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中软国际

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8216)

DISCLOSEABLE AND CONNECTED TRANSACTION

ACQUISITION OF 15% OF THE REGISTERED CAPITAL OF CHINASOFT INTERNATIONAL INFORMATION TECH. LTD. BY ISSUE OF NEW SHARES AND RESUMPTION OF TRADING

On 24 June 2004, Chinasoft HK, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor to conditionally acquire the Equity Interest from the Vendor. The consideration will be satisfied by the allotment and issue of Consideration Shares by the Company, credited as fully paid, to the Vendor.

Prior to the Completion, Beijing Chinasoft is owned as to 85% by the Group and 15% by the Vendor. Upon Completion, Beijing Chinasoft will become a wholly-owned subsidiary of the Group.

The Acquisition constitutes a discloseable transaction of the Company under the GEM Listing Rules. As the Vendor is a connected person of the Group at the subsidiary level under the GEM Listing Rules, the Acquisition also constitutes a connected transaction of the Company under the GEM Listing Rules and is subject to the independent Shareholders' approval. The Independent Board Committee has been formed to advise the independent Shareholders on the reasonableness and fairness of the Acquisition. An independent financial adviser will be appointed to provide its opinion to the Independent Board Committee and independent Shareholders in connection with the Acquisition.

A circular containing further details relating to the Acquisition, the advice of the independent financial adviser to the Independent Board Committee and independent Shareholders, the recommendation of the Independent Board Committee to the independent Shareholders in respect of the Acquisition, the notice convening the SGM and other information on the Company, will be dispatched to the Shareholders within 21 days from the date of this announcement.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30a.m. on 15 June 2004 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30a.m. on 25 June 2004.

* For identification purpose only

The Agreement

Date

24 June 2004

Parties

Vendor: CS&S(HK)

Purchaser: Chinasoft HK

Interest to be acquired

Pursuant to the Agreement, Chinasoft HK has conditionally agreed to acquire from the Vendor the Equity Interest.

Consideration

The consideration will be satisfied by the allotment and issue of Consideration Shares by the Company, credited as fully paid, to the Vendor. The Consideration Shares represent approximately 8.98% of the existing issued share capital of the Company and approximately 8.24% of the issued share capital of the Company as enlarged by the Acquisition.

The Consideration Shares represents:

- (a) a market value of HK\$43,930,000, based on the average closing price of HK\$0.764 per Share as quoted on the Stock Exchange for the last five trading days up to 15 June 2004 (being the last trading day prior to the suspension of the trading of the Shares on the Stock Exchange); and
- (b) a market value of HK\$43,125,000, based on the closing price of HK\$0.75 per Share as quoted on the Stock Exchange on 15 June 2004 (being the last trading day prior to the suspension of the trading of the Shares on the Stock Exchange) .

The consideration for the Equity Interest was determined following arm's length negotiations between the Company and the Vendor having considered the historical earnings and future prospects of Beijing Chinasoft. With reference to the average closing price of HK\$0.764 per Share for last five trading days up to 15 June 2004 (being the last trading day prior to the suspension of the trading of the Company's shares on the Stock Exchange) and an exchange rate of HK\$1 to RMB1.065, the monetary value by issue of the 57,500,000 Consideration Shares (which is equivalent to approximately HK\$43.93 million) for the Acquisition is equivalent to approximately 11.38 times to the attributable audited net profit after tax (as adjusted to HK GAAP) and 3.30 times to the attributable audited net assets value (as adjusted to HK GAAP) of Beijing Chinasoft for the year ended 31 December 2003.

The Directors consider that the terms of the Acquisition are fair and reasonable and are on normal commercial terms and in the best interests of the Company and the Shareholders as a whole.

Status of Consideration Shares

The Consideration Shares when issued and credited as fully paid will rank pari passu amongst themselves and in all respects with the existing Shares in issue as at the date of allotment of the Consideration Shares. An ordinary resolution will be proposed at the SGM to seek a specific mandate to approve the issue and allotment of the Consideration Shares pursuant to the Agreement.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

Conditions of the Agreement

Completion of the Agreement is conditional upon the fulfillment of the following conditions:

- (a) approval of the acquisition by Chinasoft HK of the Equity Interest from the Vendor and of the issue of the Consideration Shares by the Company by the Shareholders at the SGM of the Company to be held;
- (b) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Consideration Shares;
- (c) documentary evidence in such form and content satisfactory to Chinasoft HK confirming :-
 - (i) the completion of the transfer of 15% of the registered capital of Beijing Chinasoft from CS&S to the Vendor; and
 - (ii) the conversion of the Beijing Chinasoft from its previous status as a sino-foreign equity joint venture to a wholly foreign owned enterprise in compliance with PRC laws
- (d) approval of the transfer of the Equity Interest from the Vendor to the Chinasoft HK by the board of directors of the Beijing Chinasoft; and
- (e) approval by the original examination and approval authority, being 中關村科技園區海澱園數字園區管理服務中心 (Zhongguan Cun (Haidan) Science Park, Digital Park District Administrative Service Center), and registration by the Beijing Municipal People's Government (北京市人民政府) and Beijing Municipal Administration of Industry and Commerce (北京市工商行政管理局) of the transfer of the Equity Interest from the Vendor to the Chinasoft HK.

