

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



中 软 国 际

CHINASOFT INTERNATIONAL LIMITED

中 軟 國 際 有 限 公 司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8216)

CONTINUING CONNECTED TRANSACTIONS

PROVISION OF SERVICES

The Directors wish to announce that the Company proposes to enter into the Master Services Agreement with Microsoft for a period of five years commencing from the signing date thereof shortly after the EGM.

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

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

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

The Directors anticipate that in respect of the provision of the Services, the applicable percentage ratios (other than the profits ratio) calculated in accordance with Chapter 19 of the GEM Listing Rules will, on an annual basis, be more than 2.5% and the annual consideration is expected to be more than HK\$10 million. Hence, the entering into the Master Services Agreement, and the projects undertaken by members of the Group thereunder, will constitute non-exempt continuing connected transactions for the Company.

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

Before Microsoft became a connected person of the Company, Chinasoft Resources had started providing software outsourcing services to Microsoft on a project basis. The Company entered into the agreement with CS&S (HK) on 28 April 2005 and 17 November 2005 to acquire 51% and 49% of the registered capital of China Resources, respectively. Chinasoft Resources became a 51% owned subsidiary of the Company in July 2005. For the six months periods ended 31 December 2005 and 30 June 2006, the revenue of the Group generated from the provision of software outsourcing services to Microsoft amounted to approximately RMB 20.7 million and RMB21.5 million (equivalent to approximately HK\$20.1 million and HK\$20.84 million, respectively).

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

In view of the foregoing, the Company will seek the approval of the Independent Shareholders in relation to the Master Services Agreement. Ordinary resolutions will therefore be proposed at the EGM for the Independent Shareholders to consider and if appropriate, approve by way of poll the Master Services Agreement and the relevant annual caps for the transactions contemplated thereunder. Microsoft and its respective associates will be required to abstain from voting on the ordinary resolutions in respect of the Master Services Agreement.

A circular containing, among other things, (1) further information on the Master Services Agreement; (2) the recommendation of the Independent Board Committee to the Independent Shareholders; (3) the advice from an independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (4) a notice of the EGM will be despatched to the Shareholders as soon as practicable.

MASTER SERVICES AGREEMENT

The Directors wish to announce that the Company proposes to enter into the Master Services Agreement with Microsoft for a period of five years commencing from the signing date thereof shortly after the EGM.

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

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

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

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

Parties:

The Company and Microsoft

Provision of the Services:

Members of the Group will provide to Microsoft the Services with the particulars set forth in the schedules that members of the Group and Microsoft may execute from time to time pursuant to the general terms and conditions set forth in the Master Services Agreement. The schedules will include the amount of fee and the payment method, particulars of the project, delivery dates, testing and standards and such other technical specifications and details terms and conditions of the relevant project. Although the Master Services Agreement will be entered into, it only provides a framework of the agreed terms and conditions for the provision of Services. There is no contractual obligation on the part of the Group to provide Microsoft any minimum amount of the Services, and the Group is not and will not be restricted from providing similar services to third parties.

Ownership of work:

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

Term:

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

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

Based on the business projection made by the Directors, the annual fee income that may be generated from the provision of Services under the Master Services Agreement is expected not to exceed the following amounts during the term thereof:–

- (i) US\$7.2 million (approximately HK\$56.16 million) for the year ending 31 December 2006;
- (ii) US\$9.4 million (approximately HK\$73.32 million) for the year ending 31 December 2007;
- (iii) US\$12.2 million (approximately HK\$95.16 million) for the year ending 31 December 2008;
- (iv) US\$15.9 million (approximately HK\$124.02 million) for the year ending 31 December 2009;
- (v) US\$20.7 million (approximately HK\$161.46 million) for the year ending 31 December 2010; and

(vi) US\$20.2 million (approximately HK\$157.56 million) for the year ending 31 December 2011 (during which the Master Services Agreement will expire in or about September 2011 assuming that the Master Services Agreement is signed in or about September 2006 and is not terminated earlier or renewed).

Approval will therefore be sought from the Independent Shareholders on the Master Services Agreement and the relevant annual caps.

The above annual caps are determined by reference to (i) the business projection of the Directors taking into consideration the current projects undertaken by Chinasoft Resources and the increased productivity of the Group as a result of the recent acquisitions made by the Group and (ii) the anticipated enhancement of the scope of the Services.

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

REASONS FOR ENTERING INTO THE MASTER SERVICES AGREEMENT

As at the date of this announcement, apart from the Commercial Agreement, there is no uniform agreement governing the overall business relationship between Microsoft and members of the Group. Management staff of each member of the Group currently negotiates the terms of services with Microsoft separately, which the Directors consider such method not to be in the best interest to the Group. This is particularly the case that all transactions between Microsoft and members of the Group are connected transactions for the Company. The Directors therefore consider that the Master Services Agreement provides a framework of the agreed terms and conditions governing the business relationship between Microsoft and members of the Group.

The Directors also consider that the Master Services Agreement will provide a framework of general terms and conditions, subject to the approval of the Independent Shareholders, which are intended to standardize the terms and conditions in relation to the provision of the Services by members of the Group.

The Directors (including the independent non-executive Directors whose views are further subject to the advice of an independent financial adviser) consider the Master Services Agreement will be entered into in the ordinary and usual course of the Company and on normal commercial terms, and the terms of the Master Services Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

REQUIREMENTS UNDER THE GEM LISTING RULES

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

The Directors anticipate that in respect of the provision of the Services, the applicable percentage ratios (other than the profits ratio) calculated in accordance with Chapter 19 of the GEM Listing Rules will, on an annual basis, be more than 2.5% and the annual consideration is expected to be more than HK\$10 million. Hence, the entering into the Master Services Agreement, and the projects undertaken by members of the Group thereunder, will constitute non-exempt continuing connected transactions for the Company.

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

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

As the applicable percentage ratios (other than the profits ratio) calculated in accordance with Chapter 19 of the GEM Listing Rules in respect of the provision of software outsourcing services to Microsoft by the Group for the six months ended 30 June 2006 (during which Microsoft became a connected person on 6 January 2006) were more than 2.5%, such provision of software outsourcing services constituted non-exempt continuing connected transactions of the Company under the GEM Listing Rules and should have been subject to the reporting, announcement and Independent Shareholders' approval requirements under rules 20.45 to 20.54 and the other requirements under rules 20.36 to 20.41 of the GEM Listing Rules.

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

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

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

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

- (iii) US\$12.2 million (approximately HK\$95.16 million) for the year ending 31 December 2008
- (iv) US\$15.9 million (approximately HK\$124.02 million) for the year ending 31 December 2009;
- (v) US\$20.7 million (approximately HK\$161.46 million) for the year ending 31 December 2010; and
- (vi) US\$20.2 million (approximately HK\$157.56 million) for the year ending 31 December 2011.

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

As the Master Services Agreement has a term of five years, the independent financial adviser to be appointed by the Company will, pursuant to rule 20.35(1) of the GEM Listing Rules, explain the reasons for the term of the Master Services Agreement of more than three (3) years and confirm that the Master Services Agreement is entered into on normal business practice for contract of similar kind.

INDEPENDENT SHAREHOLDERS' APPROVAL IN RESPECT OF THE NEW CONTINUING CONNECTED TRANSACTIONS

Ordinary resolutions will be proposed at the EGM for the Independent Shareholders to consider and if appropriate, to approve by way of poll the Master Services Agreement and the transactions contemplated thereunder and the relevant annual caps mentioned above. Shareholders other than the Independent Shareholders, i.e. Microsoft and its associates, will abstain from voting at the EGM.

The Independent Board Committee has been established to advise the Independent Shareholders on whether or not the terms of the Master Services Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Master Services Agreement and the relevant annual caps.

A circular containing, among other things, (1) further information on the Master Services Agreement; (2) the recommendation of the Independent Board Committee to the Independent Shareholders; (3) the advice from an independent financial adviser to the Independent Board Committee and the Independent Shareholders; and (4) a notice of the EGM will be despatched to the Shareholders as soon as practicable.

GENERAL INFORMATION

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

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

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

DEFINITIONS USED IN THIS ANNOUNCEMENT

In this announcement, unless the context requires otherwise, the capitalized terms used herein shall have the following meanings:—

“associates”	has the ascribed meaning under the GEM Listing Rules;
“Board”	the board of Directors;
“Chinasoft Resources”	Chinasoft Resources Information Technology Services Limited, a wholly-foreign owned enterprise established in the PRC in April 2004 and a wholly-owned subsidiary of the Company;
“CNSS”	China National Software and Service Company Limited, a joint stock limited company established in the PRC with the A-shares listed on the Shanghai Stock Exchange. CNSS is the holding company of CS&S (HK);
“Company”	Chinasoft International Limited, a company incorporated in the Cayman Islands with limited liability with the Shares listed on GEM;
“Commercial Agreement”	the commercial agreement dated 26 September 2006 and entered into between the Company and Microsoft as disclosed in the Previous Circular;
“Completion”	completion of the subscription by Microsoft and others of the Series A Preferred Shares on the Completion Date;
“Completion Date”	6 January 2006, the date on which Completion took place and since then, Microsoft has become a connected person of the Company;
“connected person”	has the meaning ascribed thereto under the GEM Listing Rules;
“CS&S (HK)”	China National Computer Software & Technology Service Corporation (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability in which the total voting rights are held as to approximately 99.3% by CNSS and as to approximately 0.7% by an independent third party which is not a connected person of the Company;
“Directors”	the directors of the Company;

“EGM”	an extraordinary general meeting of the Company to be held to approve, inter alia, the Master Services Agreement and the relevant annual caps in respect of the transactions contemplated thereunder;
“GEM”	the Growth Enterprise Market of the Stock Exchange;
“GEM Listing Rules”	The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and its amendments from time to time;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Independent Board Committee”	a committee established by the Board on 2 August 2006 for the purpose of advising the Independent Shareholders on the fairness and reasonableness of the Master Services Agreement and the relevant annual caps, the members of which include all the independent non-executive Directors, namely Mr. HE Ning, Mr. ZENG Zhijie and Dr. LEUNG Wing Yin;
“Independent Shareholders”	shareholders of the Company other than Microsoft and its associates;
“Master Services Agreement”	the Global Master Services Agreement and the Intellectual Property Assignment proposed to be entered into between Microsoft and the Company;
“Microsoft”	Microsoft Corporation, a company incorporated in the State of Washington in the US and a connected person of the Company;
“Opportune Technology”	北京正辰科技發展有限責任公司 (Opportune Technology Co. Ltd.), a limited liability company incorporated in the PRC and a vendor of the certain business acquired by the Company on 5 July 2006;
“Ordinary Shares”	ordinary share(s) of HK\$0.05 each in the issued share capital of the Company;
“PRC”	the People’s Republic of China which for the purpose of this announcement does not include Hong Kong, The Macau Special Administrative Region of the PRC and Taiwan;
“Previous Circular”	the circular issued by the Company on 2 December 2006 in respect of the issue of the Series A Preferred Shares and the Commercial Agreement;

“RMB”	Renminbi, the lawful currency of the PRC;
“Series A Preferred Share(s)”	the senior redeemable convertible preferred share(s) of HK\$0.05 each in the issued share capital of the Company;
“Services”	the services provided by members of the Group for Microsoft pursuant to the terms of the Master Services Agreement which may include, but without limitation to, the development and/or delivery of any materials, inventories, ideas, designs, concepts, techniques, discoveries, or improvements;
“Shareholder(s)”	the shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“US”	the United States of America; and
“US\$”	United States dollars, the lawful currency of the US.

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

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

Hong Kong, 7 August 2006

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

Executive Directors:–

Dr. CHEN Yuhong (*Managing Director*)

Dr. TANG Zhenming

Mr. WANG Hui

Non-executive Directors:–

Madam TANG Min (*Chairman*)

Dr. CUI Hui

Mr. CHEN Yung Cheng Timothy

Mr. Duncan CHIU

Mr. LIU Zheng

Independent non-executive Directors:–

Mr. HE Ning

Mr. ZENG Zhijie

Dr. LEUNG Wing Yin

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

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

** For identification purposes only*