2010 Annual Report

CHINASOFT INTERNATIONAL LIMITED
中軟國際有限公司*

(Incorporated in the Cayman Islands with Limited Liability)
(Stock Code:0354)

* for identification purpose only

Contents

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Managing Director's Report

Dear shareholders,

In the year of 2010, we experienced healthy and rapid business developments. The Company's service revenue amounted to RMB1.37 billion, representing an increase of 49% compared to that of the previous year. Segmental result reached RMB167 million, representing a year growth of 126%, with significant growth recorded at all business lines. With the total number of employees breaking through the symbolic level of ten thousand people, ChinaSoft International has become one of China's largest information technology service providers. After ten years of efforts, the Company has gained "end-to-end" service capability in aspects ranging from consulting, technology to outsourcing. Our service has covered major vertical industries including government and manufacturing, financial and banking, telecom and high-technology; and our service areas have expanded to the Americas, Europe, Japan and other regions of Asia. Or we can say that the Company has preliminarily completed an overall layout in vertical industries, service offering and service areas. We can expect that the Company will enter a new period of rapid growth.

Thank you for your trust and support over the years!

The year 2010 was the first year of ChinaSoft International's three-year planning for 2010-2012. We have set the development policy of "solidifying for strength, innovating for immensity and transforming for change", and taken to become one of the world's top hundred software service providers as the goal during the planning period.

During the reporting period, the Company became the key supplier for the world's largest telecom equipment provider to which software outsourcing and technical solutions as well as product services were provided, achieving doubled growth in the revenue from related service and cross-selling among the provision of different services. The ability to provide end-to-end service is a core competitive advantage of us and our success in putting such service into practice at leader customer has shown that there are potentials for development of the Company's business layout. The three strategic industrial projects we constructed for China National Tobacco Corporation were successfully put into operation and smoothly promoted, laying foundation for the establishment of our position as "the integrator for informatisation of the tobacco industry". We achieved successfully the online operation and security of the electronic ticketing system of the Shanghai World Expo. Meanwhile, we undertook the construction and operation for the mobile payment information system "World Expo Pass" which was a mobile payment model project of China Mobile, and the successful online operation of the system has created favorable conditions for the Company's entry into the new mobile payment market. The Company entered the high speed railway ticket market for the first time successfully, hopefully becoming a major software provider in this fast-growing sector.

During the reporting period, we further demonstrated our advantage of a regional layout across the world and received contracts for the long-term application development and maintenance of important systems from a global leading software enterprise and a global leading pharmaceutical enterprise, achieving cross-selling between the two markets, local and overseas, and multi-regional delivery. During the year, a delivery center was established in London, which further improved the Company's global delivery system. The ability to achieve cross-selling between local and overseas markets and global delivery is our core competitive advantages. The signing of these long-term outsourcing service contracts marks that the Company's relevant business models are getting mature, and begins to show advantages.

Managing Director's Report

During the reporting period, we acquired MMIM Technologies Inc. (MMIM) for the positioning as the software and service provider for the data business of China's largest telecom operator. Mobile internet is a core part of the new generation information technology and a momentum of explosive growth has emerged in the market. It is a great business opportunity in the reality alongside the revolutionary impact on the future. MIMM is key software and service provider for the mobile instant messaging, mobile community and app store businesses of China's largest telecom operator and with a focus on this core strength we have expanded the size of our team, our business layout and area coverage to consolidate our competitive advantages. During the year, we signed a strategic cooperation agreement with the Beijing Branch of China Mobile for joint development of industry application mobilisation and ICT businesses. The Company has laid out a course to become a mainstream software and service provider for mobile payment, mobile internet, industry application mobilisation and ICT business, and is expected to achieve rapaid growth in the future.

Our success is based on success of our customers. We have adhered to an "advisory-driven" development model and business consulting and IT consulting services are the important means for us to secure the success of our customers. During the reporting period, the Company succeeded in acquiring the domestically reputed consulting service brand Han Consulting (HAN), which is a new progress as a result of our utmost efforts to build consulting capabilities and a critical part in our business layout for the provision of end-to-end services.

Increasing the reuse of softwares and solutions has been a topic for software service providing enterprises like us. During the reporting period, the latest version of ResourceOne, a middleware of the Company to enhance software reuse, was released to support cloud computering and ICT applications. The reuse of software will be ensured in the new technological environment.

Our best practices on compensation program to our employees and the synergy from our training centers also will bring a unique difference in providing skillful human resource supply chain to fulfill the rapid growth of our business in different vertical.

Having gone through the adjustments in 2008 and 2009, the Company is back on its track for rapid growth. 2011 will be a promising year!

"Joint creation of wonders and joyful sharing of splendor" are the heartfelt wishes of every manager and staff in the Company. We would like to ask for your continuous support in the years to come.

Yours sincerely,

Chen Yuhong
Managing Director

Business Overview

ChinaSoft International Limited is positioned to provide integrated software and information services, i.e., end-to-end IT services, including consulting services, technology services, and outsourcing services. Our IT technology services are mainly involved in IT solutions, and our outsourcing services include ITO, BPO, EPO, etc. ChinaSoft International has always adhered to the policy of technology innovation with its independent intellectual property rights as the core, and with more than 200 software copyrights and many patents, such as ResourceOne (R1), the SOA middleware platform software, it provides application software for industry solutions, and TopLink, the software platform product that supports massive information exchange. Our customers, which are located in the countries and regions such as China, the United States, Japan, Hong Kong, etc., are mainly distributed in the industries that have high growth potentials in IT services, such as government and manufacturing, finance, telecommunications, hi- tech and so on. Based on the booming Greater China market and abundant human resources as our competitive advantages, we customise our products to the specifications of each individual client, and provide professional and differentiated IT services to help our customers achieve greater management and business efficiency.

SCOPE OF BUSINESS

The industries that our business mainly covers include:

- Government and Manufacturing
- Financial Services and Banking
- Telecommunications
- Hi-tech
- Training

As IT services continue to mature, customers of different industries are looking for IT service providers that can truly understand their business and industry characteristics, and meet their specific business needs. We train business analysts, consultants and engineers, and develop services and solutions that cater to different industries to meet the rapidly changing needs of our customers, thus enhancing their productivity and profitability. Our continued improvement of customer satisfaction has brought about the Company's continued growth of revenue. The professional services that we provide mainly include:

- Consulting and Technology Services
  - Strategy and Business Consulting, Information Technology Consulting
  - Vertical Application Software and Solution Development, Integration and Maintenance

- Outsourcing Services
  - Product engineering
  - Application Development and Maintence (ADM)
  - Enterprise Application Services (EAs)
  - Business, Engineering and Knowledge Process Outsourcing (BPO, EPO and KPO)

Business Overview

VERTICAL LINES

Government and Manufacturing

As a major provider of information services to the Chinese government, the Company is deeply involved in the national e-government construction. Over the years, based on our industry experience and ResourceOne – our proprietary application middleware platform software, we have achieved outstanding results in China's Golden Auditing, Golden Quality, Golden Social Insurance, Golden Agriculture (Agricultural Management and Service Information System), Golden Macroeconomic Management (Macroeconomic Management Information System), Golden Card Projects, establishing a comprehensive leading position in e-government. According to IDC market research, we have maintained among the top three in the overall rankings in the market of government industry solutions for four consecutive years. We provide our government customers with such solutions as auditing and supervision management, social insurance and welfare management, state-owned assets management, food and drug administration management, execution permission management, government decision support system, office automation, citizen portals, etc. Our main customers include the National Audit Office, Food and Drug Administration, the Ministry of Human Resources and Social Security, the Ministry of Agriculture, the State-owned Assets Supervision & Administration Commission (SASAC), the Ministry of Finance, the Ministry of Housing and Urban-Rural Development, the Ministry of Environmental Protection, the Ministry of Transport, General Administration of Quality Supervision, Inspection and Quarantine, the Civil Aviation Administration of China (CAAC), and the State Administration of Foreign Exchange.

During the reporting period, we were able to further consolidate our market position in the industry's information management area by winning tenders for a variety of large software development and solutions projects in this industry. In the area of auditing, we won the bid for several provincial level network auditing projects; In the area of fiscal supervision, we opened up the financial monitoring markets of multiple provinces in the region of Central China and South China; In the area of civil aviation, we signed agreements for the integrated platform and flight standard system projects as the general integrator, achieved the "landing" of core business system; In the area of drug administration, the 3-5-1-1 projects(3 platforms, 5 application system, 1 center and 1 standard system) continued to be expanded using the execution permission project as their pivotal point; and in the agricultural area, agreements were signed on the project of three-for-one agricultural information service , dedicated to the promotion of construction of information technology in rural areas.

After years of efforts, the Company's manufacturing business covers tobacco, machinery, automobile, steel, pharmaceutical, printing, etc. As a strategic partner in tobacco industry information services, we are in a leading position among many IT providers. We provide our customers in the manufacturing industry with application software and solutions development, integration, and operation and maintenance services such as ERP, CRM, Manufacturing Execution Systems (MES), Logistics Execution Systems (LES), Safety Production Management, and Enterprise Application Integration. Our main clients include China National Tobacco Corporation, SinoSteel, and Pfizer Pharmaceuticals Limited.

Business Overview

During the reporting period, the three strategic projects of the tobacco industry – business collaboration, merged statistics and investment management, were successfully put in operation and smoothly promoted, laying the foundation for establishing the Company as "the integrator of information technology in the tobacco industry." It continued to push for the localised operation services and expand coverage of operation and maintenance market at the provincial level. Various MES projects were smoothly implemented in the industry. Internal control and management systems were developed and implemented within some provinces, to supplement and improve the operation and supervision in the tobacco industry. Breakthroughs were made in the MES projects in non-tobacco industries, and the banknote printing and minting industry was initially shaped up.

During the reporting period, the consulting-driven business model of industry solutions was strengthened and improved through the acquisition of Han Consulting Limited, one of China's well-known management consulting brands.

Financial Services and Banking

We provide our customers with solutions based on secure payment and software development outsourcing services, through our professional services and proprietary payment platform product TopLink. We offer customers in the finance industry solutions such as payment and clearing system, credit management system, bank card system, credit card management system, risk control system, electronic marketing, insurance business system, business intelligence, and professional financial IT services. According to IDC market research, the Company was ranked among the top five for many years in the payment and clearing solutions market of the banking industry. Our major customers include China Union Pay, Industrial and Commercial Bank, Agricultural Bank of China, Bank of China, China Construction Bank, Bank of Communications, Postal Savings Bank, many joint-stock commercial banks, city commercial banks, and foreign financial institutions in China.

During the reporting period, the number of customers using our mature banking solutions increased steadily, for example, the number of customers using our services of credit card core systems and business management systems has more than doubled compared with the same period of last year, once again we successfully signed contracts with the Agricultural Bank of China for credit card system technology services, won the tender for the VisionPlus development service and operation and maintenance project of China Everbright Bank; the Company continued to enjoy the top market share in electronic negotiable instrument (ENI) systems; we were actively involved in the PBOC2.0 chip and card development, and successfully applied it to the Postal Savings Bank, also we won the tender for the financial IC card project of the Industrial Bank; our business was expanded to the insurance areas as we were involved in the construction of core systems of China Pacific Insurance Company Ltd.

After many years of accumulation of professional experiences, we are in a leading position in the public transportation areas such as public transport, rail transit and airports. We provide customers in the transportation industry with solutions and professional application integration, operation and maintenance services such as Smart Card, Automatic Fare Collection system (AFC), AFC Clearing Centre (ACC), intelligent transportation, and airport operation management system. Our smart-card-type solutions enjoy the biggest market share in China, which have been adopted by nearly 30 cities, and more than 100 million cards have been issued throughout the network systems. Our major customers include Shanghai Metro, Guangzhou Metro, Shenzhen Metro, Suzhou Rail Transit, and Pudong Airport.

Business Overview

During the reporting period, new contracts on the Smart Card systems were signed and projects were implemented in Qingdao, Chongqing, Xuzhou, and Taizhou, it was also successfully implemented online and steadily operated in Guatemala's national public transport system. In the citizen card business, contracts were signed respectively on the social insurance card of Guangdong and the citizen card of Yangzhou; in the ticket payment area, our rail transit automatic fare collection (AFC) system had entered the markets in Chongqing and Tianjin; as a major supplier of the Shanghai Metro, we comprehensively secured a timely online launch and steady operation for the Metro-Mobile Ticket system during the World Expo, we also successfully entered the high-speed railway ticket market for the first time.

Telecommunications Industry

We are one of the first service providers in wireless internet platform design, development and operation, also one of the largest professional service providers in application development and adaptation for mobile clients. As a trusted partner of China's telecommunications operators, telecommunications equipment manufacturers and terminal manufacturers both at home and abroad, we provide our customers of value-added business products design & development and operation & promotion services with such as mobile payment, mobile instant messaging, mobile SNS, enterprise mini blog, mobile application stores, PTT (push to talk intercom phones), embedded browser, mobile advertising platform, etc. Our major customers include a certain world leading telecommunications equipment provider in China, China Mobile, China Unicom, and China Telecom; these clients fully recognise our service capabilities, attitude and quality; they have awarded us more cooperation projects while they are experiencing rapid growth in their own business. At the same time, we have deep-level cooperation with our customers so as to develop overseas markets by using their resources.

During the reporting period, we established comprehensive strategic partnership with a world-leading Chinese telecom equipment provider, provided it with solutions, products and outsourcing services, and became one of its top three suppliers of outsourcing services. As the provider of the mobile-wallet solutions for China Mobile's Shanghai branch, we undertook the project to construct the mobile wallet information system, and it became a model project in the area of mobile payment in China, through the acquisition of MMIM Technologies Inc., we became China Mobile's core provider of application store products, instant messaging products, and wireless SNS products; we signed agreements of strategic cooperation with the Beijing and Shanghai branches of China Mobile respectively, to start cooperation on various projects in the areas of the mobility of industry applications and mobile business; and through positioning ourselves in China Mobile's southern base (in the areas of mobile store and mobile SNS) and northern base (in the area of mobile payment), we were able to develop comprehensive markets in the products and operation services of telecom operators' data business. At the same time, by relying on the strategic partnerships with telecom operators as well as our great technological accumulation, we laid a solid foundation for becoming a mainstream provider of mobility-application consulting and development business for internet and mobile terminal enterprises.

Business Overview

Hi-tech Industry

We provide our MNC customers in the hi-tech industry with comprehensive and personal services, and our Centers of Excellence (COE) all over the world have realised flow-line standardised delivery. We have established comprehensive strategic partnerships with our clients in outsourcing services, and promotion and training of solutions, securing sustained and steady growth of business. As shown in IDC market research, the Company was ranked among the top four for the overall market of off-shore outsourcing in China, among the top two in the market segments in Europe and America, and was praised by IDC as one of China's "six dragons" in software outsourcing services. We provide our customers in the hi-tech industry with services including product engineering, application development and maintenance (ADM), enterprise application services (EAS), and BPO, EPO and KPO services. Our main customers are some of the world's fortune 500 hi-tech companies such as Microsoft, IBM, GE, NEC, Hitachi, and Panasonic and so on. The Company serves as the first "Global Premier Vendor" of Microsoft Corporation in China.

During the reporting period, the Company's outsourcing business with the hi-tech industry continued to grow steadily. Service agreements were signed with Microsoft on MSN multi-site operation and integration, allowing delivery in three different areas such as China, the United States and the United Kingdom; in the areas of mobile terminal application development and testing we continued to maintain deep-level business cooperation with various MNC clients in the hi-tech industry; we were awarded, by a major Japanese client, a financial process outsourcing project, which laid the foundation for the development of major customers in high-level business process outsourcing; through the acquisition of Han Consulting Limited, one of China's well-known management consulting brands, we laid the foundation for high-end development of overall service capacity; we also made breakthroughs in the areas of outsourcing services of SAP and Oracle products, adding several new customers with strong growth potential in the hi-tech industry.

Training

Our Excellence Training Center (ETC) is a practical training base of computer technology for college students, as certified by the Ministry of Education of China, and it is one of the industry's leading brands for mid- to high-end IT training. Through cooperation with colleges and universities, practical training based upon real positions and projects are provided for college students with majors in computer sciences or other related areas. Practical training courses for these prospective employees adopt the 5R (Real Working Environment, Real Project Managers, Real Training Projects, Real Work Pressure, Real Job Opportunities) curriculum as the platform, including practical training in technical projects and professional quality training, striving to turn the trainees into practical IT talents through tests and assessments in the shortest possible time. So far, we have established training centers in Beijing, Tianjin, Dalian, Changsha, Wuxi, Chongqing, Xiamen, and Nanjing. During the reporting period, ETC has had over 350 partner institutions, the training business achieved growth in profit while supplying the Company with talents on a large scale, with more than 35,000 students receiving such practical training. The students who took part in practical training were the internals and employees of our company and also received the opportunities with many top IT enterprises, including Accenture, Panasonic Group, and Transcosmos Information Creative Co, etc.

Business Overview

As the human resources supply platform, based on many years experiences of providing customised training to employees for large enterprises, ETC's business model has become increasingly mature. With its excellent partnerships with colleges and universities, a huge number of student resources, and the recruiting channels that cover the whole country, it is able to quickly customise a human resources pool according to the needs of the customer. Meanwhile, in order to quickly respond to and meet clients' requirements for customised training, ETC has achieved the capability of delivery upon confirmed orders by employers through the construction of menu-style standardised customised curriculum system consisting of the business characteristic module, the practical virtualisation module, and the vocational skills and quality module. During the reporting period, besides supplying the Company with primary human resources, ETC also worked closely with the Company's business department in establishing an international financial talent training class, ensuring the Company's capacity to meet the needs of supplying personnel to a variety of foreign banks when outsourcing services were provided; it also completed construction of China Mobile's OPhone technical training and certification system, allowing it to upgrade the embedded and 3G-talent training standards, thus adding a new horizon for IT vocational training.

OUR SERVICES

We provide end-to-end services from IT consulting and technology services to outsourcing services, such a business layout will be the guarantee to the sustained and steady growth of our business.

Consulting and Technology Services

Consulting services lie at the top end of the business value chain of ChinaSoft International, and over the past decade we have always been dedicated to the incorporation of consulting methodology with the information technology practices of China's enterprises. Based on the consulting-driven business model, as China's leading enterprise in the solutions field, we focus on providing integrated information technology services of the industry. Our consulting and technology services usually take a contract-based fixed-pricing model.

1. Strategy and Business Consulting, IT Consulting

The strategy consulting that we provide has the specific services including industrial transformation consulting, regional economic consulting, merger and reorganizing consulting, strategy and transformation consulting, group management and control consulting, and organisational design consulting. The business consulting that we provide has the specific services including marketing management consulting, e-commerce transition consulting, supply chain management consulting, lean production consulting, logistics management consulting, financial management consulting, risk management consulting, business process consulting, and data analysis consulting.

We focus on helping clients in obtaining greater value through the interaction between what drives the business and IT requirements. Our consulting products and services are all based on rigorous and proven scientific methods and frameworks. In the areas of business processes, technology and outsourcing, we first analyze the existing environment, determine the optimizing opportunity, and then provide customers with the development path that can significantly save costs and increase productivity. The specific services we provide include information technology planning consulting, IT operation and maintenance consulting, information security consulting, and supervision and management of information technology construction.

During the reporting period, the acquisition of Han Consulting Limited significantly strengthened the Company's front-end consulting capabilities.

Business Overview

2. Vertical Application Software and Solutions Development, Integration and Maintenance

We provide customers in a variety of industries with End-To-End process services that include industry application softwares and solutions. In the rapidly developing market in China, industry and corporate customers not only need technology solutions that address certain types of business problems, but also have a lot of requirements for integration with other business applications. We use the application support platform – ResourceOne, to penetrate through the entire project cycle of "Planning – General Design – Development – Overall Integration – Operation and Maintenance," in which the integration methodology of ChinaSoft International has been incorporated, including:

- In the planning and design phase, we dispatch appropriate industry consultants and qualified designers to understand the customer's business needs, in-depth find out the best practices of information technology, and form a business components map that can be assembled using the R1 platform and an integrated business framework.

- In the scale development and testing phase, our on-site team members will work closely with the customer, keeping abreast of the customer's changing needs. At the same time we will transfer a large amount of development and testing to the Center of Excellence (COE) to be conducted using different professional expertise which includes Jave,.net applications, cloud computing, and mobile solutions. By using the development tool of the R1 platform, COE ensures a unified technological architecture and quality, thus effectively increasing repeat usage as well as reducing development time and costs. As ResourceOne has been promoted and become the integration platform for many industries such as government and manufacturing, many other solutions providers in the industry also follow such integration standards in their development.

- In the application integration phase, our implementation engineers will use the integration methodology of ResourceOne as well as the robust, scalable and extensible platform tools to conduct integration tests and assembling on the components of complex business applications according to their levels and categories.

- In the operation and maintenance phase, as our platforms, application software and solutions have been adopted in a number of strategic industries nationwide; the Company has simultaneously completed the layout with specialised operation and maintenance teams in all key areas of China. With the more widely adoption of our solutions, our operation and maintenance services are becoming steadier by the year, and the revenues continue to increase.

After years of hard work and the successful practice of a large number of projects, we already have great industry service capability, customer service capability, regional service capability and large project service capability. Relying upon the ResourceOne platform, we focus on the process control in the development and business management, while adhering to standard requirements of quality control systems ISO9001, ISO20000, ISO27001 and CMMI, fully ensuring the service quality and delivery time.

Business Overview

The main solutions and products that we provide include:

Category	Solutions and Products
Government Industry Solutions	Auditing and Supervision Management
	Social Insurance and Welfare Management
	State-owned Assets Management
	Food and Drug Administration Management
	Execution Permission Management
	Government Decision Support System
	Online Applications and Approvals
	Citizen Portal
Manufacturing and Distribution Industry Solutions	Enterprise Resource Planning (ERP)
	Manufacturing Execution System (MES)
	Logistics Execution System (LES)
	Safety Production Management
	Warehouse Management System (WMS)
	Enterprise Application Integration (EAI)
	Goods Tracking and Tracing
Financial Industry Solutions	Payment and Clearing System
	Collection System for Credit Consumption Invoice
	Credit Management System
	Bank Card System
	Credit Card Management System
	Risk Control System
	E-Marketing
	Insurance Business System
Transportation Industry Solutions	Smart Card
	Automatic Fare Collection (AFC) System
	AFC Clearing Center (ACC)
	Intelligent Transportation
	Airport Operating Management System

Business Overview

Category	Solutions and Products
Telecom Industry Solutions	Mobile Payment
	Mobile IM
	Mobile SNS
	Enterprise Mini Blog
	Mobile Application Store
	Push to Talk
	Embedded Browser
	Mobile Advertisement Platform
Cross-industry Solutions	Customer Relationship Management (CRM)
	Office Automation (OA)
	Business Intelligence (BI)
	Portal Website Sets
	Radio Frequency Identification (RFID)
	Geographic Information System (GIS)
	Electronic Ticket System
Middleware/Platform Software	ResourceOne Series Products
	TopLink/TSA+ Platform

Outsourcing Services

We are always committed to providing global customers with complete, flexible, and scalable high quality IT outsourcing services. With experienced management and technology specialists as well as a variety of delivery models, we are able to adapt to the changing business and technologies. At the same time, with the assistance of huge training resources at Excellence Training Centers (ETCs), we can integrate the needs for talent supply across customers of various industries, so as to provide customers with high-quality, low cost outsourcing services. Our outsourcing services usually take the pricing model based on time and materials cost.

1. Product Engineering

We provide product engineering services to technology product development companies, including independent software vendors and telecommunications equipment developers. Our capibility of fast delivery can help customers improve the speed of product development, save development costs, thus gaining the time advantage in marketing their products.

The products that we have developed include operating system, database, middleware, network protocol, speech recognition and human-machine interface, telecom value-added applications and other software products. We provide specialised products and services, including product design, development, and quality assurance and testing.

Business Overview

2. Application Development and Maintenance

To our specific customers we offer application development and management services such as application software development, system maintenance and system optimisation, based on the needs of industry customers. Our ADM services were designed to help customers realise the scientific management of IT outsourcing spending, enabling them to focus more on building their core competencies.

We have well-structured ADM service teams, which have accumulated great experiences in application environments such as mainframe computers, client servers, internet and mobile internet, as well as a variety of platform software programs including Mainframe, Windows series, Linux/Unix and Android, Symbian, IPhone OS, etc. We can deliver the ADM services in our Centers of Excellence (COE) or the customer sites.

3. Enterprise Application Service

We provide our enterprise application services based on consultation. While remaining standard functions of system application unchanged, we take into consideration differences in needs for personalisation of enterprises, catch on managerial needs, propose an application service solution meeting their needs, and enhance management quality of enterprises to realise goals of supporting business of enterprises.

Our enterprise application services cover a number of mainstream ERP systems and e-business packages, including enterprise resource planning (ERP) systems, customer relationship management (CRM), supply chain management (SCM), enterprise application integration (EAI), etc. Specific services provided by us include: packaged software implementation, customised development, maintenance and product upgrades, business intelligence (BI)/data warehouse (DW).

4. Business, Engineering and Knowledge Process Outsourcing

We offer BPO, EPO and KPO services to customers from different fields including finance, manufacturing, medical and healthcare, transportation and logistics, aiming at the markets in Japan, Europe, America and the Greater China regions. We control and manage service quality and costs through synchronised integration of technology, personnel and processes. Our very experienced operation management personnel customise service processes for enterprises, effectively helping the customers improve their competitiveness, saving time and reducing costs.

We provide customers with multilingual BPO, EPO, KPO services, including back office processing, shared service centers, data processing, desktop publishing (DTP), CAD, Call Centers, business intelligence and data mining.

COMPETITION AND CORE STRENGTH

Competition in the IT services and outsourcing market is very fierce, with a large number of participants focusing on different types of business. Our competitors are mainly from the following market segments:

- Systems integration companies
- Application software companies
- Outsourcing companies

Business Overview

Our direct competitors include Neusoft Group, Inspur Group, Longtop Financial Tech, Taiji Computer, VanceInfo, HiSoft, iSoftStone and so on. In addition, we also face competition from local companies of many industries in different regions.

Many of our competitors have adequate capital, strong technological strength, rich market resources, or greater visibility. But we rely on the following core strengths to effectively compete against them:

1. Highly Competitive Industry Experience

We have many years of accumulated experiences in consulting, technology services and outsourcing services, and deep-level expertise in serving the main industries such as government and manufacturing, finance, telecommunications, hi-tech, which more heavily rely on IT services, we have formed more than 50 standardised industry solutions, with 200 software copyrights and a variety of patents, all of which helped to establish our leading position in the industries and areas.

2. End-to-end Service Model

The foundation for our continued and steady business growth was laid with the end-to-end business layout that has integrated consulting, technology services, outsourcing and training into one system. We offer customers consulting services combined with our industry experience, seek to have breakthroughs driven by consulting, help customers truly solve their problems through technology services, and provide outsourcing services according to customer needs. Cross-selling of different services to the same customer improves customer loyalty, effectively reducing the cost of sales spent on specific customers.

3. Ability of Global Delivery

We have great capabilities of global service, with a quick response mechanism in place for business deliveries in different regions such as China, the United States and Japan. Taking full advantage of industry experiences of our foreign clients, we achieve business development in the Chinese market, while helping overseas clients to enter the market in China. Through interaction of markets at home and abroad we increase the rate of successful contract signing and our capabilities of industry service, further consolidating our relationship with customers, leading to strategic partnerships with a variety of customers.

4. Extensively Supported Business and Extendable Independent R&D Products

ChinaSoft International's ResourceOne platform product benefited from years of practical experiences in the industry's information technology, integrating CMMI, ISO9000, RUP, and agile development theory, using SOA architecture and technologies (including PaaS and SaaS), supported by cloud computing applications. It is an excellent tool for industry managers' to perform business application integration and IT system expansion when they are faced with complex management targets. The R1 platform has three tiers of capabilities: the first tier is the structuring capabilities consisting of complete platform-based integration of middleware components; the second tier are the R1's project management methods and tools; and the third tier is the capability of fast development as represented by R1 BizFoundation. Through these three-tiered capabilities, component reuse is strongly supported and development cost is reduced, while ChinaSoft International's gradual accumulation of the ability to turn out ERP software and form application products can be obtained through the R1 platform.

Business Overview

As one of the industry's most widely used support platforms, R1 enjoys a wide range of applications and a great number of successful cases in government, manufacturing and other fields and industries. A number of national and industry-level projects that have been successfully implemented are proof that, overall consulting/design, separate development and overall integration using the R1 platform can ensure success and good results of the construction of an entire large engineering system.

5. Excellent, Stable Workforce and Strong Platform for Talent Supply

As of December 31, 2010, the Company had 10,940 employees, mainly distributed in regions such as China, Hong Kong, Japan, and the United States. Among them were 1,056 project managers and consultants, who had outstanding IT skills, extensive management experience, deep industry knowledge, and most of them had worked in the Company for more than five years, fully identifying themselves with our corporate culture. Meanwhile, in order to maintain the stability of the Company's core staff, we have developed clear mechanism of talent promotion, incentive and training.

We collaborate with over 350 universities and educational institutions, our ETCs established in Beijing, Tianjin, Dalian, Changsha, Wuxi, Chongqing, Xiamen, Nanjing, Chengdu, and Nanchang developed practical training courses customised to the specifics of the Company's business department. The business department can participate in course design, process tracking and evaluation, select high-quality students from the large training resource pool to ensure a steady stream of practical talent supply.

BUSINESS STRATEGY

Our goal is to maximise shareholder value, and constantly consolidate and enhance our leading position as a provider of consulting and technology services, and outsourcing services. To achieve these goals, we implement the following core strategies:

1. Focus on Future High-Growth Areas and Continued to Increase Revenue

Develop key directions in the "Twelfth Five-Year Plan.", expand service directory, and increase regional distribution. We will continue making investment in the knowledge-intensive services and areas with IT high-growth potentials, such as social security, agriculture, electricity, high-speed railway, and large state-owned enterprises, as set forth by the Twelfth Five-Year Plan (2011-2015) of the national economic and social development. Our business revenues will continue to grow based on the strengths of our existing layout. The existing revenue structure will be further optimised and revenues will increase through the construction of the capacities of high-end ITO (e. g., Managed Service) and high-end BPO services, and further development in the Asia-Pacific region.

Expand market share of telecom value-added services and mobile internet. According to CCID's "2009-2010 China's mobile internet industry research annual report," China's mobile internet industry revenue will increase at an annual growth rate of 80% during 2010-2012, and by 2012 will reach a scale of more than RMB50 billion. Meanwhile, with the rapid development of mobile applications and telecom carriers continuing to increase network bandwidth, telecom value-added services and mobile internet market have brought huge business opportunities. As an IT services provider of China's major telecommunication operators, telecommunication equipment manufacturers and internet companies, we focus on developing telecom value-added services and mobile internet business, in order to obtain the scale growth of revenue in this area.

Business Overview

Seek strategic acquisitions, joint ventures, alliances, improve the business layout, and enhance competitiveness. We believe that, through selective strategic acquisitions, it can help us expand our scope of business, improving our business layout, enhancing our competitiveness, and bringing us market opportunities in the area with rapidly growing IT demands both in China and in the world. Meanwhile, our acquisition and joint venture targets can also help us quickly expand our geographic presence, key industries, and technological strength in regional markets.

2. Explore business potential, strengthen enterprise management, reduce operating costs, and further improve profitability

Expand the ratio of services with high gross profit margins. We believe that consulting and technology services are high value-added business, and we will continue to concentrate and improve our strength in these areas, and increase the Company's gross profit margin by improving the repeat usage of our solutions. Meanwhile, the Company's gross profit margin can also be increased through improvement of business ratio of our high-margin customers.

Enhance the Company's operation. From 2010, we started the implementation of ERP (enterprise resources planning) systems, which, as an important project in strengthening our capacity of corporate governance, will improve the Company's human resources, finance, sales and procurement processes, increase efficiency, improve the Company's operations and management, and save administrative costs.

Establish delivery centers in third-tier cities. As the number of customer grows, we plan to set up delivery centers in third-tier cities in China in order to lower labor costs.

HISTORY OF BUSINESS DEVELOPMENT

ChinaSoft International Company Ltd. was incorporated in February of 2000, headquartered in Beijing. Our main business is to provide government customers with system integration and customised software development services. In the same year, we introduced our proprietary application support platform ResourceOne V1.0. In 2002, ChinaSoft International was awarded as the sole service provider of the e-government construction projects in China's top five Economic and Technological Development Zones (Tianjin, Dalian, Harbin, Beijing and Guangzhou), and later was contracted for the construction of office automation projects for the National Audit Office, the Ministry of Transport, the Ministry of Agriculture, the Ministry of Civil Affairs, the Ministry of Construction and so on.

In 2003, we had our IPO with the GEM (Growth Enterprise Market) of the Hong Kong Stock Exchange. Supported by the capital platform, the Company adopted a new development model of endogenous development together with growth through mergers and acquisitions, leading to rapid growth in both performance and size. Our service industries expanded from government to government-led large-scale manufacturing, and we gradually underwent transformation from a traditional distributor and integrator of hardware and software to a solutions provider. At the same time, we adhered to independent research and development, upgraded ResourceOne to V3.0 based on the SOA architecture, and successfully promoted it to multiple vertical industries.

Business Overview

In 2005, we kept pace with the changing times by entering the IT outsourcing area with enormous efforts, successfully purchased and integrated ChinaSoft Resources Information Technology Services Ltd., established strategic partnerships with top international enterprises such as Microsoft, and set up our front companies in the United States. Later we also acquired Powerise International Software Co., Ltd., extending our ITO business to the Japanese market. With the booming ITO business, we took a big stride from the domestic market toward the broader overseas market.

In 2007, we completed the acquisition and integration of Hinge Global Resources Inc., thus extended our service industries to financial, transportation and other important areas and adding specialised BPO services. With our comprehensively developed technique advantages and industry position, we became a top SOA partner of International Business Machines Corporation (IBM), and together to build the ChinaSoft International SOA Innovation Center. Our Excellence Training Centers (ETCs) set up practical training bases, in Beijing, Changsha, Dalian, Wuxi, Chongqing, Xiamen, Tianjin, and Nanjing, each with an area of 1000-5000 M^2, with the annual training capacity reaching over 10,000 people. In 2008, we successfully switched our listing from the GEM to the Hong Kong Stock Exchange Main Board (stock code: HKSE.354).

In 2010, Han Consulting joined us, significantly strengthening our front-end consulting capabilities. So far, we have initially completed our end-to-end layout under which IT consulting, technology services, outsourcing services, and training have been unified. In the same year, we entered the telecom and mobile internet industries through acquisition of MMIM Technologies, Inc. This emerging market will become a key engine for the strategic transformation of our business. As of 2010, we employed more than 10,000 people, with business extended to Central America, South America, UK, India, Africa, Southeast Asia and the Middle East. We also set up branch companies or offices in more than 20 cities in the world, including mainland China, Hong Kong, the United States, Japan, and Europe, forming a global delivery capacity.

Management Discussion and Analysis

KEY OPERATING DATA

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

	2010 RMB'000	2009 RMB'000	Year-on-year increase/ decrease
Revenue	**1,601,211**	1,104,602	45.0%
Revenue from service*	**1,374,424**	920,917	49.2%
Cost of sales	**(1,088,007)**	(767,624)	41.7%
Gross profit	**513,204**	336,978	52.3%
Other income, gains and losses	**35,264**	18,868	86.9%
Selling and distribution costs	**(94,203)**	(71,065)	32.6%
Administrative expenses	**(241,444)**	(197,938)	22.0%
Research and development cost expensed	**(39,086)**	(19,397)	101.5%
Allowance for doubtful debts	**(8,276)**	(21,113)	(60.8%)
Amortisation of intangible assets and prepaid lease payments	**(29,889)**	(23,892)	25.1%
Finance costs	**(8,102)**	(4,064)	99.4%
Share of results of associates	**2,650**	2,959	(10.4%)
Profit before taxation	**130,118**	21,336	509.9%
Taxation	**(14,657)**	(13,480)	8.7%
Profit for the year***	**115,461**	7,856	1369.7%
+Taxation	**14,657**	13,480	8.7%
+Finance costs	**8,102**	4,064	99.4%
+ Depreciation of property, plant and equipment	**35,377**	23,495	50.6%
+Amortisation of intangible assets and prepaid lease payments	**29,889**	23,892	25.1%
-Share of results of associates	**(2,650)**	(2,959)	(10.4%)
EBITDA**	**200,836**	69,828	187.6%
+Share option expenses	**27,669**	25,487	8.6%
+Net foreign exchange (gain) loss	**(3,094)**	82	(3873.2%)
+Provision for doubtful debts	**8,276**	21,113	(60.8%)
Business contribution profit**	**233,687**	116,510	100.6%

Management Discussion and Analysis

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

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

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

GENERAL OVERVIEW

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

	2010	2009	Growth rate
	RMB'000	RMB'000	
Revenue	**1,601,211**	1,104,602	45.0%
Revenue from service	**1,374,424**	920,917	49.2%
EBITDA	**200,836**	69,828	187.6%
Business contribution profit	**233,687**	116,510	100.6%

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

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

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

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

Management Discussion and Analysis

Our major business growth drivers in 2010 were as follows:

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

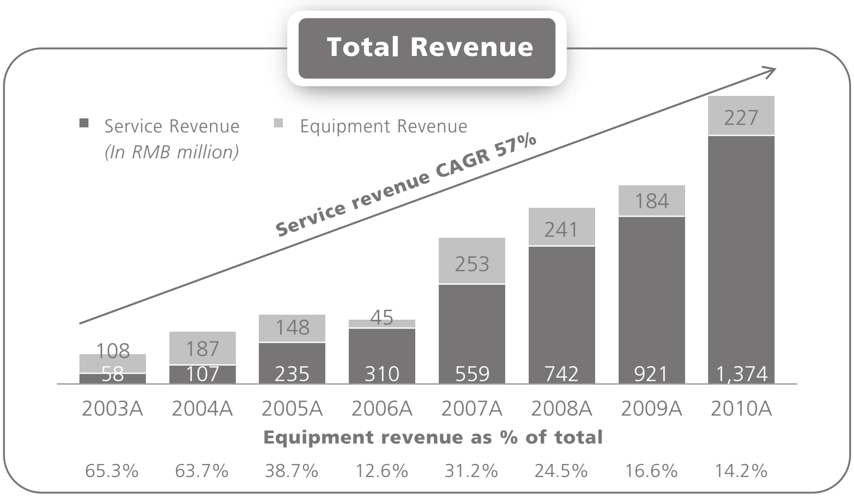
  (1) The solutions business continued to maintain steady and healthy growth momentum. We continued to intensively tap vertical industries in the advisory and solutions business sectors on the basis of our rich experience and technical knowhow accumulated in the advantageous industries, hence achieving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

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

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

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

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



Management Discussion and Analysis

Customer

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

Market

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

Human Resources

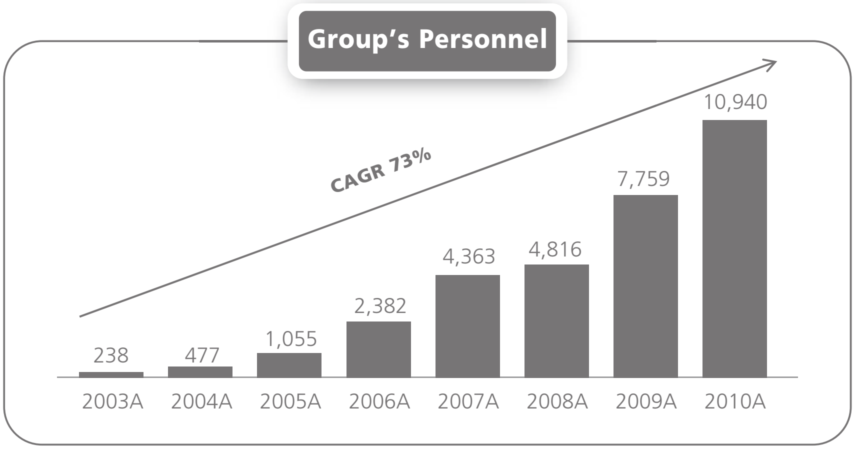
As of the end of 2010, the Group had altogether 10,940 employees, representing an increase of 41% over 7,759 employees as of the end of 2009, of which 9,750 employees were technicians accounting for 89% of the Group's total number of employees and 1,056 employees were project managers and key consulting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

The average turnover rate of the Group through 2010 was 12.3% which was lower than the sector average level. Despite that the costs of human resources have increased continuously in recent years, the Group was still able to increase earnings capability constantly through the continuous increase in the scale of business income and a series of cost and performance management measures (including reasonable human resources allocation structure for stabilising overall cost levels, continuous input of resources into research and development for increasing the re-use of technology and priority incentive policy for improving production efficiency among employees).

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

Management Discussion and Analysis

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



Earnings Capability

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

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

Management Discussion and Analysis

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

	FY2010 *RMB'000*	**FY2009** *RMB'000*	**Growth rate**
EBITDA	**200,836**	**69,828**	**187.6%**
+Share option expenses	27,669	25,487	8.6%
+Net foreign exchange (gain) loss	(3,094)	82	(3873.2%)
+Allowance for doubtful debts	8,276	21,113	(60.8%)
Business contribution profit	**233,687**	**116,510**	**100.6%**

In 2010, the Group's business contribution profit was RMB233.687 million (2009: RMB116.510 million), representing a year-on-year growth of 100.6%. The ratio of business contribution profit was 14.6%, representing an increase of 4.1% over the same period of the previous year (the ratio of business contribution profit was 17.0% if measured on the basis of revenue from service, representing an increase of 4.3% over the same period of the previous year).

FUTURE PROSPECTS

1. Macro Environment

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

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

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

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

Management Discussion and Analysis

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

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

2. Countermeasures

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

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

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

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

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

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

Management Discussion and Analysis

OPERATING RESULTS

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

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

Management Discussion and Analysis

Comparison of the results of 2009 and 2010:

Revenue

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

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

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

Revenue from the Group's four major business lines, namely government and manufacturing, finance and banking, IT outsourcing and training, accounted for 29.5%, 24.5%, 42.7% and 3.3% of the Group's total revenue respectively (2009: approximately 27.9%, 27.7%, 41.2% and 3.2% respectively). The growth in revenue of each business line is set out as follows:

	2010 RMB'000	Weight	2009 RMB'000	Weight	Growth rate
Government and manufacturing	**471,820**	**29.5%**	**308,569**	**27.9%**	**52.9%**
Finance and banking	**392,059**	**24.5%**	**305,757**	**27.7%**	**28.2%**
IT outsourcing	**682,917**	**42.7%**	**455,538**	**41.2%**	**49.9%**
Training	**54,415**	**3.3%**	**34,738**	**3.2%**	**56.6%**
Total revenue	**1,601,211**	**100.0%**	**1,104,602**	**100%**	**45.0%**

Management Discussion and Analysis

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

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

COST OF MAIN BUSINESSES

In 2010, cost of the Group's main businesses accounted for 67.9% of the revenue (2009: 69.5%), representing a decrease of 1.6% over the same period of the previous year. Cost of main businesses of the Group amounted to RMB1,088.007 million (2009: RMB767.624 million), representing an increase of 41.7% year on year.

GROSS PROFIT

In 2010, the Group's gross profit was approximately RMB513.204 million (2009: RMB336.978 million), representing an increase of 52.3% over 2009. The Group's gross profit margin was 32.1% (2009: 30.5%), representing a growth of 1.6% compared with that of the previous year. The gross profit margin for revenue from service was 37.3% in 2010 (2009: 36.6%), an increase of 0.7% year on year.

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

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

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

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

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

Management Discussion and Analysis

OTHER INCOME, GAINS AND LOSSES

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

OPERATING EXPENSES

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

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

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

EBITDA AND BUSINESS CONTRIBUTION PROFIT

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

In 2010, business contribution profit amounted to RMB233.687 million (2009: RMB116.510 million), representing an increase of 100.6% over 2009. In 2010, the business contribution profit margin grew substantially by 4.1% over the same period of 2009 to 14.6% (2009: 10.5%). Business contribution profit margin based on revenue from service was 17.0% (2009: 12.7%), representing a significant growth of 4.3% over the same period of 2009.

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

Management Discussion and Analysis

OTHER NON-CASH EXPENSES

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

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

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

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

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

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

PROFIT FOR THE YEAR AND EARNINGS PER SHARE

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

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

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 2010.

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:

Dr. Cui Hui (Chairman)
Mr. Duncan Chiu (resigned on 31 December 2010)
Dr. Zhang Yaqin
Mr. Fang Jun
Mr. Liu Zheng

Independent non-executive directors:

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

Corporate Governance Report

During the year ended 31 December 2010, two full board meetings were held on 9 April and 6 August and the attendance of each director is set out as follows:

Name of Director	Number of board meetings attended in 2010	Attendance rate
Executive Directors:		
Dr. Chen Yuhong	2	100%
Mr. Wang Hui	2	100%
Dr. Tang Zhenming	2	100%
Non-executive Directors:		
Dr. Cui Hui	2	100%
Mr. Duncan Chiu (resigned on 31 December 2010)	2	100%
Dr. Zhang Yaqin	2	100%
Mr. Fang Jun	2	100%
Mr. Liu Zheng	2	100%
Independent non-executive Directors:		
Mr. Xu Zeshan	2	100%
Mr. Zeng Zhijie	2	100%
Dr. Leung Wing Yin Patrick	2	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 "Biographical Details of Directors and Senior Management" 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.

Dr. Cui Hui is director of CNSS, a substantial shareholder of the Company. Dr. Cui Hui has been appointed as a senior vice president 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.

Corporate Governance Report

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 Dr. Cui Hui) and the post of the chief executive officer (held by Dr. Chen Yuhong, the Managing Director) are segregated. Dr. Cui Hui is responsible for leadership and organisation 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. 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 Dr. Cui Hui and other members included Dr. Chen Yuhong, Mr. Xu Zeshan, Mr. Zeng Zhijie and Dr. Leung Wing Yin Patrick. Dr. Cui Hui is a non-executive Director, Dr. Chen Yuhong is an 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 Meeting attended in 2010	Attendance rate
Dr. Cui Hui	1	100%
Dr. Chen Yuhong	1	100%
Mr. Xu Zeshan	1	100%
Mr. Zeng Zhijie	1	100%
Dr. Leung Wing Yin Patrick	1	100%

Corporate Governance Report

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 2011.

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 35 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 meeting attended in 2010	Attendance rate
Dr. Cui Hui	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 2010, the board of Directors resolved that Mr. Wang Hui, Dr. Cui Hui, Mr. Duncan Chiu and Mr. Zeng Zhijie 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 2010, 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 2010, the audit committee comprised of three independent non-executive Directors, Mr. Xu Zeshan, Mr. Zeng Zhijie and Dr. Leung Wing Yin Patrick. Dr. Leung Wing Yin Patrick is the Chairman of the audit committee. The audit committee met on a semi-yearly basis during the year ended 31 December 2010.

Corporate Governance Report

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

During the year under review, two 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 2010	Attendance rate
Mr. Xu Zeshan	2	100%
Mr. Zeng Zhijie	2	100%
Dr. Leung Wing Yin Patrick	2	100%

AUDITOR'S 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 RMB4.8 million to the external auditor for their services including audit and other services relating to financial information.

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 an annual general meeting each year to meet the Company's shareholders and answer their enquiries.

Report of the Directors

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2010.

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 2010 are set out in the consolidated statement of comprehensive income on page 55.

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 148. This summary does not form part of the audited financial statements.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders as at 31 December 2010 are RMB501,964,000 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:

Dr. Cui Hui (Chairman)
Mr. Duncan Chiu (resigned on 31 December 2010)
Dr. Zhang Yaqin
Mr. Fang Jun
Mr. Liu Zheng

Independent non-executive Directors:

Mr. Xu Zeshan
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. Tang Zhenming, Dr. Zhang Yaqin, Mr. Liu Zheng and Mr. Xu Zeshan (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 is to be reviewed annually by the board of Directors. For the period from the expiry of the first year of appointment, the salary of the three executive Directors shall be determined by the board of Directors but shall not be more than 120 percent of the annual salary of such Director for the preceding year;

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

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

Dr. Tang Zhenming, Mr. Wang Hui, Dr. Zhang Yaqin, Mr. Fang Jun and Mr. Liu Zheng, have not entered into service agreements with the Group. Dr. Tang Zhenming and Mr. Wang Hui receive no remuneration for holding their office as executive Directors. Dr. Zhang Yaqin, Mr. Fang Jun and Mr. Liu Zheng receive no remuneration for holding their office as non-executive Directors.

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

Dr. Leung Wing Yin Patrick and Mr. Xu Zeshan have not entered into any service agreements as independent non-executive Directors with the Group. The monthly remuneration for Dr. Leung Wing Yin Patrick is HK$10,000. Mr. Xu Zeshan receives no remuneration for holding his office as an independent non-executive Director.

Report of the Directors

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

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

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2010, the following Directors had interests in the shares and underlying shares of the Company and shares in an associated corporation (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) of the Company as set out below and recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of listed issuers.

Long positions in shares of HK$0.05 each in the capital of the Company ("Shares")

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

Report of the Directors

Options to subscribe for Shares

Name of Director	Exercise Price (HK$)	No. of share options outstanding as at 1 January 2010	No. of share options exercised during the year	No. of share options outstanding as at 31 December 2010	Percentage of total issued ordinary share capital of the Company as at 31 December 2010	No of underlying ordinary shares interested in	Note
Chen Yuhong	1.78	3,800,000	–	3,800,000	0.31%	8,800,000	(7)
	1.37	5,000,000	–	5,000,000	0.41%		(8)
Cui Hui	0.65	500,000	–	500,000	0.04%	500,000	(5)
Duncan Chiu (Note 1)	0.65	1,000,000	–	1,000,000	0.08%	11,000,000	(5)
	1.37	10,000,000	–	10,000,000	0.82%		(8)
Tang Zhenming	0.58	80,000	–	80,000	0.01%	6,180,000	(4)
	0.65	1,300,000	–	1,300,000	0.11%		(5)
	0.97	800,000	–	800,000	0.07%		(6)
	1.78	2,000,000	–	2,000,000	0.16%		(7)
	1.37	2,000,000	–	2,000,000	0.16%		(8)
Wang Hui (Note 2)	0.58	250,000	(250,000)	–	–	4,400,000	
	0.65	1,750,000	(1,500,000)	250,000	0.02%		(5)
	0.97	1,000,000	–	1,000,000	0.08%		(6)
	1.78	2,000,000	–	2,000,000	0.16%		(7)
	1.37	2,600,000	(1,450,000)	1,150,000	0.09%		(8)
Zeng Zhijie (Note 3)	1.78	750,000	(300,000)	450,000	0.04%	450,000	(7)

Report of the Directors

Notes:

(1) Mr. Duncan Chiu resigned as a Non-executive Director of the Company during the year. After his resignation, Mr. Duncan Chiu remains as an employee of a subsidiary of the Company.

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

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

(4) 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

(5) 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

(6) 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

Report of the Directors

(7) 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

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

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

Save as disclosed above and so far as was known to the Directors, as at 31 December 2010 none of the Directors or chief executive of the Company had any interests or short positions in the shares, debentures or underlying shares of the Company or its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the required standard of dealings by directors of listed issuers as referred to the Model Code for Securities Transactions, to be notified to the Company and the Stock Exchange.

As at 31 December 2010, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2010 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by, or leased to the Company or any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at 31 December 2010, none of the Directors were materially interested in any subsisting contract or arrangement which was significant in relation to the business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

During the year ended 31 December 2010, save as disclosed above, none of the Directors was granted any options to subscribe for shares of the Company. As at 31 December 2010, none of the Directors had any rights to acquire shares in the Company save as disclosed above.

Report of the Directors

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the year ended 31 December 2010, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions. Having made specific enquiry with all the Directors, the Directors had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the year ended 31 December 2010.

SHARE OPTION SCHEME

As at 31 December 2010, share options allowing for the subscription of an aggregate of 311,327,000 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 35 to the financial statements and notes 4, 5, 6, 7 and 8 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 2010.

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

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.

Report of the Directors

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 a room situated at the basement of 18 Changsheng Road, Changping District, Beijing, PRC

Date	:	15 December 2009
Floor area of leased premises	:	100 square meters
Term	:	1 October 2009 to 30 September 2010
Monthly rental	:	RMB600
Usage	:	as storeroom/warehouse

   (ii) Lease of 8th, 9th and 10th Floors of Block A, 3rd and 7th Floor of Block C of 55 Xue Yuan Nan Road, Haidian District, Beijing, PRC

Date	:	1 January 2010
Floor area of leased premises	:	3,765 square meters in aggregate
Term	:	1 January 2010 to 31 December 2010
Monthly rental	:	RMB276,719
Usage	:	as office premises

   (iii) Lease of 5th Floor of Block B of 55 Xue Yuan Nan Road, Haidian District, Beijing, PRC

Date	:	10 January 2010
Floor area of leased premises	:	703 square meters in aggregate
Term	:	1 January 2010 to 31 December 2010
Monthly rental	:	RMB51,670
Usage	:	as office premises

Report of the Directors

(iv) Lease of Rooms 206-210 and Conference Rooms on 2nd Floor, Rooms 306-311 on 3rd Floor in Tower A2 at 18 Chengsheng Road, Changping District, Beijing, PRC

Date	:	31 December 2009
Floor area of leased premises	:	1,834 square meters in aggregate
Term	:	1 January 2010 to 31 December 2010
Monthly rental	:	RMB121,040
Usage	:	as office premises

(v) Lease of various rooms situated at Tower C11 of 18 Changsheng Road, Changpang District, Beijing, PRC

Date	:	1 January 2010
Number of leased rooms	:	51 rooms for the month of January 2010 and 50 rooms for period from February 2010 to December 2010
Term	:	1 January 2010 to 31 December 2010
Monthly rental	:	RMB35,000
Usage	:	as apprentice's dormitories

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 total amount of rent payable by the Group to CNSS for the lease of office premises under the lease agreements, did not exceed the cap amount of RMB5,821,000 (equivalent to approximately HK$6,702,000).

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.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers accounted for approximately 35.77% of the Group's total turnover and the Group's largest customer accounted for approximately 16.77% of the Group's total turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 28.04% of the Group's total purchases and the Group's largest supplier accounted for approximately 12.07% 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 2010, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in Shares

Name	**Nature of interest**	**Approximate number of Shares** (million)	**Approximate percentage of total issued share* of the Company**
China National Computer Software & Information Technology Service Corporation (Hong Kong) Limited ("CS&S (HK)") (Note 1)	Beneficial interest	165.32	11.06%
Chinasoft National Software and Service Company Limited ("CNSS") (Note 1)	Interest of controlled corporation	165.32	11.06%
Chinasoft International (Hong Kong) Limited ("Chinasoft (HK)") (Note 2)	Interest of persons acting in concert	165.32	11.06%
Far East Holdings International Limited ("Far East Holdings") (Note 3)	Beneficial interest	138.99	9.30%

Report of the Directors

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of total issued share* of the Company
Greater Pacific Capital Partners, LP ("GPC") (Note 4)	Beneficial interest	119.27	7.98%
EJF Capital LLC ("EJF") (Note 5)	Beneficial interest	116.40	7.79%
Microsoft Corporation ("Microsoft") (Note 6)	Beneficial interest	97.25	6.50%

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

Notes:

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

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

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

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

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

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

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

Report of the Directors

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

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

AFTER THE REPORTING PERIOD

No any events which happened after the end of the reporting period of the Group of 31 December 2010.

AUDITOR

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

On behalf of the Board

Dr. Chen Yuhong
Managing Director

Beijing, 28 March 2011

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 48, 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 20 years of practicing experience in software information industry. 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 worked at China National Computer Software & Technology Service Corporation ("CS&S") from October 1996 to April 2000, subsequently was appointed as vice president in June 1999 and as senior vice president of CNTC in December 2003. He has also been appointed a director of Chinasoft Resources. 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 48, is the senior vice president of the Company. He is responsible for the Group's human resources and administration general manager and new acquired training department. Dr. Tang obtained a doctorate degree in motor electronic control from Beijing Polytechnic University (北京理工大學) in 1994. 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.

Mr. Wang Hui (王暉), aged 38, is the senior vice president and chief technical officer of the Company. He is responsible for government liaisons and the manufacturing businesses as the chief executive officer. He has over 12 years of practicing experience in software information industry. Mr. Wang graduated from 天津大學 (Tianjin University) in 1995. 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

Dr. Cui Hui (崔輝), aged 49, is Chairman of the Company. Dr. Cui has about 20 years of experience in corporate management. Dr. Cui graduated from Jilin University (吉林大學) with a doctorate degree in economics. Prior to joining the Group on 25 April 2000, he was appointed as senior vice president of CNTC (中軟網絡信息技術有限公司) (subsequently renamed as CNSS) in December 2003. Dr. Cui worked for deputy general manager from July 1999 to January 2000 and was the vice president of CS&S in 2000. He was chairman of the board and 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. 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). Dr. Hui served as the deputy department head in CS&S in August 1983 to April 1992. Currently, he is the director of CNSS.

Biographical Details of Directors and Senior Management

Mr. Duncan Chiu (邱達根), aged 36, has been involved in the management of the Group since joining in 25 April 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 38, 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 of 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 45, 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.

Mr. Fang Jun (方軍), aged 49, 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. The shares of CNSS 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 62, was appointed on 8 May 2008. Mr. Xu is a senior engineer and has many years of experience in administration and corporate management. 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. 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). From May 1995 to March 1998, he was the deputy mayor of Zibo in Shandong Province. He is specialised in the research and technological management of sensors and the related systems and was awarded the ministry level Technology Improvement second-ranked prize.

Biographical Details of Directors and Senior Management

Mr. Zeng Zhijie (曾之杰), aged 43, was appointed on 21 April 2003. Mr. Jeffrey Zeng is currently Managing Partner of Kaixin Investment, a founded by China Development Bank and CITIC Capital. Jeffrey Zeng is currently chairman of China Special Article Logistics Company. Prior to joining Kaixin Investment, he served as managing director of Walden International since 2001, for which he was mainly responsible for venture investments in China and other Asia countries. Prior to Walden International, Mr. Zeng worked for Mitsubishi Corporation in Tokyo, Japan and CITIC Pacific Ltd. in Hong Kong. At present, Mr. Zeng serves as director or independent director for 6 listed companies: China Greatwall Computer Shenzhen Co., Ltd, Hunan Talkweb Information System Ltd (Shenzhen Stock Exchange), Chinasoft International Ltd (SEHK), Shanghai AJ Corporation (Shanghai Stock Exchange), E-House and Vimicro (Nasdaq). Other companies he serves as director: AutoNavi Software Co., Ltd, Landv Limited (Tianjin), State Microelectronics, the executive director of AAMA China branch and board member of WRSACC 2005 Committee. Mr. Zeng received his B.S. in Economics from the University of Nagasaki, Japan, and M.M. from Stanford University.

Dr. Leung Wing Yin Patrick (梁永賢), aged 54, 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 49, 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.

Mr. Simon Chung (鍾鎮銘), aged 49, is the chief operating officer of the Company and the chief executive officer in BPO business of Japan. He is responsible for the overall daily operation of the Group. He has 20 years of 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. He holds a bachelor's degree in Computing Mathematics from the University of Wollongong in Australia. 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.

Biographical Details of Directors and Senior Management

Mr. Simon Zhang (張崇濱), aged 48, is the senior vice president of the Company. He is responsible for the outsourcing business of Europe and US in the Group as the chief executive officer. Mr. Zhang worked in Shaanxi Provincial Tourism Bureau after graduating from the Department of Economics of Northwest University in 1987. Prior to joining the Group, he was the General Manager of Chongqing Three Gorges Liner Corporation (under China International Travel Service in Xi'an from 1997 to 1999). 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. From 1992 to 1994, Mr. Zhang was employed as Chief Business Representative in U.S. Phonenix Medical Equipment Company.

Mr. Han Shenyao (韓申瑤), aged 55, is the senior vice president of the Company and the president and chief executive officer of Shanghai Huateng Software System Co. Ltd. (上海華騰軟件系統有限公司). He is responsible for the operation management of Shanghai Huateng Software System Co. Ltd.. Prior to joining Shanghai Huateng, from 1984 to 1997, Mr. Han served for the Shanghai Municipal Government as the Director for Shanghai Municipal Office Information Processing Center and Director of the Department of Technologies of the Shanghai Municipal Government General Office, during which he served as a member of the expert group of Shanghai Information Port and Deputy Head of the expert group of the Decision making System of National Executive Heads Office. Mr. Han, as one of the first group of EMBA graduates in China-Europe International Business School (CEIBS), joined CEIBS in 1997 and had worked as an officer of the President's Office. Mr. Han participates a number of principalships and is also a member of Chinese People's Political Consultative Conference in Xuhui district of Shanghai, Vice President of Shanghai Computer Institute, and Vice President of Shanghai Software Industry Association and has been elected as 2008 Shanghai Excellent Software Enterpriser.

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.

Independent Auditor's Report

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 55 to 147, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a true and fair view 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 of the Group as at 31 December 2010 and of the Group's loss 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Turnover	5	**1,601,211**	1,104,602
Cost of sales		**(1,088,007)**	(767,624)
Gross profit		**513,204**	336,978
Other income, gains and losses		**35,264**	18,868
Selling and distribution costs		**(94,203)**	(71,065)
Administrative expenses		**(241,444)**	(197,938)
Research and development cost expensed		**(39,086)**	(19,397)
Allowance for doubtful debts		**(8,276)**	(21,113)
Amortisation of intangible assets and prepaid lease payments		**(29,889)**	(23,892)
Impairment loss recognised in respect of goodwill	14	**–**	(80,667)
Finance costs	6	**(8,102)**	(4,064)
Share of results of associates	15	**2,650**	2,959
Loss arising from changes in fair value of redeemable convertible preferred shares	26	**(145,197)**	(47,746)
Loss before taxation		**(15,079)**	(107,077)
Taxation	7	**(14,657)**	(13,480)
Loss for the year	8	**(29,736)**	(120,557)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**1,197**	(553)
Total comprehensive income for the year		**(28,539)**	(121,110)
Loss for the year attributable to:			
Owners of the Company		**(40,133)**	(126,743)
Non-controlling interests		**10,397**	6,186
		(29,736)	(120,557)
Total comprehensive income attributable to:			
Owners of the Company		**(38,948)**	(127,296)
Non-controlling interests		**10,409**	6,186
		(28,539)	(121,110)
Loss per share	11		
Basic and diluted		**RMB (0.0377)**	RMB (0.1256)

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	12	**108,871**	95,131
Intangible assets	13	**181,316**	83,197
Goodwill	14	**729,111**	414,615
Interests in associates	15	**21,758**	17,428
Prepaid lease payments	16	**643**	867
Prepayment for acquisition of technical knowhow		**–**	5,216
Deferred tax assets	25	**9,025**	3,528
		1,050,724	619,982
Current assets			
Inventories	17	**18,441**	14,457
Trade and other receivables	18	**557,160**	362,278
Prepaid lease payments	16	**178**	166
Amounts due from associates	15	**2,430**	–
Amounts due from customers for contract work	19	**251,278**	161,019
Amounts due from related companies	22	**414**	711
Pledged deposits	20	**8,826**	12,870
Bank balances and cash	20	**484,172**	297,029
		1,322,899	848,530
Current liabilities			
Amounts due to customers for contract work	19	**58,066**	79,745
Trade and other payables	21	**460,799**	283,272
Bills payable	23	**6,213**	1,255
Amounts due to related companies	22	**147**	128
Dividend payable to shareholders	79	**79**	82
Taxation payable		**14,770**	11,568
Borrowings	24	**186,950**	104,071
Consideration payable on acquisition of businesses	32(b)(c)(e)	**74,430**	22,296
Consideration payable on acquisition of additional interest in a subsidiary		**–**	844
		801,454	503,261
Net current assets		**521,445**	345,269
Total assets less current liabilities		**1,572,169**	965,251

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current liabilities			
Deferred tax liabilities	25	**32,784**	9,208
Consideration payable for acquisition of businesses	32(b)	**17,830**	11,374
Redeemable convertible preferred shares	26	**254,443**	167,655
Convertible loan notes	27	**165,109**	–
		470,166	188,237
		1,102,003	777,014
Capital and reserves			
Share capital	28	**61,133**	52,357
Share premium	29	**807,664**	519,389
Reserves	29	**167,651**	154,311
Equity attributable to owners of the Company		**1,036,448**	726,057
Non-controlling interests		**65,555**	50,957
Total equity		**1,102,003**	777,014

The consolidated financial statements on pages 55 to 147 were approved and authorised for issue by the board of directors on 28 March 2011 and are signed on its behalf by:

Dr. Chen Yuhong
DIRECTOR

Dr. Tang Zhenming
DIRECTOR

Consolidated Statement of Changes In Equity

For the year ended 31 December 2010

	Attributable to the owners of the Company											
	Share capital RMB'000	Share premium RMB'000 (note 29)	Translation reserve RMB'000	Share options reserve RMB'000	Convertible loan notes reserves 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	Total RMB'000	Attributable to the non-controlling interests RMB'000	Total RMB'000
At 1 January 2009	52,178	516,306	(1,338)	39,964	–	15,793	8,868	1,712	191,858	825,341	44,771	870,112
Loss for the year	–	–	–	–	–	–	–	–	(126,743)	(126,743)	6,186	(120,557)
Other comprehensive income for the year	–	–	(553)	–	–	–	–	–	–	(553)	–	(553)
Total comprehensive income for the year	–	–	(553)	–	–	–	–	–	(126,743)	(127,296)	6,186	(121,110)
Issue of ordinary shares upon exercise of share options	179	3,083	–	(737)	–	–	–	–	–	2,525	–	2,525
Recognition of equity-settled share-based payments	–	–	–	25,487	–	–	–	–	–	25,487	–	25,487
Appropriations	–	–	–	–	–	–	4,110	2,409	(6,519)	–	–	–
At 31 December 2009	52,357	519,389	(1,891)	64,714	–	15,793	12,978	4,121	58,596	726,057	50,957	777,014
Loss for the year	–	–	–	–	–	–	–	–	(40,133)	(40,133)	10,397	(29,736)
Other comprehensive income for the year	–	–	1,185	–	–	–	–	–	–	1,185	12	1,197
Total comprehensive income for the year	–	–	1,185	–	–	–	–	–	(40,133)	(38,948)	10,409	(28,539)
Issue of ordinary shares upon partial conversion of redeemable convertible preferred shares	1,319	43,032	–	–	–	–	–	–	–	44,351	–	44,351
Acquisition of businesses	5,140	194,861	–	–	–	–	–	–	–	200,001	2,940	202,941
Capital contribution from non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	1,249	1,249
Issue of ordinary shares upon exercise of share options	2,317	50,382	–	(11,903)	–	–	–	–	–	40,796	–	40,796
Recognition of equity-settled share-based payments	–	–	–	27,669	–	–	–	–	–	27,669	–	27,669
Recognition of equity component of convertible loan notes	–	–	–	–	36,522	–	–	–	–	36,522	–	36,522
Appropriations	–	–	–	–	–	–	2,158	3,540	(5,698)	–	–	–
At 31 December 2010	**61,133**	**807,664**	**(706)**	**80,480**	**36,522**	**15,793**	**15,136**	**7,661**	**12,765**	**1,036,448**	**65,555**	**1,102,003**

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Loss before taxation		**(15,079)**	(107,077)
Adjustments for:			
Loss arising from changes in fair value of redeemable convertible preferred shares		**145,197**	47,746
Depreciation of property, plant and equipment		**35,377**	23,495
Amortisation of intangible assets and prepaid lease payments		**29,889**	23,892
Share option expenses		**27,669**	25,487
Allowance for doubtful debts		**8,276**	21,113
Finance costs		**8,102**	4,064
Loss on disposal of property, plant and equipment and intangible assets		**266**	147
Net foreign exchange (gain) loss		**(5,002)**	82
Share of results of associates		**(2,650)**	(2,959)
Interest income		**(1,392)**	(2,551)
Impairment loss recognised in respect of goodwill		**–**	80,667
Operating cash flows before movements in working capital		**230,653**	114,106
Increase (decrease) in trade and other payables		**114,801**	(16,731)
Increase (decrease) in bills payable		**4,958**	(11,908)
Increase in amounts due to related companies		**19**	106
(Increase) decrease in trade and other receivables		**(177,188)**	34,661
Increase in amounts due from customers for contract work		**(90,259)**	(91,128)
(Decrease) increase in amounts due to customers for contract work		**(21,679)**	61,976
(Increase) decrease in inventories		**(3,714)**	7,498
Cash generated from operations		**57,591**	98,580
Income taxes paid		**(19,789)**	(13,068)
Taxation refunded		**198**	961
Net cash generated from operating activities		**38,000**	86,473
Investing activities			
Decrease in pledged deposits		**4,044**	8,760
Interest received		**1,392**	2,551
Repayment from related companies		**297**	95
Proceeds from disposal of property, plant and equipment		**115**	810
Purchases of property, plant and equipment		**(48,878)**	(35,958)
Acquisition of businesses	32(a)(b)	**(19,823)**	(33,541)
Development costs paid		**(9,807)**	(11,216)
Advance to associates		**(2,430)**	–
Investments in associates		**(1,680)**	–
Prepayment for acquisition of technical knowhow		**(579)**	(2,898)
Net cash used in investing activities		**(77,349)**	(71,397)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010	2009
	RMB'000	RMB'000
Financing activities		
New bank loan raised	**206,950**	88,600
Proceeds from issue of convertible loan notes	**200,000**	–
Proceeds from exercise of share options	**40,796**	2,525
Capital contribution from non-controlling interests	**1,249**	–
Repayment of borrowings	**(107,000)**	(55,664)
Repayment of other loan	**(64,859)**	–
Deferred payments for acquisition of businesses	**(20,140)**	(7,603)
Repayment to third party	**(16,995)**	–
Interest paid on redeemable convertible preferred shares	**(6,697)**	(7,555)
Interest paid	**(5,860)**	(3,782)
Net cash from financing activities	**227,444**	16,521
Net increase in cash and cash equivalents	**188,095**	31,597
Cash and cash equivalents at beginning of the year	**297,029**	265,804
Effect of foreign exchange rate changes	**(952)**	(372)
Cash and cash equivalents at end of the year, representing bank balances and cash	**484,172**	297,029

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL INFORMATION OF THE COMPANY

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 16 February 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 June 2003.

On 29 December 2008, the listing of the shares of the Company was transferred to the Main Board of the Stock Exchange.

The addresses of the registered office and principal places of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The consolidated financial statements are presented in Renminbi dollars, which is same as the functional currency of the Company.

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

Particulars of the Company's subsidiaries at 31 December 2010 and 2009 are set out as follows:

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2010 %	2009 %	**2010** %	2009 %	
Chinasoft International Holdings Limited	Samoa/ Hong Kong ("HK")	US$1	**100**	100	**–**	–	Investment holding
Chinasoft International (Hong Kong) Limited	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	Inactive

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2010	2009	**2010**	2009	
			%	%	**%**	%	
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") (Note iv)	People's Republic of China (other than HK) ("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 (Note iv)	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 (Note iv)	PRC	HK$5,000,000	**–**	–	**100**	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟總公司計算器培訓中心 Computer Training Center of CS&S (Note iii)	PRC	RMB500,000	**–**	–	**100**	100	Provision of IT training services
北京中軟國際教育科技有限公司 Beijing Chinasoft International Education Technology Co., Ltd.	PRC	RMB1,000,000	**–**	–	**70**	70	Development of educational software
無錫中軟國際信息技術培訓有限公司 Wuxi Chinasoft International information Technology Training Co., Ltd.	PRC	RMB2,000,000	**–**	–	**70**	70	Provision of IT training services

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2010 %	2009 %	**2010 %**	2009 %	
中軟國際（昆明）信息技術有限公司 Chinasoft International (Kunming) Information Technology Limited (Note iv)	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 (Note iv)	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")(Note iv)	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 Xiamen Chinasoft Haisheng International Technology Limited	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動化有限公司 Sino Sunnyever Automation and Information Co., Ltd. ("Sino Sunnyever")	PRC	RMB8,000,000	**–**	–	**100**	100	Provision of solutions services
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") (Note iv)	PRC	US$800,000	**–**	–	**100**	100	Provision of IT outsourcing services

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group Directly 2010 %	Directly 2009 %	Indirectly 2010 %	Indirectly 2009 %	Principal activities
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 ("Chinasoft Resources Shanghai")	PRC	RMB3,000,000	**–**	–	**80**	80	Provision of IT outsourcing services
日本創智株式會社 Japan Powerise Co., Ltd.	Japan	JPY22,500,000	**–**	–	**100**	100	Provision of IT outsourcing services
Hinge Global Resource Inc. ("HGR")	Cayman Islands	US$3,956,000	**97.35**	97.35	**–**	–	Investment holding
上海華騰軟體系統有限公司 Shanghai Huateng Software Systems Co., Ltd. ("Shanghai Huateng")(Note iv)	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") (Note i)	PRC	JPY25,000,000	**–**	–	**58.41**	58.41	Provision of IT outsourcing services
大連信華軟件技術有限公司 Dalian Xinhua Software Co., Ltd. (Note iv)	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. (Note iv)	PRC	US$250,000	**–**	–	**97.35**	97.35	Provision of IT outsourcing services

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2010	2009	**2010**	2009	
			%	%	**%**	%	
株式會社東京信華 Kabushiki Kaisha Tokyo Xinhua	Japan	JPY10,000,000	**–**	–	**97.35**	97.35	Provision of IT outsourcing services
DoubleBridge Technologies, Inc.	USA	US$2,204,400	**–**	–	**97.35**	97.35	Provision of IT outsourcing services
長沙中軟教育科技有限公司 Excellency Training Center of CSI (Changsha)	PRC	RMB1,500,000	**–**	–	**70**	70	Provision of IT training services
重慶中卓教育諮詢有限公司 Excellency Training Center of CSI (Chongqing)	PRC	RMB1,500,000	**–**	–	**70**	70	Provision of IT training services
大連中軟卓越信息技術有限公司 Dalian Excellency Information & Technology Ltd.	PRC	RMB500,000	**–**	–	**70**	70	Provision of IT training services
大連中軟卓越計算機培訓中心 Excellency Training Center of CSI (Dalian) (Note iii)	PRC	RMB1,000,000	**–**	–	**70**	70	Provision of IT training services
廈門中軟卓越教育服務有限公司 Excellency Training Center of CSI (Xiamen)	PRC	RMB1,000,000	**–**	–	**70**	70	Provision of IT training services
天津開發區中軟卓越信息技術有限公司 Excellency Training Center of CSI (Tianjin)	PRC	RMB3,000,000	**–**	–	**70**	70	Provision of IT training services

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group Directly 2010 %	Directly 2009 %	Indirectly 2010 %	Indirectly 2009 %	Principal activities
中軟國際資源信息技術（無錫）有限公司 Chinasoft International Information Technology (Wuxi) Limited (Note iv)	PRC	USD450,000/ USD3,000,000	**–**	–	**100**	100	Provision of IT training services
北京廣域齊民信息技術有限公司 Beijing Guangyuqimin Information Technology Limited ("Guangyuqimin") (note 32(d))	PRC	RMB506,200	**–**	–	**100**	100	Provision of IT solutions
深圳市金華業軟件系統有限公司 Shenzhen Jinhuaye Software Ltd. ("Shenzhen Jinhuaye") (note 32(c))	PRC	RMB1,000,000	**–**	–	**100**	100	Provision of IT outsourcing services
蘇州華騰軟件系統有限公司 Suzhou Huateng Software systems Co., Ltd	PRC	RMB2,000,000	**–**	–	**86.43**	86.43	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
南京中軟資源科技服務有限公司* Nanjing Chinasoft Resources Information Technology Services Limited (Note iv)	PRC	US$6,000,000	**–**	–	**100**	–	Provision of IT outsourcing services
漢普管理諮詢（中國）有限公司 Han Consulting (China) Ltd. ("Han Consulting") (note 32(a))	PRC	RMB55,026,571	**–**	–	**51**	–	Provision of consulting services
掌中無限控股有限公司 MMIM Technologies Inc. ("MMIM") (note 32(b))	Cayman Islands	US$561	**100**	–	**–**	–	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2010	2009	**2010**	2009	
			%	%	**%**	%	
掌中無限信息服務有限公司 Mobile Instant Messaging and Information System, Ltd.	HK	HK$1	**–**	–	**100**	–	Provision of mobile internet technology services
北京掌迅互動信息技術有限公司 MMIM Interactive Co., Ltd. ("MMIM Interactive") (Note iv)	PRC	US$13,150,000	**–**	–	**100**	–	Provision of mobile internet technology services
北京掌中無限信息技術有限公司 MMIM Info. Technology Co., Ltd. (Note ii)	PRC	RMB10,000,000	**–**	–	**100**	–	Provision of mobile internet technology services
北京靈息互動信息技術有限公司 MMIM Palm Interactive Co., Ltd. (Note ii)	PRC	RMB10,000,000	**–**	–	**100**	–	Provision of mobile internet technology services
北京掌上靈息科技有限公司 MMIM Palm Co., Ltd. (Note ii)	PRC	RMB500,000	**–**	–	**100**	–	Provision of mobile internet technology services

* Newly established

None of the subsidiaries had any debt securities subsisting at 31 December 2010 or at any time during the year.

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

Note ii: The Company does not have legal ownership in equity of these entities. Nevertheless, under a series of agreements enacted among the registered owners of these entities and MMIM Interactive, the Group controls these entities by way of controlling all the voting rights of them, governing their financial and operating policies and appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authority. The agreements enable the Group to obtain benefit from these entities through the exclusive technical and consulting services. In addition, such agreements also transfer the risks and rewards of these entities to the Group. As a result, they are considered as subsidiaries of the Company.

Note iii: These entities are registered as institutional organisations under the PRC law.

Note iv: These entities are registered as wholly-foreign owned enterprises under the PRC law.

Note v: All the PRC established entities, except for those mentioned in Note iii and Note iv above, are registered as limited liability companies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

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

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

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

HKFRS 3 (as revised in 2008) Business Combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for the acquisitions as disclosed in note 32 in the current year.

- HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. In accounting for the acquisition completed in the current year (see note 32(a)), the Group has elected to measure the non-controlling interests at the share of recognised identifiable net assets of the acquiree at the acquisition date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

HKFRS 3 (as revised in 2008) Business Combinations – continued

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

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

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

Consolidated statement of financial position

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

Consolidated statement of comprehensive income

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

[2] Effective for annual periods beginning on or after 1 July 2010

[3] Effective for annual periods beginning on or after 1 July 2011

[4] Effective for annual periods beginning on or after 1 January 2013

[5] Effective for annual periods beginning on or after 1 January 2012

[6] Effective for annual periods beginning on or after 1 January 2011

[7] Effective for annual periods beginning on or after 1 February 2010

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

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 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 statement of comprehensive income 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of consolidation – continued

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010 – continued

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings at the date when control is lost). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. Acquisitions of additional interest in subsidiaries are recorded at historical cost and the excess of the cost of acquisition over the carrying amount of the net assets acquired is recognised as goodwill. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Business combinations

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations – continued

Business combinations that took place on or after 1 January 2010 – continued

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations – continued

Business combinations that took place on or after 1 January 2010 – continued

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Business combinations that took place prior to 1 January 2010

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations – continued

Business combinations that took place prior to 1 January 2010 – continued

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 recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the recognised amounts 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 recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units ("CGUs") (or groups of CGU), that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit 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 profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Interests in associates – continued

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 initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognised the Group's share of the profit or loss and other comprehensive income 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 investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of investment subsequently increases.

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.

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. Deposits and instalments received from purchasers in respect of sales of goods prior to meeting the above criteria on revenue recognition are included in trade and other payables.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition – continued

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Project-based development contracts

Where the outcome of a contract for project-based development can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, 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 the amount can be measured reliably and its receipt is considered probable.

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.

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 statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are for the purpose of giving immediate financial support with no future related costs are recognised in profit or loss in the period in which they become receivable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 benefits costs

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as and included in finance costs in profit or loss in the period in which they are incurred.

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 statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets or liabilities. Deferred tax is recognised in profit or loss.

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 values, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for its intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for intended use.

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 profit or loss in the period in which the item is derecognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs 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.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Research and development expenditure

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 activities or from the development phase of an internal project is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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 listed above. 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 measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets – continued

Intangible assets acquired in a business combination – continued

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs 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.

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 the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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, but 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.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets

The Group's financial assets are classified into loans and receivables.

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 to the net carrying amount on initial recognition.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from associates, 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).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. 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 affected.

Objective evidence of impairment could include:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

For certain categories of financial asset, such as trade receivables from third parties 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 credit period of 30 to 180 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.

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 fair value through profit or loss ("FVTPL") and other financial liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity – continued

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 to the net carrying amount on initial recognition.

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

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 allows the holder to convert the preferred shares into ordinary shares and 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 the end of each reporting period 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.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity – continued

Convertible loan notes

Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes reserve will be released to retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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 and payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 re-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 end of the reporting period, 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 in other comprehensive income and accumulated in equity (the translation reserve).

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. Prior to 1 January 2010, exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 profit or loss 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 on or after 1 January 2005, 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 equity (share options reserve).

At the end of the reporting period, 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

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

Allowance for doubtful debts

In determining whether there is objective evidence of allowance for doubtful debts, the Group takes into consideration the collectability, aged 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 2010, the carrying amount of trade receivables is RMB455,011,000 (2009: RMB254,786,000) which is after allowance for doubtful debts of RMB61,890,000 (2009: RMB55,768,000) (see note 18).

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated. For certain CGUs, the recoverable amount determination is based on the value in use calculation which 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. The recoverable amount determination for other CGUs is based on an estimation of a weighted average of market value multiples as determined by comparable companies in the relevant industry. Should there be any change in the market conditions, it may lead to a change in the results of the determination and impairment of goodwill may be required. During the year ended 31 December 2010, the Group recognised no impairment loss (2009: impairment loss of RMB80,667,000). As at 31 December 2010, the carrying amount of goodwill is RMB729,111,000 (2009: RMB414,615,000). Details of the recoverable amount calculation are disclosed in note 14.

Project-based development contracts

Revenue from project-based development contracts 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 contacts 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 complete in the budget prepared for each contract as the contract progresses. Any revisions to estimates of contract outcomes and expected costs to completion would affect contract revenue recognition. Should expected costs to complete exceed contract revenue, a provision for contract loss would be recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

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 the end of the reporting period 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 2010, the carrying amount of the redeemable convertible preferred shares is RMB254,443,000 (2009: RMB167,655,000).

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

Fair value of contingent considerations arising from business combinations

The fair value of contingent considerations arising from business combinations is based on a discounted cash flow model considering the forecasted financial performance, the market potential of the acquired business and the market performance. As at 31 December 2010, the carrying amount of the contingent considerations arising from business combinations which involve fair value estimation is RMB77,275,000 (2009: Nil).

When the actual result is different from the expected result, the actual payment will be different and the difference will be recognised in profit or loss.

5. TURNOVER AND SEGMENT INFORMATION

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

Information reported to the Chief Executive Officer of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the category of customers for each type of goods supplied or services provided by the Group's operating divisions.

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

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

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

3. IT outsourcing

4. Training

Information regarding the above segments is reported below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

5. SEGMENT INFORMATION – continued

Segment revenues and results

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

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

Reconciliation of segment results to loss before taxation:

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

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in either year.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

5. SEGMENT INFORMATION – continued

Segment assets and liabilities

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

5. SEGMENT INFORMATION – continued

Other information

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

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

Geographical information

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

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

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

5. SEGMENT INFORMATION – continued

Segment revenue by products and services:

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

Information about major customers

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

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

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

6. FINANCE COSTS

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. TAXATION

	2010 RMB'000	2009 RMB'000
Tax charge comprises:		
PRC Enterprise Income Tax		
– current year	**22,406**	16,602
– (over) under provision in prior year	**(19)**	107
	22,387	16,709
The US Federal and State Income taxes	**406**	257
	22,793	16,966
Deferred tax (note 25)	**(8,136)**	(3,486)
	14,657	13,480

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards unless subject to tax exemption set out below.

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. TAXATION – continued

In addition, Chinasoft Resources Shenzhen is located in the Shenzhen Special Economic Zone and the applicable tax rate was 15% before the effective date of the new EIT Law. With effect from 1 January 2008, the tax rate will increase progressively to 25%. The applicable tax rate of the Special Economic Zone is 22% in 2010 (2009: 20%). As a result, Chinasoft Resources Shenzhen is subject to the income tax at the rate of 22% for the year ended 31 December 2010 (2009: 20%).

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

8. LOSS FOR THE YEAR

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

Details of emoluments to the directors of the Company for the year ended 31 December 2010 are as follows:

	Executive director			Non-executive director						Independent non-executive director			
	Chen Yuhong RMB'000	Tang Zhenming RMB'000	Wang Hui RMB'000	Cui Hui RMB'000	Duncan Chiu RMB'000 (Note a)	Liu Zheng RMB'000	Zhang Yaqin RMB'000	Fang Jun RMB'000 (Note b)	Su Zhenming RMB'000	Xu Zeshan RMB'000	Zeng Zhijie RMB'000	Leung Wing Yin Patrick RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	–	–	–	–	118	104	222
Other emoluments:													
Salaries and other benefits	1,721	634	921	52	120	–	–	52	–	–	–	–	3,500
Share option expenses	67	35	35	–	–	–	–	–	–	–	13	–	150
Retirement benefits costs	28	28	28	–	–	–	–	–	–	–	–	–	84
Total directors' remuneration	1,816	697	984	52	120	–	–	52	–	–	131	104	3,956

Details of emoluments to the directors of the Company for the year ended 31 December 2009 are as follows:

	Executive director			Non-executive director						Independent non-executive director				
	Chen Yuhong RMB'000	Tang Zhenming RMB'000	Wang Hui RMB'000	Cui Hui RMB'000	Duncan Chiu RMB'000 (Note a)	Liu Zheng RMB'000	Zhang Yaqin RMB'000	Fang Jun RMB'000 (Note b)	Su Zhenming RMB'000 (Note c)	Timothy Chen Yong Cheng RMB'000	Xu Zeshan RMB'000	Zeng Zhijie RMB'000	Leung Wing Yin Patrick RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	–	–	32	–	123	164	106	425
Other emoluments:														
Salaries and other benefits	830	453	593	106	120	–	–	–	–	–	–	–	–	2,102
Share option expenses	581	272	307	–	553	–	–	–	–	–	–	58	–	1,771
Retirement benefits costs	26	26	26	–	–	–	–	–	–	–	–	–	–	78
Total directors' remuneration	1,437	751	926	106	673	–	–	–	32	–	123	222	106	4,376

Note a: Resigned during 2010.

Note b: Appointed during 2009.

Note c: Resigned during 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2009: one) were directors of the Company whose emoluments were included above. The emolument of the remaining two (2009: four) highest paid individuals was as follows:

	2010 RMB'000	2009 RMB'000
Salaries and other benefits	1,482	1,674
Share option expenses	267	3,627
Retirement benefits costs	38	75
	1,787	5,376

Their emoluments were within the following bands:

	No. of employees 2010	2009
HK$1 to HK$1,000,000 (equivalent to RMB1 to RMB870,800; 2009: equivalent to RMB1 to RMB881,199)	1	–
HK$1,000,001 to HK$1,500,000 (equivalent to RMB870,801 to RMB1,306,200; 2009: equivalent to RMB881,200 to RMB1,321,880))	1	1
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,306,201 to RMB1,741,600; 2009: equivalent to RMB1,321,881 to RMB1,762,400))	–	3
	2	4

During either year, no emoluments were paid by the Group to any of the directors and the five highest paid individuals 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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

11. LOSS PER SHARE

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 2009	18,641	78,948	12,520	10,063	120,172
Exchange adjustments	–	1	–	–	1
Additions	4,417	25,508	1,574	4,459	35,958
Acquired on acquisition of business (note 32(c)(d))	–	4,359	221	–	4,580
Disposals	(78)	(3,000)	(210)	–	(3,288)
Transfers	11,184	413	262	(11,859)	–
At 31 December 2009	34,164	106,229	14,367	2,663	157,423
Exchange adjustments	(10)	(255)	(2)	–	(267)
Additions	9,434	33,882	1,952	3,610	48,878
Acquired on acquisition of business (note 32(a)(b))	–	861	–	–	861
Disposals	–	(3,343)	(268)	–	(3,611)
Transfers	1,513	2,559	–	(4,072)	–
At 31 December 2010	**45,101**	**139,933**	**16,049**	**2,201**	**203,284**
DEPRECIATION					
At 1 January 2009	8,159	29,316	3,659	–	41,134
Provided for the year	4,339	17,710	1,446	–	23,495
Eliminated on disposals	(45)	(2,103)	(189)	–	(2,337)
At 31 December 2009	12,453	44,923	4,916	–	62,292
Exchange adjustments	(9)	(15)	(2)	–	(26)
Provided for the year	8,184	25,550	1,643	–	35,377
Eliminated on disposals	–	(2,987)	(243)	–	(3,230)
At 31 December 2010	**20,628**	**67,471**	**6,314**	**–**	**94,413**
CARRYING VALUES					
At 31 December 2010	**24,473**	**72,462**	**9,735**	**2,201**	**108,871**
At 31 December 2009	21,711	61,306	9,451	2,663	95,131

The above property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	Over the relevant lease terms or 19%-33$^1/_3$%, whichever is the shorter
Furniture, fixtures and equipment	9%-33$^1/_3$%
Motor vehicles	9%-20%

Notes to the Consolidated Financial Statements

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13. INTANGIBLE ASSETS

	Development costs	Technical knowhow	Software	Contract-based customer-related intangibles	Technical expertise	Customer relationship	Patent	Trade name	Technology	Non-compete agreements	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST											
At 1 January 2009	45,326	11,572	4,970	19,704	12,494	27,905	717	968	6,643	–	130,299
Acquired on acquisitions (note 32(c)(d)(e))	–	–	–	–	–	14,970	–	–	–	1,019	15,989
Additions	11,216	–	–	–	–	–	–	–	–	–	11,216
Disposals	–	–	(120)	–	–	–	–	–	–	–	(120)
At 31 December 2009	56,542	11,572	4,850	19,704	12,494	42,875	717	968	6,643	1,019	157,384
Acquired on acquisitions (note 32(a)(b))	–	–	5,306	–	–	93,889	13,047	–	–	–	112,242
Additions	9,807	5,795	–	–	–	–	–	–	–	–	15,602
At 31 December 2010	**66,349**	**17,367**	**10,156**	**19,704**	**12,494**	**136,764**	**13,764**	**968**	**6,643**	**1,019**	**285,228**
AMORTISATION/IMPAIRMENT											
At 1 January 2009	19,527	4,188	592	9,852	8,067	7,273	267	145	664	–	50,575
Provided for the year	7,477	1,642	491	3,941	1,712	6,699	200	194	1,329	41	23,726
Disposals	–	–	(114)	–	–	–	–	–	–	–	(114)
At 31 December 2009	27,004	5,830	969	13,793	9,779	13,972	467	339	1,993	41	74,187
Provided for the year	7,199	2,222	1,427	3,941	1,712	11,095	309	194	1,329	297	29,725
At 31 December 2010	**34,203**	**8,052**	**2,396**	**17,734**	**11,491**	**25,067**	**776**	**533**	**3,322**	**338**	**103,912**
CARRYING VALUES											
At 31 December 2010	**32,146**	**9,315**	**7,760**	**1,970**	**1,003**	**111,697**	**12,988**	**435**	**3,321**	**681**	**181,316**
At 31 December 2009	29,538	5,742	3,881	5,911	2,715	28,903	250	629	4,650	978	83,197

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

13. INTANGIBLE ASSETS – continued

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

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

14. GOODWILL

	RMB'000
COST	
At 1 January 2009	464,982
Arising on acquisition of businesses	48,675
At 31 December 2009	513,657
Arising on acquisition of businesses	314,496
At 31 December 2010	**828,153**
IMPAIRMENT	
At 1 January 2009	18,375
Impairment loss recognised for the year	80,667
At 31 December 2009	99,042
Impairment loss recognised for the year	–
At 31 December 2010	**99,042**
CARRYING VALUES	
At 31 December 2010	**729,111**
At 31 December 2009	414,615

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14. GOODWILL – continued

Impairment testing on goodwill

For the purposes of impairment testing, the carrying amount of goodwill (net of impairment loss) as at 31 December 2010 and 2009 has been allocated to the following individual CGUs under the four segments:

	2010 RMB'000	2009 RMB'000
SGM segment		
– Chinasoft Beijing	26,396	26,396
– Sino Sunnyever	2,669	2,669
– Guangyuqimin	2,909	2,909
– Tobacco	26,275	26,275
– Han Consulting	11,250	–
– MMIM	303,246	–
	372,745	58,249
SFI segment		
– HGR and its subsidiaries (Note i)	134,188	134,188
IT outsourcing segment		
– Cyber Resources	31,963	31,963
– Chinasoft Resources Beijing	80,968	80,968
– HGR and its subsidiaries (Note i)	82,817	82,817
– Chinasoft Resources Shanghai	6,109	6,109
– Shenzhen Jinhuaye	19,491	19,491
	221,348	221,348
Training segment	830	830
	729,111	414,615

Note i: At the end of 2010 and 2009, the total carrying amount of goodwill before impairment was of RMB297,672,000 which was resulted from the acquisition of HGR and its subsidiaries in 2007. The goodwill contributes to the cash flows of both the SFI and IT outsourcing segments.

No impairment loss of goodwill was recognised for the year ended 31 December 2010. In 2009, an impairment loss of goodwill of RMB80,667,000 arising on acquisition of HGR and its subsidiaries under the IT outsourcing segment was recognised.

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14. GOODWILL – continued

Impairment testing on goodwill – continued

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

The recoverable amounts of the following CGUs have been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rates shown below. The cash flows of the CGUs beyond the five-year period are extrapolated using steady growth rates shown below. These growth rates are based on the relevant industry. 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 and/or outflows which include budgeted sales and gross profit margin. Such estimation is based on the past performance of the CGUs and management's expectations.

CGUs	Discount rate		Growth rate	
	2010	2009	**2010**	2009
SGM segment				
– Chinasoft Beijing	**16%**	Note ii	**3%**	Note ii
– Sino Sunnyever	**16%**	14%	**3%**	3%
– Guangyuqimin	**16%**	13%	**3%**	3%
– Tobacco	**16%**	17%	**3%**	3%
– Han Consulting	**16%**	Note iii	**3%**	Note iii
– MMIM	**18%**	Note iii	**3%**	Note iii
SFI segment				
– HGR and its subsidiaries	**16%**	18%	**3%**	3%
IT outsourcing segment				
– Cyber Resources	**Note iv**	Note iv	**Note iv**	Note iv
– Chinasoft Resources Beijing	**15%**	Note ii	**3%**	Note ii
– HGR and its subsidiaries	**15%**	18%	**3%**	3%
– Chinasoft Resources Shanghai	**15%**	Note ii	**3%**	Note ii
– Shenzhen Jinhuaye	**18%**	16%	**3%**	3%
Training segment	**16%**	Note ii	**3%**	Note ii

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14. GOODWILL – continued

Impairment testing on goodwill – continued

Note ii: In 2009, the recoverable amounts of these CGUs were fair value less costs to sell and had been determined based on the valuations at 31 December 2009. The valuations were based on the management's 2009 financial information and a weighted average of market value of invested capital over earnings before interest and taxation of 17 and that over earnings of 17 based on comparable companies in the relevant industry.

Note iii: These CGUs relate to entities acquired in 2010.

Note iv: In 2010, the recoverable amount of Cyber Resources was fair value less costs to sell and had been determined based on the valuation at 31 December 2010. The valuation was based on the management's 2010 financial information and a weighted average of market value of invested capital over earnings before interest and taxation of 22 (2009: 17) and that over earnings of 22 (2009: 17) based on comparable companies in the relevant industry.

15. INTERESTS IN ASSOCIATES

	2010 **RMB'000**	2009 RMB'000
Unlisted cost of investments in associates	**8,180**	6,500
Share of post-acquisition profits net of dividend received	**13,578**	10,928
	21,758	17,428

Included in the unlisted cost of investments in associates is goodwill of RMB3,052,000 (2009: RMB3,052,000) arising on acquisition of China National Tobacco Information Company Limited in 2005.

Amounts due from associates are unsecured, interest free and repayable within one year.

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For the year ended 31 December 2010

15. INTERESTS IN ASSOCIATES – continued

Particulars of the Group's associates at 31 December 2010 and 2009 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 2010	2009	Nature of business
武漢中軟國際資訊技術有限公司 Wuhan Chinasoft International Information Technology Limited ("Chinasoft Wuhan")	Equity joint venture enterprise	PRC	PRC	**46%**	46%	Provision of solutions and IT consulting services
北京中煙資訊技術有限公司 China National Tobacco Information Company Limited	Equity joint venture enterprise	PRC	PRC	**20%**	20%	Maintenance of a policy making system for the production, operation and management of the tobacco industry
上海華騰資料資訊科技有限公司 Shanghai Huateng Data Service Co., Ltd (Note) ("Huateng Data")	Equity joint venture enterprise	PRC	PRC	**24%**	–	Operation of data centre
上海華騰智慧系統有限公司 Shanghai Huateng Intelligent System Co., Ltd (Note) ("Huateng Intelligent")	Equity joint venture enterprise	PRC	PRC	**24%**	–	Design of intelligent terminal hardware

Note: These associates were established during 2010.

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For the year ended 31 December 2010

15. INTERESTS IN ASSOCIATES – continued

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

	2010 RMB'000	2009 RMB'000
Total assets	**116,578**	82,787
Total liabilities	**(58,572)**	(41,864)
Net assets	**58,006**	40,923
Group's share of net assets of associates	**18,706**	14,376
Revenue	**101,398**	76,589
Profit for the year	**10,248**	9,369
Group's share of profits of associates for the year	**2,650**	2,959

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

16. PREPAID LEASE PAYMENTS

	RMB'000
COST	
At 1 January 2009	1,783
Exchange adjustment	(2)
At 31 December 2009	1,781
Exchange adjustment	(55)
At 31 December 2010	**1,726**
AMORTISATION	
At 1 January 2009	583
Exchange adjustment	(1)
Provided for the year	166
At 31 December 2009	748
Exchange adjustment	(7)
Provided for the year	164
At 31 December 2010	**905**
CARRYING VALUES	
At 31 December 2010	**821**
At 31 December 2009	1,033

	2010	2009
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Non-current assets	**643**	867
Current assets	**178**	166
	821	1,033

Prepaid lease payments represent prepayments for a trademark usage right and are amortised on a straight-line basis over 10 years.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

17. INVENTORIES

	2010 RMB'000	2009 RMB'000
Computer hardware, equipment and software products	**18,441**	14,457

18. TRADE AND OTHER RECEIVABLES

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

Note: The balances principally arose from provision of services by the Group to certain related companies (see note 37(ii)(iii)).

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

18. 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. 68% (2009: 60%) of the trade receivables that are neither past due nor impaired have the best credit quality assessed by the Group.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of RMB102,957,000 (2009: RMB67,951,000) which are past due at the reporting date for which the Group has not provided for an impairment loss as the Group is satisfied with the subsequent settlement and the credit quality of these customers had not been deteriorated. Accordingly, the Group does not consider these balances impaired. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

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

The Group has provided full impairment losses for all receivables aged over 3 years because historical experience is such that receivables that are past due beyond 3 years are generally not recoverable.

Movement in the allowance for doubtful debts

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

19. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

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

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

20. PLEDGED DEPOSITS/BANK BALANCES

Pledged deposits

The amount represents deposits pledged to certain banks as collaterals for short-term trade facilities granted to the Group and is therefore classified a current asset. The deposits carry interest at the prevailing market interest rate. The weighted average interest rate at the end of the reporting period was 2.15% (2009: 1.6%) per annum. The pledged deposits will be released upon the settlement of relevant liabilities under the trade facilities.

Bank balances

The amounts comprise short-term bank deposits carried at the prevailing market interest rates which range from 2.25% to 2.5% (2009: from 1.71% to 2.25%) per annum as at 31 December 2010. At the end of the reporting period, 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.

	2010 RMB'000	2009 RMB'000
Hong Kong Dollars	**34,990**	1,757
United States Dollars	**7,254**	1,039

Notes to the Consolidated Financial Statements

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21. TRADE AND OTHER PAYABLES

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

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

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

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

Note: The balances principally arose from rental expenses charged by a related company to the Group (note 37(i)).

22. AMOUNTS DUE FROM/TO RELATED COMPANIES

The amounts due from/to related companies are unsecured, non-interest bearing and repayable on demand. The amounts due from related companies principally represent the balance with a company whose director is also a director of a subsidiary of the Company. The remaining portion of the amounts due from related companies and the amounts due to related companies are principally the balances with a holding company of a substantial shareholder of the Company.

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23. BILLS PAYABLE

An aged analysis of bills payable is as follows:

	2010 RMB'000	2009 RMB'000
Within 90 days	**6,213**	1,255

24. BORROWINGS

Carrying amount repayable within one year:

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

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

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24. BORROWINGS – continued

	2010	2009
	RMB'000	RMB'000
Analysis of borrowings by currency		
Denominated in RMB	**186,950**	87,000
Denominated in United States dollar	**–**	17,071
	186,950	104,071

Notes:

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

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

(iii) Interests on RMB borrowings are charged at interest rates announced by the People's Bank of China. The average interest rate during the year is 5.40% (2009: 5.89%) per annum.

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25. 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	Software	Customer relationship	Patent	Technology	Trade name	Non-compete agreement	Property, plant and equipment	Accrued expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	(3,871)	(130)	–	(2,694)	–	(1,495)	(181)	–	–	2,517	(5,854)
Arising from acquisition of subsidiaries (note 32(c)(d)(e))	–	–	–	(3,083)	–	–	–	(229)	–	–	(3,312)
Credit to profit or loss	1,107	35	–	950	–	332	43	8	–	1,011	3,486
At 31 December 2009	(2,764)	(95)	–	(4,827)	–	(1,163)	(138)	(221)	–	3,528	(5,680)
Arising from acquisition of subsidiaries (note 32(a)(b))	–	–	(285)	(23,472)	(3,262)	–	–	–	804	–	(26,215)
Credit to profit or loss	998	35	4	1,936	27	332	43	69	–	4,692	8,136
At 31 December 2010	**(1,766)**	**(60)**	**(281)**	**(26,363)**	**(3,235)**	**(831)**	**(95)**	**(152)**	**804**	**8,220**	**(23,759)**

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

	2010	2009
	RMB'000	RMB'000
Deferred tax assets	**9,025**	3,528
Deferred tax liabilities	**(32,784)**	(9,208)
	(23,759)	(5,680)

At the end of the reporting period, the Group had unused tax losses available for offset against future profits of approximately RMB57,112,000 (2009: RMB44,517,000) which may be carried forward indefinitely except for losses of approximately RMB47,625,000 (2009: RMB20,318,000) which will expire from 2011 to 2015 (2011: RMB1,399,000, 2012: RMB839,000, 2013: RMB6,888,000, 2014: RMB32,673,000, 2015: RMB5,826,000). No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams.

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25. DEFERRED TAXATION – continued

Under the new EIT 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 as at 31 December 2010 amounting to RMB167,306,000 (2009: RMB71,495,000) 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.

26. REDEEMABLE CONVERTIBLE PREFERRED SHARES

	Number of shares	Nominal amount
		HK$'000
Redeemable convertible preferred shares (the "Series A Preferred Shares") of HK$0.05 each:		
Authorised		
Balance at 31 December 2009 and 2010	625,000,000	31,250
Issued and fully paid		
Balance at 1 January 2010	194,500,000	9,725
Converted into ordinary shares during the year	(30,000,000)	(1,500)
Balance at 31 December 2010	164,500,000	8,225

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

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

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26. REDEEMABLE CONVERTIBLE PREFERRED SHARES – continued

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

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

On 4 May 2010, the Company announced that IFC requested to convert its 30,000,000 out of the total 194,500,000 Series A Preferred Shares into the Company's ordinary shares (note 28). Immediately before the conversion, the fair value of the redeemable convertible preferred shares of the converted portion was approximately RMB44,351,000 which was measured by the Company with reference to the share price of HK$1.75 per share as adjusted by an estimated discount rate for the restriction of trading given the converted ordinary shares are prohibited for sale for 180 days after the conversion.

On 13 August 2010, the Company announced that IFC completed the transfer of its 38,300,000 and 28,950,000 Series A Preferred Shares to Fantastic Dynasty Limited ("Fantastic") and two other investors, respectively, at a price of HK$1.57 each respectively. Fantastic is wholly and beneficially owned by Dr. Chen Yuhong, the Chief Executive Officer and the Managing Director of the Company.

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

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

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

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

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26. REDEEMABLE CONVERTIBLE PREFERRED SHARES – continued

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

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

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

27. CONVERTIBLE LOAN NOTES

On 30 November 2010, the Company announced the completion of issue of 4.25% convertible loan notes in the principal amount of RMB200 million took place on 29 November 2010.

The convertible loan notes entitle the holders to convert them into ordinary shares of the Company (unless previously redeemed, converted or purchased and cancelled) at any time on or after 29 November 2010 up to 29 November 2013 (the "Maturity Date") at a conversion price (subject to adjustment for among other things, consolidation or subdivision of shares, capitalisation issue, capital distribution and certain other dilutive events) of HK$2 per share, translated to RMB1.718 per share at fixed exchange rate. Interest of 4.25% per annum will be paid semi-annually with the first interest payment date fell on 15 January 2011. The convertible loan notes will be redeemed by the Company at the Maturity Date at the principal amount outstanding together with accrued interest thereon up to and including the Maturity Date.

The Company has no right to require early cancellation or redemption of any of the convertible loan notes prior to the Maturity Date. The note holder may terminate and request immediate redemption of the convertible loan notes at their principal amount then outstanding together with accrued interest upon occurrence of certain events of defaults. Details of the issue of convertible loan notes were set out in a circular dated 1 November 2010 issued by the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

27. CONVERTIBLE LOAN NOTES – continued

The convertible loan notes contain two components, liability of RMB163,478,000 and equity of RMB36,522,000 elements. The equity element is presented in equity heading convertible loan notes reserve. The effective interest rate of the liability component is 11.99% per annum. The movement of the liability component of the convertible loan notes for the year is set out below:

	2010	2009
	RMB'000	RMB'000
Issue of convertible loan notes	**163,478**	–
Interest charge (note 6)	**1,631**	–
Carrying amount at end of the year	**165,109**	–

28. SHARE CAPITAL

	Number of shares	**Nominal amount**
		HK$'000
Ordinary shares of HK$0.05 each:		
Authorised:		
At 1 January 2009, 31 December 2009 and 2010	1,500,000,000	75,000

	Number of shares	**Amount**	**Amount shown in the financial statements**
		HK$	RMB'000
Issued and fully paid			
At 1 January 2009	1,007,278,688	50,363,935	52,178
Exercise of share options	4,070,000	203,500	179
At 31 December 2009	1,011,348,688	50,567,435	52,357
Exercise of share options	53,436,500	2,671,825	2,317
Conversion of redeemable convertible preferred shares (note 26)	30,000,000	1,500,000	1,319
Issue of new shares (Note)	119,542,071	5,977,103	5,140
At 31 December 2010	**1,214,327,259**	**60,716,363**	**61,133**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

28. SHARE CAPITAL – continued

Note: Pursuant to a resolution passed by directors of the Company on 20 May 2010, 9,208,126 new shares of the Company of HK$0.05 each were allotted and issued as fully paid to the former shareholders of Han Consulting as the consideration of HK$14,181,000 (equivalent to RMB12,413,000) for the acquisition of a 51% equity interest of Han Consulting (see note 32(a)).

Pursuant to a resolution passed by shareholders of the Company in the extraordinary general meeting on 29 November 2010, the limit of the maximum number of Consideration Shares (as defined in the circular dated 12 November 2010 issued by the Company) are approved to be allotted and issued as fully paid to the former shareholders of MMIM as the consideration shares. Accordingly, within such a limit, 110,333,945 new shares of the Company of HK$0.05 each were allotted and issued as the consideration of HK$218,461,000 (equivalent to RMB187,588,000) for the acquisition of the entire interest of MMIM (see note 32(b)).

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 owners 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.

No dividend has been paid and distributed in year 2009 and 2010.

General reserve fund and statutory enterprise expansion fund

As stipulated by the relevant laws and regulations in the PRC, foreign invested enterprises 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 the relevant subsidiaries prepared in accordance with accounting principles generally accepted in the PRC and the amount and allocation basis are decided by their respective boards 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, the PRC subsidiaries other than foreign invested enterprises are required to provide for the statutory surplus reserve fund. Appropriations to such funds are made out of 10% of the net profit after taxation as reported in the statutory financial statements of the relevant subsidiaries prepared in accordance with accounting principles generally accepted in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 24, redeemable convertible preferred shares disclosed in note 26, convertible loan notes disclosed in note 27, net of cash and cash equivalents and equity attributable to owners 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 of the Company consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors of the Company, 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

	2010	2009
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**954,768**	694,730
Financial liabilities		
FVTPL designated as at FVTPL (see below)	**254,443**	167,655
Amortised cost	**572,749**	417,022
Contingent considerations arising from business combinations	**77,275**	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

31. FINANCIAL INSTRUMENTS – continued

Redeemable convertible preferred shares

	2010 RMB'000	2009 RMB'000
Cumulative loss in fair value attributable to changes in credit risk (Note)	**(1,710)**	(1,710)
Gain in fair value attributable to changes in credit risk recognised during the year (Note)	**–**	598
Difference between carrying amount and maturity amount of the principal amount of HK$131,600,000 (2009: HK$155,600,000)		
At fair value	**106,075**	120,131
Amount payable at maturity	**(113,518)**	(137,006)
	(7,443)	(16,875)

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 loss in fair value attributable to change in credit risk is calculated as the difference between total change in fair value of the liability component and the change in fair value of the liability component due to change in market conditions alone. The change in fair value of the liability component due to market conditions was calculated using benchmark interest yield curves as at the end of the reporting period 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 end of the reporting period and by obtaining lender quotes for borrowing of similar maturity to estimate credit risk margin.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

31. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, amounts due from associates, amounts dues to/from related parties, trade payables, borrowings, bills payable, contingent considerations arising from business combinations, redeemable convertible preferred shares and convertible loan notes. 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 9.7% (2009: 8.5%) 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, contingent considerations arising from business combinations and certain trade payables 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**	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong dollars	**581,589**	173,652	**411,274**	4,155
US dollars	**127,339**	19,400	**58,192**	23,440
Japanese Yen	**7,523**	2,484	**7,850**	17,669

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 has kept on monitoring the movement of all foreign currency exposure.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates a decrease in loss 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 result, and the balances below would be negative.

	Hong Kong dollar Impact		**US dollar Impact**		**Japanese Yen Impact**	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Loss for the year	**8,516**	8,732 (a)	**3,457**	(205) (b)	**(16)**	(1,115) (c)

(a) This is mainly attributable to the exposure on Hong Kong dollar bank balances and denominated redeemable convertible preferred shares at the end of the reporting period.

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

(c) This is mainly attributable to the exposure on Japanese Yens trade receivables, bank balances, and trade payable at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 26 for details), convertible loan notes (see note 27 for details) and a loan from a related party (see note 24 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 and borrowings 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 borrowings (see note 24) and short-term deposits at the end of the reporting period. A 50 basis points (2009: 50 basis points) increase or decrease is used for the liability component of the redeemable convertible preferred shares and floating rate borrowings and a 10 basis points (2009: 10 basis points) increase or decrease is used for short-term deposits 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 borrowings, if interest rates had been 50 basis points (2009: 50 basis points) higher/lower and all other variables were held constant, the Group's results for the year ended 31 December 2010 would increase/decrease by RMB548,000 (2009: RMB999,000). 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 (2009: 10 basis points) higher/lower and all other variables were held constant, the Group's results for the year ended 31 December 2010 would increase/decrease by RMB493,000 (2009: RMB310,000). This is attributable to the Group's exposure to interest rates on its short-term bank deposits.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 the end of the reporting period with changes in fair value to be recognised in profit or loss 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 loss (2009: loss) for the year (as a result of changes in fair value of conversion option component of redeemable convertible preferred shares) would increase/decrease by RMB11,767,000/RMB11,752,000 (2009: increase/decrease by RMB2,312,000/RMB4,726,000).

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 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group reviews the recoverable amount of each individual trade receivable at each end of the reporting period 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 authorised banks in the PRC.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 92.7% (2009: 89.6%) of the total trade receivable as at 31 December 2010. 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 authorised banks in the PRC. Other than the above, the Group does not have any other significant concentration of credit risk.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 2010, the Group has available unutilised general borrowing facilities of approximately RMB43,787,000 (2009: RMB23,745,000).

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

	Weighted average interest rate %	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 December 2010 RMB'000
2010							
Trade and other payables		199,266	–	–	–	199,266	199,266
Bills payable		6,213	–	–	–	6,213	6,213
Amounts due to related companies		147	–	–	–	147	147
Dividend payable to shareholders		79	–	–	–	79	79
Borrowings	2.50	124,741	66,979	–	–	191,720	186,950
Contingent considerations arising from business combinations in 2010		33,133	–	63,267	64,267	160,667	77,275
Contingent considerations arising from business combinations prior to 2010	5.40	15,147	–	–	–	15,147	14,985
Redeemable convertible preferred shares	12.00	3,393	3,079	112,492	–	118,964	254,443
Convertible loan notes	11.99	4,250	4,250	8,500	208,500	225,500	165,109
		386,369	74,308	184,259	272,767	917,703	904,467

Note: The amounts included above for contingent considerations arising from business combinations in 2010 are the maximum amounts of cash the Group could be required to settle under the relevant arrangements if certain milestones are achieved by the acquirees. Based on expectations at the end of the reporting period, the directors accessed the fair value of such contingent considerations. However, this estimate is subject to change depending on the actual financial performance of the acquirees.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

31. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity tables – continued

	Weighted average interest rate %	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 December 2009 RMB'000
2009							
Trade and other payables		276,972	–	–	–	276,972	276,972
Bills payable		1,255	–	–	–	1,255	1,255
Amounts due to related companies		128	–	–	–	128	128
Dividend payable to shareholders		82	–	–	–	82	82
Borrowings	1.60	34,980	54,726	–	–	89,706	87,000
Contingent considerations arising from business combinations	5.40	18,492	4,648	12,147	–	35,287	34,514
Loan from a related party		17,071	–	–	–	17,071	17,071
Redeemable convertible preferred shares	14.00	3,788	3,768	7,535	138,890	153,981	167,655
	–	352,768	63,142	19,682	138,890	574,482	584,677

Fair value

The fair value of 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

31. FINANCIAL INSTRUMENTS – continued

Fair value – continued

Fair value measurements recognised in the statement of financial position

Financial instruments that are measured subsequent to initial recognition at fair value, are grouped in to Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At the end of the reporting period, level 3 financial liability included redeemable convertible preferred shares (see note 26) and contingent considerations arising from business combinations. During the year, the loss arising from changes in fair value recognised in profit or loss amounting to RMB145,197,000 (2009: RMB47,746,000). The contingent considerations arising from business combinations are measured at fair value of RMB77,275,000 at the date of acquisition and at the end of the reporting period.

32. ACQUISITIONS

(a) On 20 May 2010, the Group acquired a 51% interest of Han Consulting for a consideration up to RMB23,020,000, comprising of both cash consideration and issue of consideration shares. The amount included a cash consideration of RMB10,000,000, the payment of which is contingent upon achievement of certain specific milestones. The directors determined the fair value of the contingent consideration at the date of acquisition is insignificant. Han Consulting is engaged in consulting business. Acquisition of the subsidiary was accounted for by the purchase method.

Consideration transferred

	RMB'000
Cash	1,900
Ordinary shares issued	12,413
Total	14,313

As part of the consideration for the acquisition of Han Consulting, 9,208,126 ordinary shares of the Company with par value of HK$0.05 each were issued. The fair value of the ordinary shares of the Company, determined using the published price available at the date of acquisition, amounts to HK$14,181,000 (equivalent to RMB12,413,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

32. ACQUISITIONS – continued

(a) Acquisition-related costs amounting to RMB175,000 have been recognised as an expense in the year, within the administrative expenses in the consolidated statement of comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	199
Intangible assets	
– Customer relationship	4,627
Inventory	270
Trade and other receivables	13,582
Deferred tax asset	29
Bank balances and cash	2,762
Trade and other payables	(14,309)
Deferred tax liability	(1,157)
	6,003

The fair value of trade and other receivables at the date of acquisition amounted to RMB13,582,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB19,963,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB6,381,000.

Goodwill arising on acquisition

	RMB'000
Consideration transferred	14,313
Plus: Non-controlling interests	2,940
Less: Net assets acquired	(6,003)
Goodwill arising on acquisition	11,250

Net cash inflow on acquisition of Han Consulting

	RMB'000
Cash consideration paid during the year ended 31 December 2010	1,900
Less: cash and cash equivalent balances acquired	(2,762)
	(862)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

32. ACQUISITIONS – continued

(b) On 2 December 2010, the Group acquired the entire equity interest of MMIM for a consideration up to US$91,000,000 comprising of both cash consideration and issue of consideration shares. The amount included a consideration of US$45,500,000, comprising of both cash consideration and issue of consideration shares, the payment of which is contingent upon achievement of certain specific milestones. The contingent consideration is measured at fair value of RMB77,275,000 at the date of acquisition, which is based on a discounted cash flow model considering the forecasted financial performance, the market potential of the acquired business and the market performance. MMIM, through its subsidiary and special purpose entities, is engaged in provision of mobile internet technology services. Acquisition of the subsidiary was accounted for by the purchase method.

Consideration transferred

	RMB'000
Cash	151,722
Ordinary shares issued	187,588
Contingent consideration payable within one year	59,445
Contingent consideration payable over one year	17,830
Total	416,585

As part of the initial consideration for the acquisition of MMIM, 110,333,945 ordinary shares of the Company with par value of HK$0.05 each were issued. The fair value of the ordinary shares of the Company, determined using the published price available at the date of acquisition, amount to HK$218,461,000 (equivalent to RMB187,588,000).

Acquisition-related costs amounting to RMB525,000 have been recognised as expenses in the current year, and included in the administrative expenses in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

32. ACQUISITIONS – continued

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	662
Intangible assets	
– Software	5,306
– Customer relationship	89,262
– Patent	13,047
Trade and other receivables	12,388
Deferred tax asset	775
Bank balances and cash	131,037
Trade and other payables	(48,417)
Other loan payable to a director of MMIM	(64,859)
Deferred tax liability	(25,862)
	113,339

The fair value and gross contractual amounts of those trade and other receivables acquired amounted to RMB12,388,000 at the date of acquisition.

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	416,585
Less: net assets acquired	(113,339)
Goodwill arising on acquisition	303,246

Net cash outflow on acquisition of MMIM

	RMB'000
Cash consideration paid during the year ended 31 December 2010	151,722
Less: cash and cash equivalent balances acquired	(131,037)
	20,685

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

32. ACQUISITIONS – continued

Note: The goodwill arising on the acquisitions of Han Consulting and MMIM are attributable to the anticipated profitability of the provision of the Group's IT consulting and solutions services and the anticipated future operating synergies from the combination. In addition, the Group believes that the acquisition of these two businesses further its strategy of expanding into the consulting and mobile internet technology services. The combination of these factors is the rationale for the excess of purchase price over the value of the net assets acquired.

None of the goodwill arising from these acquisitions is expected to be deductible for tax purposes.

Han Consulting and MMIM contributed positively RMB23,074,000 and RMB15,119,000 respectively to the Group's turnover and accounted for a loss of RMB1,571,000 and a profit of RMB6,400,000 respectively to the Group's results for the year between the respective dates of acquisitions and the end of the reporting period.

If the acquisitions had been completed on 1 January 2010, total Group's turnover for the year would have been RMB1,703,153,000, and Group's loss for the year would have been RMB112,382,000. 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 2010, nor is it intended to be a projection of future results.

In determining the 'pro-forma' turnover and loss of the Group had Han Consulting and MMIM been acquired at the beginning of the current year, the directors have calculated depreciation of property, plant and equipment acquired and amortisation of intangible assets on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

32. ACQUISITIONS – continued

(c) In September 2009, the Group acquired the entire equity interest of Shenzhen Jinhuaye for a consideration up to RMB33,590,000. The amount included a consideration of RMB21,442,500, the payment of which is contingent upon achievement of certain specific milestones. In the opinion of the directors of Company, the payment of the contingent consideration was probable at the date of acquisition and accordingly was recognised as part of the cost of acquisition. The fair value of the total consideration was RMB32,621,000 at the date of acquisition. Shenzhen Jinhuaye is engaged in the provision of IT outsourcing services. Acquisition of the subsidiary was accounted for by the purchase method.

	Acquiree's carrying amount	**Fair value adjustment**	**Fair value**
	RMB'000	RMB'000	RMB'000
Net assets acquired:			
Property, plant and equipment	4,156	–	4,156
Intangible assets			
– Customer relationship	–	6,857	6,857
– Non-compete agreement	–	24	24
Trade and other receivables	18,784	–	18,784
Bank balances and cash	1,948	–	1,948
Trade and other payables	(16,919)	–	(16,919)
Deferred tax liability	–	(1,720)	(1,720)
	7,969	5,161	13,130
Goodwill on acquisition			19,491
Total consideration			32,621
Satisfied by:			
Cash			12,147
Outstanding consideration payable within one year (Note)			9,296
Outstanding consideration payable over one year (Note)			11,178
			32,621
Net cash outflow arising on acquisition:			
Cash consideration paid			12,147
Bank balances and cash acquired			(1,948)
Net cash outflow of cash and cash equivalents in respect of the acquisition			10,199

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

32. ACQUISITIONS – continued

Note: Contingent consideration is to be calculated based on certain milestones through 31 December 2010 and 31 December 2011. During the year ended 31 December 2010, part of the contingent consideration was finalised to be RMB9,296,000 with the achievement of certain specific milestone for 2010 and a cash consideration of RMB9,296,000 was paid. RMB11,985,000 was recorded as consideration payable as at 31 December 2010, which is subject to the achievement of certain milestones for 2011.

(d) In November 2009, the Group acquired the entire equity interest of Guangyuqimin for a cash consideration of RMB6,000,000. Guangyuqimin is engaged in business of IT solution services. Acquisition of the subsidiary was accounted for by the purchase method.

	Acquiree's carrying amount	**Fair value adjustment**	**Fair value**
	RMB'000	RMB'000	RMB'000
Net assets acquired:			
Property, plant and equipment	424	–	424
Intangible assets			
– Customer relationship	–	356	356
– Non-compete agreement	–	698	698
Inventory	16	–	16
Trade and other receivables	164	–	164
Bank balances and cash	2,658	–	2,658
Trade and other payables	(962)	–	(962)
Deferred tax liability	–	(263)	(263)
	2,300	791	3,091
Goodwill on acquisition			2,909
Total consideration			6,000
Satisfied by:			
Cash			6,000
Net cash outflow arising on acquisition:			
Cash consideration paid			6,000
Bank balances and cash acquired			(2,658)
Net cash outflow of cash and cash equivalents in respect of the acquisition			3,342

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

32. ACQUISITIONS – continued

(e) In September 2009, the Group acquired a business ("Tobacco") from an entity engaged in the provision of IT solution services in tobacco retailing industry for a cash consideration up to RMB33,000,000. The amount included a consideration of RMB13,000,000, the payment of which is contingent upon achievement of certain specific milestones. In the opinion of the directors of Company, the payment of the contingent consideration was probable at the date of acquisition and accordingly was recognised as part of the cost of acquisition. Acquisition of the business was accounted for by the purchase method.

	Acquiree's carrying amount	Fair value adjustment	Fair value
	RMB'000	RMB'000	RMB'000
Assets acquired			
Intangible assets			
– Customer relationship	–	7,757	7,757
– Non-compete agreement	–	297	297
Deferred tax liability	–	(1,329)	(1,329)
	–	6,725	6,725
Goodwill on acquisition			26,275
Total consideration			33,000
Satisfied by:			
Cash			20,000
Outstanding consideration payable within one year (Note)			13,000
			33,000
Cash outflow arising on acquisition:			
Cash consideration paid			20,000
Bank balances and cash acquired			–
Cash outflow of cash and cash equivalents in respect of the acquisition			20,000

Note: During the year ended 31 December 2010, the contingent consideration was finalised to be RMB13,000,000 with the achievement of certain specific milestones. Consideration of RMB10,000,000 was settled and RMB3,000,000 was recorded as consideration payable in current liabilities as at 31 December 2010.

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33. MAJOR NON-CASH TRANSACTIONS

(i) In May 2010, a holder of redeemable convertible preferred shares converted 30,000,000 redeemable convertible preferred shares into 30,000,000 ordinary shares of the Company of par value of HK$0.05 each.

(ii) In May and November 2010, 9,208,126 and 110,333,945 new shares of the Company of HK$0.05 each were alloted and issued as fully paid as the consideration shares for the acquisitions of Han Consulting and MMIM, respectively.

34. OPERATING LEASE COMMITMENTS

At the end of the reporting period, 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:

	2010	2009
	RMB'000	RMB'000
Within one year	**52,257**	42,253
In the second to fifth year inclusive	**38,653**	58,746
	90,910	100,999

Operating lease payments represent rentals payable by the Group for certain premises for training centers, office properties and storeroom. Leases are negotiated for lease terms ranging from one year to five years (2009: one year to five years) for the Group and rentals are normally fixed during the lease period.

Notes to the Consolidated Financial Statements

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35. 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, 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.

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35. SHARE OPTION SCHEME – continued

The movements of the share options granted to the directors and other employees of the Group during the year ended 31 December 2010 are as follows:

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 01.01.2010	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 12.31.2010
Directors and other employees:									
	13.8.2003	HKD 0.58	13.8.2003 - 12.8.2005	13.8.2005 - 12.8.2013	967,500	–	(967,500)	–	–
			13.8.2003 - 12.8.2006	13.8.2006 - 12.8.2013	1,897,500	–	(505,000)	–	1,392,500
			13.8.2003 - 12.8.2007	13.8.2007 - 12.8.2013	2,227,500	–	(250,000)	–	1,977,500
	13.5.2004	HKD 0.65	Nil	13.5.2004 - 12.5.2014	375,000	–	–	–	375,000
			13.5.2004 - 12.5.2005	13.5.2005 - 12.5.2014	499,000	–	(124,000)	–	375,000
			13.5.2004 - 12.5.2006	13.5.2006 - 12.5.2014	9,925,000	–	(2,975,000)	–	6,950,000
			13.5.2004 - 12.5.2007	13.5.2007 - 12.5.2014	9,925,000	–	(625,000)	–	9,300,000
	30.3.2006	HKD 0.97	Nil	30.3.2006 - 29.3.2016	1,250,000	–	(800,000)	–	450,000
			30.3.2006 - 29.3.2007	30.3.2007 - 29.3.2016	3,550,000	–	(800,000)	–	2,750,000
			30.3.2006 - 29.3.2008	30.3.2008 - 29.3.2016	3,550,000	–	–	–	3,550,000
			30.3.2006 - 29.3.2009	30.3.2009 - 29.3.2016	3,550,000	–	–	–	3,550,000
	10.4.2007	HKD 1.78	Nil	10.4.2007 - 9.4.2017	6,162,500	–	(1,102,500)	–	5,060,000
			10.4.2007 - 9.4.2008	10.4.2008 - 9.4.2017	7,662,500	–	(112,500)	–	7,550,000
			10.4.2007 - 9.4.2009	10.4.2009 - 9.4.2017	7,662,500	–	–	–	7,662,500
			10.4.2007 - 9.4.2010	10.4.2010 - 9.4.2017	7,662,500	–	–	–	7,662,500
	14.4.2008	HKD 1.37	Nil	14.4.2008 - 13.4.2011	9,800,000	–	(1,300,000)	–	8,500,000
			14.4.2008 - 13.4.2009	14.4.2009 - 13.4.2011	9,800,000	–	(150,000)	–	9,650,000
	13.6.2008	HKD 1.21	Nil	13.6.2008 - 12.6.2011	930,000	–	(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	–	(2,340,000)	–	2,900,000
	4.7.2008	HKD 1.14	Nil	4.7.2008 - 3.7.2011	3,472,000	–	(3,472,000)	–	–
			4.7.2009 - 3.7.2009	4.7.2009 - 3.7.2011	5,532,000	–	(5,532,000)	–	–
			4.7.2010 - 3.7.2010	4.7.2010 - 3.7.2011	7,376,000	–	(1,256,000)	–	6,120,000

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35. SHARE OPTION SCHEME – continued

					Number of share options				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 01.01.2010	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 12.31.2010
	15.5.2009	HKD 0.71	Nil	15.5.2009 - 14.5.2012	14,531,360	–	(14,523,492)	(7,868)	–
			15.5.2009 - 14.5.2010	15.5.2010 - 14.5.2012	14,531,360	–	(4,066,508)	–	10,464,852
			15.5.2009 - 14.5.2011	15.5.2011 - 14.5.2012	19,375,148	–	–	–	19,375,148
	2.2.2009	HKD 0.48	Nil	2.2.2009 - 1.2.2012	8,145,000	–	(5,750,000)	–	2,395,000
			2.2.2009 - 1.2.2010	2.2.2010 - 1.2.2012	10,005,000	–	–	–	10,005,000
			2.2.2009 - 1.2.2011	2.2.2011 - 1.2.2012	13,340,000	–	–	–	13,340,000
	24.8.2009	HKD 0.86	Nil	24.8.2009 - 23.8.2012	15,000,000	–	(900,000)	–	14,100,000
			24.8.2009 - 23.8.2010	24.8.2010 - 23.8.2012	15,000,000	–	–	–	15,000,000
			24.8.2009 - 23.8.2011	24.8.2010 - 23.8.2012	20,000,000	–	–	–	20,000,000
	3.11.2009	HKD 0.76	Nil	3.11.2009 – 2.11.2012	15,269,360	–	(1,025,000)	(868)	14,243,492
			3.11.2009 - 2/11/2010	3.11.2010 – 2.11.2012	15,269,360	–	–	–	15,269,360
			3.11.2009 - 2/11/2011	3.11.2011 – 2.11.2012	20,359,148	–	–	–	20,359,148
	22.10.2010	HKD 2.00	Nil	22.11.2010 – 2.11.2013	–	18,900,000	–	–	18,900,000
			21.10.2010 - 2/11/2011	22.11.2011 – 2.11.2013	–	18,900,000	–	–	18,900,000
			21.10.2010 - 2/11/2012	22.11.2012 – 2.11.2013	–	25,200,000	–	–	25,200,000
					293,772,236	63,000,000	(53,436,500)	(8,736)	303,327,000
Customers:									
	13.5.2004	HKD 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
					8,000,000	–	–	–	8,000,000
Total					301,772,236	63,000,000	(53,436,500)	(8,736)	311,327,000
Exercisable at the end of the year									175,252,704
Weighted average exercise price					1.00	2.00	0.88	0.71	1.09

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35. SHARE OPTION SCHEME – continued

The movements of the share options granted to the directors and other employees of the Group during the year ended 31 December 2009 are as follows:

					Number of share options				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 01.01.2009	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 12.31.2009
Directors and other employees:									
	13.8.2003	HKD 0.58	13.8.2003 - 12.8.2005	13.8.2005 - 12.8.2013	1,117,500	–	(150,000)	–	967,500
			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	2,227,500	–	–	–	2,227,500
	13.5.2004	HKD 0.65	Nil	13.5.2004 - 12.5.2014	375,000	–	–	–	375,000
			13.5.2004 - 12.5.2005	13.5.2005 - 12.5.2014	1,309,000	–	(810,000)	–	499,000
			13.5.2004 - 12.5.2006	13.5.2006 - 12.5.2014	9,925,000	–	–	–	9,925,000
			13.5.2004 - 12.5.2007	13.5.2007 - 12.5.2014	9,925,000	–	–	–	9,925,000
	30.3.2006	HKD 0.97	Nil	30.3.2006 - 29.3.2016	3,300,000	–	(650,000)	(1,400,000)	1,250,000
			30.3.2006 - 29.3.2007	30.3.2007 - 29.3.2016	3,850,000	–	(300,000)	–	3,550,000
			30.3.2006 - 29.3.2008	30.3.2008 - 29.3.2016	3,850,000	–	(300,000)	–	3,550,000
			30.3.2006 - 29.3.2009	30.3.2009 - 29.3.2016	3,850,000	–	(300,000)	–	3,550,000
	10.4.2007	HKD 1.78	Nil	10.4.2007 - 9.4.2017	7,662,500	–	–	(1,500,000)	6,162,500
			10.4.2007 - 9.4.2008	10.4.2008 - 9.4.2017	7,662,500	–	–	–	7,662,500
			10.4.2007 - 9.4.2009	10.4.2009 - 9.4.2017	7,662,500	–	–	–	7,662,500
			10.4.2007 - 9.4.2010	10.4.2010 - 9.4.2017	7,662,500	–	–	–	7,662,500
	14.4.2008	HKD 1.37	Nil	14.4.2008 - 13.4.2011	9,800,000	–	–	–	9,800,000
			14.4.2008 - 13.4.2009	14.4.2009 - 13.4.2011	9,800,000	–	–	–	9,800,000
	13.6.2008	HKD 1.21	Nil	13.6.2008 - 12.6.2011	3,930,000	–	–	(3,000,000)	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
	4.7.2008	HKD 1.14	Nil	4.7.2008 - 3.7.2011	5,532,000	–	–	(2,060,000)	3,472,000
			4.7.2009 - 3.7.2009	4.7.2009 - 3.7.2011	5,532,000	–	–	–	5,532,000
			4.7.2010 - 3.7.2010	4.7.2010 - 3.7.2011	7,376,000	–	–	–	7,376,000

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35. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share options: Outstanding at 01.01.2009	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 12.31.2009
	15.5.2009	HKD 0.71	Nil	15.5.2009 - 14.5.2012	–	14,531,360	–	–	14,531,360
			15.5.2009 - 14.5.2010	15.5.2010 - 14.5.2012	–	14,531,360	–	–	14,531,360
			15.5.2009 - 14.5.2011	15.5.2011 - 14.5.2012	–	19,375,148	–	–	19,375,148
	2.2.2009	HKD 0.48	Nil	2.2.2009 - 1.2.2012	–	10,005,000	(1,560,000)	(300,000)	8,145,000
			2.2.2009 - 1.2.2010	2.2.2010 - 1.2.2012	–	10,005,000	–	–	10,005,000
			2.2.2009 - 1.2.2011	2.2.2011 - 1.2.2012	–	13,340,000	–	–	13,340,000
	24.8.2009	HKD 0.86	Nil	24.8.2009 - 23.8.2012	–	15,000,000	–	–	15,000,000
			24.8.2009 - 23.8.2010	24.8.2010 - 23.8.2012	–	15,000,000	–	–	15,000,000
			24.8.2009 - 23.8.2011	24.8.2010 - 23.8.2012	–	20,000,000	–	–	20,000,000
	3.11.2009	HKD 0.76	Nil	3.11.2009 – 2.11.2012	–	15,269,360	–	–	15,269,360
			3.11.2009 - 2/11/2010	3.11.2010 – 2.11.2012	–	15,269,360	–	–	15,269,360
			3.11.2009 - 2/11/2011	3.11.2011 – 2.11.2012	–	20,359,148	–	–	20,359,148
					123,416,500	182,685,736	(4,070,000)	(8,260,000)	293,772,236
Customers:									
	13.5.2004	HKD 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
					8,000,000	–	–	–	8,000,000
Total					131,416,500	182,685,736	(4,070,000)	(8,260,000)	301,772,236
Exercisable at the end of the year									100,668,000
Weighted average exercise price					1.04	0.72	0.70	1.23	1.00

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$ 1.85 (2009: HK$1.38).

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35. SHARE OPTION SCHEME – continued

The estimated fair value of the share options granted on 22 October 2010 ("A") ranged from HK$0.66 to HK$0.71. During the year ended 31 December 2009, the estimated fair value of the share options granted on 2 February 2009 ("B") ranged from HK$0.14 to HK$0.19. The estimated value of the share options granted on 15 May 2009 ("C") ranged from HK$0.21 to HK$0.28. The estimated fair value of the share options granted on 24 August 2009 ("D") ranged from HK$0.23 to HK$0.35. The estimated fair value of the share options granted on 3 November 2009 ("E") ranged from HK$0.20 to HK$0.30. 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:

	2010
	A
Share price on grant date	**HK$2.03**
Exercise price	**HK$2.00**
Expected volatility	**69.92%**
Time to maturity	**3 years**
Risk-free rate	**0.62%**
Expected dividend yield	**0.00%**

	2009			
	B	C	D	E
Share price on grant date	HK$0.48	HK$0.71	HK$0.86	HK$0.74
Exercise price	HK$0.48	HK$0.71	HK$0.86	HK$0.758
Expected volatility	63.70%	64.16%	64.71%	64.91%
Time to maturity	3 years	3 years	3 years	3 years
Risk-free rate	1.053%	0.889%	1.078%	0.913%
Expected dividend yield	1.04%	0.70%	0.00%	0.00%

Expected volatility was determined by using the historical volatility of the Company's share price over a period of 1,095 days (2009: 780 days).

The Group recognised a total expense of RMB27,669,000 for the year ended 31 December 2010 (2009: RMB25,487,000) in relation to share options granted by the Company.

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36. 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 benefits contributions charged to profit or loss of RMB61,811,000 (2009: RMB32,126,000) represents contributions to the schemes made by the Group at rates specified in the rules of the respective schemes.

Notes to the Consolidated Financial Statements

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37. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related companies, other than those disclosed elsewhere in the financial statements:

	Notes	2010 RMB'000	2009 RMB'000
Rental expenses			
– China National Software and Service Company Limited ("CNSS")	(a) & (i)	**6,019**	6,087
Provision of IT outsourcing services			
– 日本國株式會社CDI	(b) & (ii)	**12,884**	12,956
– Viador Inc.	(c) & (iii)	**1,327**	3,236
Trademark usage right			
– CNSS Group (see note 16)	(iv)	**164**	166
Sales of property, plant and equipment			
– Huateng Data	(d)	**148**	–

Notes:

(a) CNSS is a holding company of a substantial shareholder of the Company. CNSS, its subsidiaries and predecessor entities are referred to as CNSS Group.

(b) 日本國株式會社 CDI is a substantial shareholder of Dalian Digitall, a subsidiary of the Company.

(c) Mr. Xi Wang, a director of Viador Inc, is also a director of HGR, a subsidiary of the Company.

(d) Huateng Data is an associate of the Group.

(i) During both years, certain subsidiaries of the Company, entered into rental agreements with CNSS for a period of 12 months. Pursuant to the rental agreements, the subsidiaries rented the premises from CNSS for training, as office and storeroom.

(ii) During the year, the Group provided IT outsourcing services of RMB12,884,000 (2009: RMB12,956,000) to 日本國株式會社 CDI. At 31 December 2010, an amount of RMB869,000 (2009: RMB927,000) was included in trade and other receivables in the consolidated statement of financial position.

(iii) During the year, the Group provided IT outsourcing services of RMB1,327,000, (2009: RMB3,236,000) to Viador Inc. At 31 December 2010, an amount of RMB2,669,000 (2009: RMB2,662,000) was included in trade and other receivables in the consolidated statement of financial position.

(iv) The Group entered into a trademark usage right agreement with CNSS Group on 20 December 2003 and paid RMB2,000,000 for the trademark usage right. The annual amount charged to expense is RMB164,000 (2009: RMB166,000).

Notes to the Consolidated Financial Statements

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37. RELATED PARTY TRANSACTIONS – continued

Compensation of key management personnel

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

	2010	2009
	RMB'000	RMB'000
Short-term employee benefits	**6,057**	5,198
Retirement benefits costs	**169**	156
Share option expenses	**1,824**	3,200
	8,050	8,554

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

Financial Summary

RESULTS

	For the year ended 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	355,236	811,552	983,372	1,104,602	**1,601,211**
Profit (loss) before taxation	(51,972)	131,448	80,979	(107,077)	**(15,079)**
Taxation	(11,881)	(8,908)	(9,254)	(13,480)	**(14,657)**
Profit (loss) for the year	(63,853)	122,540	71,725	(120,557)	**(29,736)**
Attributable to:					
Owners of the Company	(66,593)	115,445	63,335	(126,743)	**(40,133)**
Non-controlling interests	2,740	7,095	8,390	6,186	**10,397**
	(63,853)	122,540	71,725	(120,557)	**(29,736)**
Dividend	18,309	797	4,406	–	**–**

ASSETS AND LIABILITIES

	As at 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	661,221	1,362,272	1,405,047	1,468,512	**2,373,623**
Total liabilities	(427,566)	(587,584)	(534,935)	(691,498)	**(1,271,620)**
	233,655	774,688	870,112	777,014	**1,102,003**