If the conditions (all of which cannot be waived) have not been fulfilled on or before 30 November 2004 or such later date as the Vendor and Chinasoft HK may agree, the Agreement shall lapse and be terminated and thereafter all rights, obligations and liabilities of all parties herein shall cease and terminate except for antecedent breach.

For the condition (c) above, the Company has been informed by the Vendor that the transfer of the Equity Interest to the Vendor has been approved by the original examination and approval authority of Beijing Chinasoft and the documents relevant to such transfer are available for inspection. The Company will instruct its PRC legal advisers to review those documents to confirm that the transfer of the Equity Interests from CS&S to the Vendor has been completed and is in compliance with the relevant PRC legal procedures. If the condition (c) above is not fulfilled, the Agreement shall lapse and be terminated.

The condition on confirmation of the completion of the transfer of the Equity Interests from CS&S to the Vendor will be fulfilled after the Directors have been satisfied that the title to 15% of the registered capital of Beijing Chinasoft has been properly vested in the Vendor.

Completion

Subject to the conditions of the Acquisition having been fulfilled, Completion will take place within 14 days from the date on which all the conditions of the Acquisition have been fulfilled.

Upon Completion, Beijing Chinasoft will become a wholly-owned subsidiary of the Company.

Shareholding structure before and after the Acquisition

The approximately shareholding structure of the Company can be summarized as follows:

	Before the Acquisition		After the Acquisition	
	Shares	%	Shares	%
Far East Technology International Limited	176,889,822	27.64	176,889,822	25.36
Castle Logistics Limited	127,597,062	19.94	127,597,062	18.29
Authorative Industries Limited	57,485,834	8.98	57,485,834	8.24
ITG Venture Capital Limited	46,942,288	7.33	46,942,288	6.73
Prosperity International Investment Corporation	39,790,136	6.22	39,790,136	5.70
The Vendor	–	–	57,500,000	8.24
Public	191,294,858	29.89	191,294,858	27.39
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>640,000,000</u>	<u>100.00</u>	<u>697,500,000</u>	<u>100.00</u>

Non-Disposal Undertaking

The Vendor has undertaken to and covenanted with the Company that it shall not, for a period of 12 months commencing from the Completion, sell, transfer, grant any option on or otherwise dispose of (or enter into any agreement to sell, transfer, grant any option on or otherwise dispose of), nor permit the registered holder to sell, transfer, grant any option on or otherwise dispose of (or to enter into any agreement to sell, transfer, grant any option on or otherwise dispose of) any of its direct or indirect interest (as the case may be) in the Consideration Shares.

Information on the Vendor and the connection between the parties to the Agreement

CS&S(HK) is owned as to 95.71% by CS&S and as to 4.29% by an independent third party not connected with the directors, chief executive, substantial shareholder or management shareholders of the Company or any of its subsidiaries or an associate of any of them. CS&S(HK) is a 15% joint venture partner in Beijing Chinasoft, the principal operating subsidiary of the Group.

Beijing Chinasoft is owned as to 85% and 15% by the Group and CS&S(HK). By virtue of CS&S(HK) being a connected person of the Company at the subsidiary level, the Agreement entered into between Chinasoft HK and CS&S(HK) constitutes a connected transaction of the Company under the GEM Listing Rules and thus is subject to approval by the independent Shareholders at the SGM.

Information on Beijing Chinasoft

The Group is principally engaged in the provision of e-government solution, IT consulting and training services; and IT outsourcing services through, its principal operating subsidiary, Beijing Chinasoft.

Beijing Chinasoft was a sino-foreign equity joint venture established in the PRC on 25 April 2000, which was owned as to 85% by the Group and 15% by CS&S. CS&S paid its contribution to the 15% of the registered capital of Beijing Chinasoft in the amount of RMB7.5 million in November 2001. In March 2004, as part of the group reorganization of CS&S, CS&S transferred its 15% equity interest in Beijing Chinasoft to the Vendor. Subsequent to such transfer, the status of Beijing Chinasoft changed into that of a wholly foreign-owned enterprise.

Based on the audited accounts of Beijing Chinasoft for the year ended 31 December 2003 (as adjusted to HK GAAP), the audited net tangible asset value of Beijing Chinasoft as at 31 December 2003 was approximately RMB94.6 million. For the year ended 31 December 2002, both of the audited net profit before and after tax of Beijing Chinasoft (as adjusted to HK GAAP) was approximately RMB 23.00 million. For the years ended 31 December 2003, the audited net profit before and after tax of Beijing Chinasoft (as adjusted to HK GAAP) were approximately RMB30.13 million and RMB27.4 million respectively.

Based on the unaudited management accounts of Beijing Chinasoft, the unaudited net tangible asset value of Beijing Chinasoft as at 31 March 2004 (as adjusted to HK GAAP) was approximately RMB102.3 million.. For the three month ended 31 March 2004, the unaudited net profit before and after tax of Beijing Chinasoft (as adjusted to HK GAAP) were approximately RMB 8.25 million and RMB 7.7 million respectively.

Reasons for the Acquisition

With reference to the business prospects and historical performance of Beijing Chinasoft, the Directors consider that the Acquisition would maximise the earning base of the Group in the long run. Prior to the Completion, Chinasoft HK has an effective 85% equity interests in Beijing Chinasoft, and Chinasoft HK will have a 100% fully control of Beijing Chinasoft upon Completion. With such controlling equity interest in Beijing Chinasoft, Chinasoft HK will be entitled to control its board of directors and thereby will have full control of the day-to-day management and operation of Beijing Chinasoft. Furthermore, the Board also consider that, with a moderate dilution effect as shown under the section headed 'Shareholding structure before and after the Acquisition' above, the funding of the Acquisition by way of allotment and issue of the Consideration Shares represents an appropriate means for the Company without having to deplete the working capital of the Group and is, therefore, in the best interests of the Company and its Shareholders as a whole.

General

The Acquisition constitutes a discloseable transaction of the Company under the GEM Listing Rules. As the Vendor is a connected person of the Group at the subsidiary level under the GEM Listing Rules, the Acquisition also constitutes a connected transaction of the Company under the GEM Listing Rules and is subject to the independent Shareholders' approval.

The Independent Board Committee comprising Mr. He Ning and Mr. Zeng Zhijie has been formed to advise the Independent Shareholders on the fairness and reasonableness of the Acquisition. An independent financial adviser will be appointed to provide its opinion to the Independent Board Committee in connection with the Acquisition.

A circular containing further details of the Acquisition, the advice of the independent financial adviser to the Independent Board Committee and the independent Shareholders, the recommendation of the Independent Board Committee to the independent Shareholders on the Acquisition, the notice convening the SGM and other information on the Company, will be dispatched to the Shareholders within 21 days from the date of this announcement. None of the existing Shareholder has any interest in the Acquisition. Hence, no Shareholder is required to abstain from voting at the SGM.

Resumption of Trading

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30a.m. on 15 June 2004 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30a.m. on 25 June 2004.

DEFINITIONS

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

“Acquisition”	the acquisition of the Equity Interest held by the Vendor pursuant to the Agreement
“Agreement”	the agreement dated 24 June 2004 entered into between the Company and the Vendor in relation to the Acquisition
“associate”	has the meaning ascribed to it in the GEM Listing Rules
“Board”	the board of Directors
“Beijing Chinasoft”	北京中軟國際信息技術有限公司 (Beijing Chinasoft International Information Tech. Ltd. ,formerly known as Beijing Chinasoft FE International Information Technology Limited), a wholly-foreign owned enterprise established in the PRC and a 85% owned subsidiary of the Company
“Chinasoft HK”	Chinasoft International (Hong Kong) Limited, a company incorporated in Hong Kong on 3 November 1999, the entire issued share capital of which is beneficially owned by the Company
“CS&S”	中國計算機軟件與技術服務總公司 (China National Computer Software & Technology Service Corporation), a state-owned enterprise established in the PRC and the parent company of the Vendor
“CS&S(HK)” or “Vendor”	China National Computer Software & Technology Service Corporation (Hong Kong) Limited, company incorporated in Hong Kong with limited liability and is owned as to 95.71% by the CS&S and 4.29% by an independent third party not connected with the directors, chief executive, substantial shareholders or management shareholders of the Company or any of its subsidiaries or an associate of any of them
“Company”	Chinasoft International Limited, a company incorporated in Cayman Islands with limited liability, the Shares of which are listed on GEM
“Completion”	completion of the Acquisition pursuant to the Agreement
“Consideration Shares”	57,500,000 new Shares to be allotted and issued by the Company to the Vendor pursuant to the Agreement

“Director(s)”	the director(s) of the Company
“Equity Interest”	15% of the registered capital of Beijing Chinasoft owned by the Vendor
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK GAAP”	generally accepted accounting principles in Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising the two independent non-executive Directors, namely Mr. He Ning and Mr. Zeng Zhijie
“PRC”	the People’s Republic of China
“SGM”	a special general meeting of the Company to be held to consider and, if thought fit, approve the Acquisition, scheduled to be held on or about 30 July 2004
“Share(s)”	ordinary share(s) of HK\$0.05 each in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

By order of the Board
Chinasoft International Limited
Chen Yuhong
Managing Director

Hong Kong, 24 June 2004

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

Executive Directors:

Dr. Chen Yuhong

Mr. Cui Hui

Mr. Peng Jiang

Mr. Duncan Chiu

Non-executive Directors:

Mr. David Chiu

Mr. Liu Zheng

Dr. Chen Qiwei

Independent Non-executive Directors:

Mr. He Ning

Mr. Zeng Zhijie

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

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