member of the Group; and
- (b) VXLFS was not interested beneficially or non-beneficially in any shares in the Company or any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

**CONSENT**

VXLFS has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and all references to its name, in the form and context in which they respectively appear.

**DIRECTORS' INTEREST IN A COMPETING BUSINESS**

As at the Latest Practicable Date, Dr. CUI Hui, a non-executive Director, was interested in approximately 1.34% of the issued share capital of CNSS and also served as a director of CNSS. In addition, Madam TANG Min, a non-executive Director, had been appointed as director of CNSS since August 2000. Although the Directors are of the view that the principal activities of CNSS currently do not directly compete with those of the Group, the Group and CNSS are both engaged in the provision of information technology outsourcing services.

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

**NO MATERIAL ADVERSE CHANGE**

Since 31 December 2005, being the date to which the latest published audited accounts of the Company have been made up, the Directors are not aware of any material adverse change in the financial or trading position of the Group.

**MISCELLANEOUS**

- (a) The registered office of the Company is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies.
- (b) The Company's Hong Kong branch share registrar and transfer office is Computershare Hong Kong Investor Services Limited, which is situated at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The qualified accountant and the secretary of the Company is Mr. FOK Ming Fuk, William, *MBA, FCCA, CPA, CHARTERED ACCOUNTANT, FTIHK, MHKSI*.
- (d) The compliance officer of the Company is Dr. CHEN Yuhong.
- (e) The Company established an audit committee on 2 June 2003 with written terms of reference in compliance with the requirements as set out in Rules 5.28 and 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee has three members comprising all three independent non-executive Directors, namely Mr. HE Ning, Mr. ZENG Zhijie and Dr. LEUNG Wing Yin, Patrick with their individual background stated below.

Mr. HE Ning was appointed as an independent non-executive Director on 2 July 2002. Mr. HE has been the chief executive officer of Beijing CCG Technology Co. Ltd. since September 2000. From January 1997 to August 2000, he was the

vice president of the Beijing representative office of Merrill Lynch. Mr. HE was the assistant officer of the China Stock Exchange Executive Council from July 1993 to December 1996. He also worked for Morgan Stanley as manager from May 1990 to June 1993. Mr. HE obtained a master's degree in business administration from the University of Texas in 1984. Mr. HE has over 10 years experience in investment banking, direct investment and venture business management in the PRC and the USA.

Mr. ZENG Zhijie was appointed as an independent non-executive Director 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, a global venture capital firm with an investment focus on the communications, electronics, software and IT services, semiconductors and life sciences/healthcare industries, since October 2001.

Dr. LEUNG Wing Yin, Patrick was appointed as an independent non-executive Director 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.

- (f) As at the Latest Practicable Date, the Directors did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to, since 31 December 2005 (being the date to which the latest published audited consolidated accounts of the Group were made up) or which were proposed to be so acquired or, disposed of by or leased to, the Company or any member of the Group
- (g) No contracts of significance in relation to the Group's business in which a Director had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.
- (h) This circular has been prepared in both English and Chinese. In the case of any discrepancy, the English text shall prevail.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at any weekday (public holiday excepted) at the Company's registered office, Units 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong from the date of this circular up to and including the date of the EGM:

- (i) the Master Services Agreement;
- (ii) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 12 of this circular;
- (iii) the letter from VXLFS to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 13 to 24 of this circular; and
- (iv) the written consent referred to in paragraph headed "Consent" in this appendix.

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## NOTICE OF EGM

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### CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司\*

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

**(Stock code: 8216)**

**NOTICE IS HEREBY GIVEN THAT** the extraordinary general meeting of Chinasoft International Limited will be held at 3:30 p.m. on 27 October 2006 at Units 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendment, as ordinary resolutions:

#### ORDINARY RESOLUTIONS

**“THAT**

- (a) the Global Master Services Agreement and Intellectual Property Assignment (a copy of which has been produced at this meeting and marked as “Exhibit-A” and signed by the chairman of the meeting for the purpose of identification) proposed to be entered into between Microsoft Corporation and Chinasoft International Limited (the “**Master Services Agreement**”) (details of which are set out in the circular of the Company dated 9 October 2006 to its shareholders (the “**Circular**”)) and all transactions contemplated thereunder be and are hereby approved;
- (b) the maximum aggregate annual value of the transactions contemplated under the Master Services Agreement for each of the financial year ending 31 December 2006, 2007, 2008, 2009, 2010 and 2011, which is US\$7.2 million, US\$9.4 million, US\$12.2 million, US\$15.9 million, US\$20.7 million and US\$22.4 million respectively, be and is hereby approved; and
- (c) any one of the directors of the Company be and are hereby authorised for and on behalf of the Company to do all such things and sign, seal, execute, perfect, perform and deliver all such documents as they may in their absolute discretion consider necessary or desirable or expedient to give effect to the Master Services Agreement or for the implementation of all transactions contemplated thereunder.”

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

\* *for identification purpose only*

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## NOTICE OF EGM

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*Registered Office:*

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

*Principal Place of Business in Hong Kong:*

Units 4607-08, 46th Floor  
COSCO Tower  
No. 183 Queen's Road Central  
Hong Kong

Hong Kong, 9 October 2006

*Notes:*

- (1) Any member entitled to attend and vote at the meeting shall be entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
- (2) Where there are joint holders of any share, any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- (3) A form of proxy for use at the meeting is enclosed. In order to be valid, the form of proxy completed in accordance with the instructions set out therein, together with the power of attorney or other authority (if any) under which it is signed (or a certified copy of that power or authority) must be deposited at the principal place of business of the Company in Hong Kong at Units 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting.