
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your Shares, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee. This circular is addressed to the Shareholders in connection with the EGM to be held on 28 December 2005. **This circular is not and does not constitute an offer of, nor is it intended to invite offers for, the Shares or other securities of the Company.**

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Shares.

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



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CHINASOFT INTERNATIONAL LIMITED

中 軟 國 際 有 限 公 司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8216)

**PROPOSED ISSUE OF THE SERIES A PREFERRED SHARES,
PROPOSED ADOPTION OF THE RE-STATED MEMORANDUM AND ARTICLES
AND
CONTINUING CONNECTED TRANSACTIONS WITH MICROSOFT**

Independent Financial Adviser



UOB ASIA (HONG KONG) LIMITED

(A MEMBER OF THE UNITED OVERSEAS BANK GROUP)

A letter from the Board is set out on page 6 to 37 of this circular. A letter from the Independent Board Committee is set out on page 38 to 39 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Shareholders is set out on page 40 to 65 of this circular.

A notice convening the EGM to be held at 3:00 p.m. on 28 December 2005 at 27th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong is set out on page III-1 to III-3 of appendix 3 to this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompany form of proxy in accordance with the instructions printed thereon and deposit with the Company at its principal place of business in Hong Kong at Units 4607-08, 46th Floor, COSCO Tower, No. 183 Queen's Road Central, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the accompany form of proxy will not preclude you from attending and voting at the EGM should you so wish.

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

CHARACTERISTICS OF GEM

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

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

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

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DEFINITIONS

In this circular, unless the context otherwise requires, the following capitalized items shall have the following meaning:–

“Articles”	the articles of association of the Company;
“associate”	has the meaning ascribed to it under 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 Technology Limited), a wholly-foreign owned enterprise established under the law of the PRC and a wholly-owned subsidiary of the Company;
“Chinasoft Resources”	北京中軟資源信息科技服務有限公司 (Chinasoft Resources Information Technology Services Limited), a wholly-foreign owned enterprise established under the law of the PRC and a 51% owned subsidiary of the Company;
“Commercial Agreement”	the agreement dated 26 September 2005 entered into between the Company and Microsoft in relation to using certain Microsoft software products in the software solutions developed or delivered by the Group in the PRC which, if the First Subscription is completed, will constitute continuing connected transactions of the Company;
“Company”	Chinasoft International Limited (中軟國際有限公司), a company incorporated in the Cayman Islands with limited liability, with all the Ordinary Shares currently listed on GEM;
“Conditions”	the conditions precedent set forth in the Subscription Agreement;
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules;
“Co-Sale Deed”	the co-sale deed to be entered into between CS&S(HK), Far East and the Investors on or before the First Closing Date, the signing of which is one of the Conditions;
“Corporate Governance Plan”	the corporate governance plan proposed to be adopted and implemented by the Board;
“CS&S (HK)”	China National Computer Software & Technology Service Corporation (Hong Kong) Limited (中國計算機軟件與技術服務(香港)有限公司), a company incorporated in Hong Kong with limited liability in which the total voting rights are held as to approximately 99.3% by China National Software and Service Company Limited (中國軟件與技術服務股份有限公司), a joint stock limited company established in the

DEFINITIONS

	PRC with its A-Shares listed on the Shanghai Stock Exchange, and as to approximately 0.7% by an Independent Third Party. CS&S(HK) is a substantial shareholder of the Company;
“Director(s)”	the director(s) of the Company;
“EGM”	an extraordinary general meeting of the Company proposed to be held on 28 December 2005 to consider and, if thought fit, approve the adoption of the Re-stated Memorandum and Articles, the issue of the Series A Preferred Shares (pursuant to the terms set forth in the Subscription Agreement, the Investors’ Rights Agreement and the Re-stated Memorandum and Articles), the entering into the Commercial Agreement and such other matters incidental to the above;
“Far East”	Far East Technology International Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board, which is a substantial shareholder of the Company;
“First Closing Date”	30 December 2005 or such other date as mutually agreed by the parties to the Subscription Agreement;
“First Subscription”	the subscription of such number of the Series A Preferred Shares in an aggregate amount of US\$20 million at the First Closing Date subject to the satisfaction or waiver of the relevant conditions set forth in the Subscription Agreement;
“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;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“IFC”	International Finance Corporation, an international organization established by articles of agreement among its member countries, which and its ultimate beneficial owners are Independent Third Parties before completion of the Subscription Agreement;
“Independent Board Committee”	an independent committee of the Board to be established with members to include all independent non-executive Directors, namely Mr. AU YEUNG Shiu Kau, Peter, Mr. HE Ning and Mr. ZENG Zhijie;

DEFINITIONS

“Independent Financial Adviser” or “UOB Asia”	UOB Asia (Hong Kong) Limited, a licensed corporation to carry out types 1, 4, 6 and 9 regulated activities under the SFO, which has been appointed as the independent financial adviser to the Independent Board Committee and the Shareholders giving advice on the terms of the Subscription Agreement, the Commercial Agreement and the Re-stated Memorandum and Articles;
“Independent Third Party”	any person that is not a connected person (as defined under the GEM Listing Rules) of the Company or its associates and is not connected with any directors, chief executive, substantial shareholders and management shareholders of the Company and its subsidiaries or any of their associates;
“Investors”	Microsoft and IFC;
“Investors’ Rights Agreement”	the investors’ rights agreement to be entered into between the Company and the Investors on or before the First Closing Date for the purpose of setting out detailed rights of the Investors attached with the Series A Preferred Shares;
“IT”	information technology;
“Latest Practicable Date”	30 November 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information in relation to the Subscription and the Commercial Agreement;
“Main Board”	the stock exchange operating by the Stock Exchange other than GEM;
“Memorandum”	the memorandum of association of the Company;
“Microsoft”	Microsoft Corporation, a company incorporated in the State of Washington on the United States of America, which and its ultimate beneficial owners are Independent Third Parties before completion of the First Subscription;
“Milestone A”	achieving the Target Revenue (as defined under the Commercial Agreement) by the Company in aggregate of not less than US\$3 million pursuant to the terms of Commercial Agreement prior to the first anniversary of the First Closing Date;
“Milestone B”	achieving the Target Revenue (as defined under the Commercial Agreement) by the Company in aggregate of not less than US\$4.5 million pursuant to the terms of Commercial Agreement prior to the second anniversary of the First Closing Date;

DEFINITIONS

“Milestone A Subscription”	the subscription of additional Series A Preferred Shares up to an aggregate amount of US\$7.5 million upon fulfillment of the Milestone A and certain other conditions set forth in the Subscription Agreement;
“Milestone B Subscription”	the subscription of additional Series A Preferred Shares up to an aggregate amount of US\$7.5 million upon fulfillment of the Milestone B and certain other conditions set forth in the Subscription Agreement;
“Ordinary Share(s)”	ordinary share(s) of HK\$0.05 each in the issued share capital of the Company;
“Policy Statement”	the corporate environment and social policy statement proposed to be adopted by the Board;
“PRC”	The People’s Republic of China which for the purpose of this circular, shall not include Hong Kong, The Macau Special Administrative Region of the PRC and Taiwan;
“Re-stated Memorandum and Articles”	the amended and re-stated memorandum and articles of association of the Company proposed to be adopted at the EGM in substitution for the Memorandum and Articles for the purpose of facilitating the issuance of Series A Preferred Shares;
“Series A Preferred Share(s)”	the senior redeemable convertible preferred share(s) proposed to be issued by the Company to the Investors, with par value of HK\$0.05 each, pursuant to the terms and conditions of the Subscription Agreement, the Investors’ Rights Agreement and the Re-stated Memorandum and Articles. The proposed issue of the Series A Preferred Shares is in three tranches, namely the First Subscription, the Milestone A Subscription and the Milestone B Subscription, of which only the Series A Preferred Shares under the First Subscription have been agreed to be subscribed by the Investors, subject to satisfaction (or waiver) of the Conditions;
“SFO”	the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong);
“Share Option Scheme”	the share option scheme adopted by the Company on 2 June 2003;
“Shareholder(s)”	holders of the Ordinary Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription”	the First Subscription, the Milestone A Subscription and the Milestone B Subscription;

DEFINITIONS

“Subscription Agreement”	the subscription agreement (including the Investors’ Rights Agreement) dated 26 September 2005 entered into between the Company, Beijing Chinasoft, Chinasoft Resources and the Investors in relation to the proposed issue of the Series A Preferred Shares by the Company to the Investors;
“Subscription Price”	the subscription price for each Series A Preferred Share under the First Subscription, the Milestone A Subscription and the Milestone B Subscription, respectively;
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of the PRC;
“US\$”	United States Dollars, the lawful currency of the United States of America; and
“%”	percentage.

Unless otherwise specified, the US dollar amounts shown in this circular have been translated into Hong Kong dollars at an exchange rate of US\$1.00=HK\$7.78. Such translation should not be construed as a representation that the US dollar amounts have been, could have been or could be converted into HK\$, as that case may be, as this or any other rates or at all.

Useless otherwise specified, the Renminbi amount shown in this circular have been translated into Hong Kong dollars at an exchange rate of HK\$1.00=RMB1.04. 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 that case may be, as this or any other rates or at all.

LETTER FROM THE BOARD



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)

Executive Directors:–

Madam TANG Min (*Chairman*)
Dr. CHEN Yuhong (*Managing Director*)
Mr. CUI Hui
Mr. Duncan CHIU
Mr. PENG Jiang
Mr. TANG Zhenming
Mr. WANG Hui

Non-Executive Directors:–

Mr. David CHIU
Mr. LIU Zheng

Independent Non-Executive Directors:–

Mr. HE Ning
Mr. ZENG Zhijie
Mr. AU YEUNG Shiu Kau, Peter

Registered office:–

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

*Principal place of business
in Hong Kong:–*

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

2 December 2005

To the Shareholders,

Dear Sir or Madam,

(I) PROPOSED ISSUE OF THE SERIES A PREFERRED SHARES
(II) PROPOSED ADOPTION OF THE RE-STATED MEMORANDUM AND ARTICLES
AND
(III) CONTINUING CONNECTED TRANSACTIONS WITH MICROSOFT

INTRODUCTION

The Board refers to the announcement of the Company dated 21 October 2005 that the Investors have conditionally agreed to invest in the Company in cash in an aggregate amount of US\$20 million (equivalent to approximately HK\$156 million) by way of subscription of such number of Series A Preferred Shares as determined by the Subscription Price, under the First Subscription. The Commercial Agreement has also been entered into to promote the future business cooperation between Microsoft and the Group. Both the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the Commercial Agreement will require the approval by the independent Shareholders at the EGM.

* *For identification purpose only*

LETTER FROM THE BOARD

Proposed issue of the Series A Preferred Shares

On 26 September 2005, the Subscription Agreement was entered into with the Investors for the proposed issue of the Series A Preferred Shares. Pursuant to the Subscription Agreement, the Investors have agreed as subject to satisfaction (or waiver) of the Conditions, to subscribe for such number of Series A Preferred Shares as determined by the Subscription Price, under the First Subscription, in cash in an aggregate amount of US\$20 million (equivalent to approximately HK\$156 million).

Pursuant to the Subscription Agreement and the Investors' Rights Agreement, the Investors shall have a right, but not an obligation, to subscribe for additional Series A Preferred Shares under the Milestone A Subscription and the Milestone B Subscription in cash in an aggregate amount of US\$15 million (equivalent to approximately HK\$117 million) subject to the approval of the Board and satisfaction of the Milestone A and the Milestone B within the required time period stated in the Commercial Agreement.

Holders of the Series A Preferred Shares shall have the right to convert the Series A Preferred Shares into Ordinary Shares at any time up to the maturity date and without payment of any additional consideration. The initial conversion rate is 1:1, which is subject to a weighted average adjustment (based on the number of the issued Series A Preferred Shares and Ordinary Shares) in the event that the Company issues additional equity securities, or securities or debt convertible or exercisable into such securities, at a subscription price less than the initial Conversion Price. The adjustments will also include adjustments for stock sub-division, capitalization issues and capital re-organisation.

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 the First Closing Date.

Holders of the Series A Preferred Shares shall have one vote at general meetings of the Company for each Ordinary Share calculated "as if" such Series A Preferred Shares were converted into Ordinary Shares.

Holders of the Series A Preferred Shares may also convert their Series A Preferred Shares into Ordinary Shares at any time up to the sixth anniversary of the First Closing Date.

In any event, if the Directors are decided to proceed with the Milestone A Subscription or the Milestone B Subscription, the Company will be required to seek a further specific approval from the independent Shareholders at general meeting with independent financial adviser's opinions and advice to the independent board committee of the Board.

The Shareholders are hereby reminded that every time when there is any adjustment to the Conversion Price as a result of any proposed transaction that triggers the anti-dilution right on the part of the holders of the Series A Preferred Shareholders, the Company will be required to seek a further specific approval from the independent Shareholders at general meeting, at which holders of the Series A Preferred Shares will abstain from voting. In any event, the Directors will strictly observe the terms of the Series A Preferred Shares and the specific independent Shareholders' approval requirement on the anti-dilution provision.

LETTER FROM THE BOARD

Adoption of the Re-stated Memorandum and Articles

The proposed issue of the Series A Preferred Shares will require substantive amendments to the Memorandum and the Articles, with the requirements of certain provisions therein contained under the GEM Listing Rules to be maintained. To facilitate the proposed issue of the Series A Preferred Shares under the Subscription Agreement and the Investors' Rights Agreement, the Board proposes to adopt the Re-stated Memorandum and Articles to replace the Memorandum and the Articles, respectively. The adoption in which to be included under the Subscription will be subject to the approval of the independent Shareholders by way of a special resolution to be proposed at the EGM. The full text of the Re-stated Memorandum and Articles is set forth in appendix 2 to this circular.

Commercial Agreement

Pursuant to the Commercial Agreement, Microsoft will provide certain software products to assist the Group to develop its software solutions and service business in the PRC. The Commercial Agreement is for a term of three years commencing from the First Closing Date.

Implication under the GEM Listing Rules

Following completion of the First Subscription, Microsoft is expected to hold more than 10% of the voting right at general meeting of the Company and hence, Microsoft will be a connected person of the Company. On this basis, the Commercial Agreement will constitute continuing connected transactions of the Company under rule 20.14 of the GEM Listing Rules. The Commercial Agreement is therefore subject to approval of the independent Shareholders to be taken by poll at the EGM.

The Independent Board Committee, which comprised all three independent non-executive Directors has been established by the Board to advise the independent Shareholders on the reasonableness and fairness of the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the Commercial Agreement. UOB Asia has been appointed to be the Independent Financial Advisor to provide its opinion to the Independent Board Committee and the Shareholders on the reasonableness and fairness of the terms of the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the Commercial Agreement.

The purpose of this circular is (i) to provide you with further information in respect of the Subscription (the terms of which are set forth in the Subscription Agreement and the Investors' Rights Agreement), the Commercial Agreement and the Re-stated Memorandum and Articles; (ii) to set out the opinions of the Independent Board Committee and of the Independent Financial Adviser on the reasonableness and fairness of the terms of the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the Commercial Agreement; and (iii) to inform you on the details of the EGM.

LETTER FROM THE BOARD

THE SUBSCRIPTION AGREEMENT

Date

26 September 2005

Parties

- (a) The Company as issuer
- (b) Beijing Chinasoft and Chinasoft Resources as covenantors; and
- (c) Microsoft and IFC as the Investors

Subscription

Subject to the terms and conditions set forth in the Subscription Agreement, the Company has agreed to issue, and the Investors have conditionally agreed to subscribe for, such number of the Series A Preferred Shares in cash in an aggregate amount of US\$20 million (equivalent to approximately HK\$156 million), as determined by the Subscription Price.

Pursuant to the Subscription Agreement and the Investor's Right Agreement, the Investors shall have a right, but not an obligation, to subscribe for additional Series A Preferred Shares in cash in an aggregate amount of US\$15 million (equivalent to approximately HK\$117 million) subject to the approval of the Board and satisfaction of the Milestone A and the Milestone B within the required time period stated in the Commercial Agreement.

Assuming that the Investors shall have completed the First Subscription and shall have exercised their right to subscribe for additional Series A Preferred Shares in full, pursuant to the Milestone A Subscription and the Milestone B Subscription, the following table sets forth the allocation of the investment amounts between the Investors:—

	First Subscription <i>US\$ million</i> <i>Note (1)</i>	Milestone A Subscription <i>US\$ million</i> <i>Notes (2)&(4)</i>	Milestone B Subscription <i>US\$ million</i> <i>Notes (3)&(4)</i>	Total <i>US\$ million</i>
Microsoft (<i>note 5</i>)	10.0	5.0	5.0	20.0
IFC (<i>note 5</i>)	10.0	2.5	2.5	15.0
Total	<u>20.0</u>	<u>7.5</u>	<u>7.5</u>	<u>35.0</u>

Notes:—

- (1) Under the First Subscription, each of Microsoft and IFC has conditionally agreed to subscribe for such number of Series A Preferred Shares, in cash in an aggregate amount of US\$10 million, as determined by the Subscription Price.
- (2) Subject to completion of the Milestone A, the approval of the Board to be obtained within 10 business days of completion of the Milestone A and the satisfaction or waiver of the conditions set forth in the Subscription Agreement prior to the first anniversary of the First Closing Date, Microsoft shall have a

LETTER FROM THE BOARD

right, but not an obligation, to subscribe for additional Series A Preferred Shares up to an aggregate amount of US\$5 million under the Milestone A Subscription, as determined by the Subscription Price.

- (3) Subject to completion of the Milestone B, the approval of the Board to be obtained within 10 business days of completion of the Milestone B and the satisfaction or waiver of the conditions set forth in the Subscription Agreement prior to the second anniversary of the First Closing Date, Microsoft shall have a right, but not an obligation, to subscribe for additional Series A Preferred Shares up to an aggregate amount of US\$5 million of Series A Preferred Shares under the Milestone B Subscription, as determined by the Subscription Price.
- (4) If and only if Microsoft subscribes for additional Series A Preferred Shares under the Milestone A Subscription and the Milestone B Subscription, IFC shall have a right, but not an obligation, to subscribe for up to 50% of the number of the Series A Preferred Shares subscribed by Microsoft under the Milestone A Subscription and the Milestone B Subscription on the same terms.
- (5) **Upon completion of the First Subscription, the Investors are expected to hold more than 10% of the voting right at general meetings of the Company and hence, they will be connected persons of the Company.**
- (6) The Company and the Investor have agreed to extend the First Closing Date to 30 December 2005 or such later date as all parties to the Subscription Agreement may agree in writing.

Subscription Price and the number of the Series A Preferred Shares to be issued

The Subscription Price (which will not be below the par value of the Ordinary Shares), as well as the structure of the investment by the Investors to the Company, was determined after arm's length negotiations between the Company and the Investors. The Directors are of the view that the level of discount of the Subscription Price to the market prices of the Ordinary Shares is appropriate by referring to the amount of fund raised and the credibility and reputation of the Investors which is expected to provide strategic value to the Company for its future development into the international market.

First Subscription The price for each Series A Preferred Share under the First Subscription shall be the lesser of (i) HK\$0.80 and (ii) 90% of the closing price of the Ordinary Shares on GEM on the trading day immediately prior to the First Closing Date and in any event not more than HK\$0.80 and not less than HK\$0.70.

The Subscription Price under the First Subscription was arrived after arm's length negotiations between the Company and the Investors by referring to the closing price of the Ordinary Share quoted on GEM in the range of HK\$0.70 to HK\$1.00 for the period between October 2004 and June 2005, during which an intermittent discussion between the Company and one of the Investors took place. The Company had issued a clarification announcement in relation to a proposed investment by IFC on 28 June 2005.

The Directors are of the view that the Subscription Price under the First Subscription, which was determined by reference to the then prevailing market prices of the Ordinary Shares during the period between October 2004 and June 2005, is fair and reasonable.

LETTER FROM THE BOARD

The following illustrates the discount of the Subscription Price under the First Subscription, in the range between HK\$0.70 and HK\$0.80, to the closing price of each Ordinary Share of HK\$0.90 on the Latest Practicable Date and the average closing prices of the last 10 trading days prior to the Latest Practicable date of HK\$0.965 for each Ordinary Share:

Subscription Price under the First Closing	HK\$0.70	HK\$0.75	HK\$0.80
Discount to the average closing price of HK\$0.90 for each Ordinary Share on Latest Practicable Date	22%	17%	11%
Discount to the average closing prices of the last 10 trading days prior to the Latest Practicable Date of HK\$0.965 for each Ordinary Shares	27%	22%	17%

Milestone A Subscription

The Subscription Price under the Milestone A Subscription shall be the lesser of (i) 90% of the 45 trading day average closing price of each Ordinary Share on the then current stock exchange on which the Ordinary Shares are listed prior to the last day of the first anniversary of the First Closing Date; and (ii) 90% of the closing price of the Ordinary Shares on the then current stock exchange on which the Ordinary Shares are listed on the trading day immediately prior to the relevant subscription date as selected by Microsoft.

Milestone B Subscription

The Subscription Price under the Milestone B Subscription shall be the lesser of (i) 90% of the 45 trading day average closing price of each Ordinary Share on the then current stock exchange on which the Ordinary Shares are listed prior to the last day of the second anniversary of the First Closing Date; and (ii) 90% of the closing price of the Ordinary Shares on the then current stock exchange on which the Ordinary Shares are listed on the trading day immediately prior to the relevant subscription date as selected by Microsoft.

In any event, if the Directors are decided to proceed with the Milestone A Subscription or the Milestone B Subscription, the Company will be required to seek a further specific approval from independent Shareholders at general meeting with independent financial adviser's opinions and advice to the independent board committee of the Board.

Shareholders should note that the actual number of Series A Preferred Shares to be issued in respect of the Milestone A Subscription and/or the Milestone B Subscription will depend on the Subscription Price, of which public disclosure will be made or an announcement will be issued by the Company if the Board decides to proceed with the Milestone A Subscription and the Milestone B Subscription.

LETTER FROM THE BOARD

Form

The Series A Preferred Shares will only be issued in registered form. Definitive certificates will be issued to the Investors as holders of the Series A Preferred Shares.

Conditions

Completion of the First Subscription is conditional upon, amongst other things, the following Conditions precedent being fulfilled:–

1. the representations and warranties given by the Company, Beijing Chinasoft, Chinasoft Resources and the Investors in the Subscription Agreement being true and correct in all material respects;
2. the Stock Exchange approving the issue of the Series A Preferred Shares and the Listing Committee granting the listing of and the permission to deal in the Ordinary Shares to be issued upon exercise of the conversion rights attached with the Series A Preferred Shares;
3. (a) the passing of special resolutions by the independent Shareholders at the EGM approving:–
 - (i) the Subscription;
 - (ii) the allotment and the issue of the Series A Preferred Shares and any Ordinary Shares that may fall to be issued by the Company upon exercise of the conversion rights attached with the Series A Preferred Shares;
- (b) by way of poll, the Commercial Agreement; and
- (c) the adoption of the Re-stated Memorandum and Articles;
4. the adoption of the Corporate Governance Plan and Policy Statement by the Board; and
5. execution and delivery of the Investors' Rights Agreement and the Co-Sale Deed; and continued compliance with the Subscription Agreement, the Commercial Agreement and the Re-stated Memorandum and Articles.

Completion of the Milestone A Subscription and Milestone B Subscription are subject to the following additional conditions being fulfilled:–

1. in respect of the Milestone A Subscription, completion of the Milestone A;
2. in respect of the Milestone B Subscription, completion of the Milestone B; and

LETTER FROM THE BOARD

3. in respect of both the Milestone A and Milestone B, the approval of the Board obtained with a majority in number of the executive Directors in accordance with the terms of the Subscription Agreement.

Notes:—

- (1) Upon completion of the First Subscription, the Investors, by holding more than 10% of the voting right at general meetings of the Company, will become connected persons (as defined under the GEM Listing Rules) of the Company.
- (2) There is no long-stop date for the Subscription, However, in the event that the Conditions cannot be fulfilled on or before the First Closing Date it may be postponed to a later date as mutually agreed by both parties.
- (3) There is no termination clause in the Subscription Agreement.
- (4) Subject to the satisfaction of the Conditions, the First Subscription shall take place on the First Closing Date.

Terms of the Series A Preferred Shares

The principal terms of the Series A Preferred Shares are summarized as follows:—

Maturity Date Sixth anniversary of the First Closing Date unless earlier redeemed or converted into the Ordinary Shares.

Dividends After the six months from First Closing Date, bear a cumulative cash dividend, payable, at the rate of 5.5% per annum, on a quarterly basis, on the par value of Series A Preferred Shares.

The Company may defer the payment of cash dividends (without any penalty nor interest) if it is unable to make such payments under law or the Company's bank facility. Dividends on the Series A Preferred Shares shall be accumulated if and to the extent not paid hereunder. The deferred dividend will only be settled in cash. In addition, it shall be prohibited from paying cash dividends on its junior securities, including the Ordinary Shares, until all such deferred dividends shall have been paid in full.

The Directors consider that the dividend rate of 5.5% per annum is fair and reasonable with reference to the prevailing Hong Kong prime rates and the relevant coupon rate of preferred securities issued by other comparable listed companies.

Status of the Series A Preferred Shares and the Ordinary Shares Ordinary Shares that are to be issued upon conversion of the Series A Preferred Shares shall rank pari passu in all aspects with the Ordinary Shares in issue on the conversion date, provided that if the conversion date is after the record date for any rights or dividend entitlements to be made by the Company for the benefits of the Ordinary Shares, the Investors will not be entitled to such rights or dividend.

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A special resolution shall be proposed at the EGM to seek a specific mandate to approve the issue and allotment of the Series A Preferred Shares and the Ordinary Shares upon conversion under the Subscription. The Series A Preferred Shares will not be listed on the Stock Exchange or any other stock exchange. However, the Company will apply for the listing on the Stock Exchange of the Ordinary Shares issuable upon conversion of the Series A Preferred Shares.

Conversion

Holders of the Series A Preferred Shares shall have the right to convert the Series A Preferred Shares under the Subscription, at any time, into the Ordinary Shares and up to the maturity date and without payment of any additional consideration, at the initial conversion rate of 1:1 (subject to adjustment from time to time as provided in the Re-stated Memorandum and Articles).

Anti-dilution

The Conversion Price of the Series A Preferred Shares (the “Conversion Price”) is subject to a weighted average adjustment (based on the number of issued Series A Preferred Shares and the Ordinary Shares) in the event that the Company issues additional equity securities, or securities or debt convertible or exercisable into such securities, at a purchase price less than the Conversion Price then in effect. The Conversion Price will also be subject to adjustment for stock subdivision, capitalization issues and capital re-organization.

The weighted average adjustment involves a calculation of the weighted average prices at which the Ordinary Shares have been issued upon which the Conversion Price is to be adjusted. A weighted average price adjustment may reduce the Conversion Price which may result in additional Ordinary Shares to be issued upon conversion of the Series A Preferred Shares by the Investors, whereas the amount invested in the Series A Preferred Shares remains unchanged. These additional issued shares (determined based on the price and the number of new shares issued and the total number of the Series A Preferred Shares and the Ordinary Shares) may dilute the shareholding of all Shareholders. Since the anti-dilution provision for holders of the Series A Preferred Shares only, depending on the effect of the weighted average adjustment, shareholding dilution effect to the Shareholders may be different from that of the holder of Series A Preferred Shares. As such, the dilution effect applies to all Shareholders (including holders of the Ordinary Shares, the Series A Preferred Shares and the new subscriber for the additional securities issued).

For illustration purpose, assuming the Subscription Price for the First Subscription is HK\$0.80, the voting rights after completion of the First Subscription by the existing Shareholders and the Investors are approximately 78.1 per cent. and 21.9 per cent., respectively. Assuming that the Company issues HK\$155.6 million (equivalent to approximately US\$20 million, which is equal to the worth of the amount of the First

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Subscription) worth of new shares to a new subscriber at a price below the Conversion Price which triggers the anti-dilution right on the part of the Investors, the table below shows adjusted conversion price of Series A Preferred Shares and the percentage of voting rights by existing Shareholders, the Investors and new subscriber after taken the anti-dilution provision to the Investors under the Subscription:

Assuming price of new issues	HK\$0.80	HK\$0.40	HK\$0.05
Adjusted conversion price of Series A Preferred Shares	HK\$0.80	HK\$0.68	HK\$0.22
Existing Shareholders	64.09%	52.89%	15.35%
Investors	17.98%	17.50%	15.90%
New subscriber	<u>17.93%</u>	<u>29.60%</u>	<u>68.75%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Referring to the illustrations above, under the scenario that the price of new issues is HK\$0.80 per Ordinary Share, which is equal to the Conversion Price of the First Subscription, no adjustment to the Conversion Price is required and hence the anti-dilution right is not applicable in this case. In the event that the price of new issues is HK\$0.05 per Ordinary Shares, which is equal to the par value of Ordinary Shares, the Conversion Price would be adjusted to HK\$0.22. At such situation, the shareholding interests by existing Shareholders and the holders of Series A Preferred Shares will be diluted to 15.35% and 15.90% respectively. The Directors consider that such effect is not particularly unfavorable to the holders of the Ordinary Shares nor holders of Series A Preferred Shares.

Every time when there is any adjustment to the Conversion Price as a result of any proposed transaction that triggers the anti-dilution right on the part of the holders of the Series A Preferred Shareholders, the Company will be required to seek a further specific independent Shareholders' approval at general meeting, at which holders of the Series A Preferred Shares and their associates will abstain from voting. In any event, the Directors will strictly observe the terms of the Series A Preferred Shares and the specific independent Shareholders' approval requirement on the anti-dilution provision.

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Redemption

Microsoft redemption:

Upon the request of Microsoft, the Company shall redeem in cash such number of the Series A Preferred Shares then held by Microsoft plus the accrued and unpaid dividends thereon at any time on or after the occurrence of the following:

- (a) if the Company fails to complete the baseline amount of US\$2.0 million (equivalent to HK\$15.56 million) as set forth in the Commercial Agreement prior to the first anniversary of the First Closing Date, the Company shall, upon receipt of a written notice by Microsoft, redeem the Series A Preferred Shares with an aggregate amount of up to US\$5.0 million (equivalent to HK\$38.9 million);
- (b) if the Company fails to complete the baseline amount of US\$3.0 million (equivalent to HK\$23.34 million) as set forth in the Commercial Agreement prior to the second anniversary of the First Closing Date, the Company shall, upon receipt of a written notice by Microsoft, redeem the Series A Preferred Shares with an aggregate amount of up to US\$5 million (equivalent to HK\$38.9 million);
- (c) if the Company fails to complete the baseline amount of US\$4.5 million (equivalent to HK\$35 million) as set forth in the Commercial Agreement prior to the third anniversary of the First Closing Date, the Company shall, upon receipt of a written notice by Microsoft, redeem the Series A Preferred Shares with an aggregate amount of up to US\$5.0 million (equivalent to HK\$38.9 million).

IFC redemption:

IFC shall have a right, but not an obligation, to redeem the Series A Preferred Shares held by it in an aggregate amount of not more than US\$5.0 million (equivalent to HK\$38.9 million) if all the Series A Preferred Shares then held by Microsoft are redeemed by the Company. All accrued and unpaid dividends payable on the Series A Preferred Shares held by IFC shall also be payable by the Company at that time.

Optional redemption:

Upon the request of any of the Investors, the Company shall redeem in cash any or all of the Series A Preferred Shares at any time on or after the occurrence of any of the following events:

- (a) the Company fails to become listed on an internationally recognized stock exchange, other than GEM, acceptable to the Investors, prior to the third anniversary of the First Closing Date (note);

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- (b) the fifth anniversary of the First Closing Date;
- (c) the Company fails to implement the Corporate Governance Plan within four months from the First Closing Date;
- (d) the Company is in violation of IFC's prescribed requirements in environment, social, anti-corruption, anti-money laundering or insurance including the Policy Statement; and
- (e) Microsoft and the Company agree to terminate the Commercial Agreement.

Note: The Directors would like to confirm that they have no definitive plan to apply for listing of the Ordinary Shares on any other stock exchange as at the Latest Practicable Date.

Mandatory redemption:

The Company shall redeem all of the Series A Preferred Shares then owned by the Investors on the sixth anniversary of the First Closing Date unless earlier redeemed or converted into the Ordinary Shares.

**Mandatory
Conversion**

The Series A Preferred Shares shall be automatically converted into the Ordinary Shares if the Ordinary Shares are listed on any internationally recognized stock exchange (other than GEM) at an initial public offering under certain circumstances.

Ranking

The Series A Preferred Shares shall be entitled to dividends and distribution of assets of the Company (in the event of liquidation) in priority over:

- (1) any and all current or future preferred equity securities issued or to be issued by the Company; and
- (2) all the Ordinary Shares.

Transferability

Subject to the lock-up requirement (which commences on the First Closing Date and ending on 30 June 2006) in respect of the Series A Preferred Shares provided under the Investors' Rights Agreement, the Series A Preferred Shares and the Ordinary Shares issued upon conversion are freely transferable.

The rights attached with the Series A Preferred Shares that may be transferred include, inter alia, the right to appoint an observer to the Board. Whilst there is no specific confidentiality obligation made under the Investors' Rights Agreement, the Directors consider that the observer to be appointed, as well as all of the Directors, will be bound by the confidentiality obligation under the insiders' trading laws and regulations and other applicable securities laws. The Chairman of the

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Board will also remind all Directors and the observer of their obligation to keep all information in strict confidence and that they should not make use of any such information in trading the Ordinary Shares. On this basis, the Directors consider that the appointment of an observer to the Board will not have any material adverse impact on the business operations of the Group. In addition, the Board will require the observer to acknowledge his confidentiality obligation when the appointment of the observer is finalised.

Voting Rights

Holders of the Series A Preferred Shares shall be entitled to vote with the Ordinary Shares in a single class, on an “as if” converted basis.

Holders of Series A Preferred Shares will have the right to one vote for each whole Ordinary Share into which a Series A Preferred Shares is convertible at the close of business on the record date for any meeting of Shareholders at which such Series A Preferred Shares will be voted.

Comparison between the Series A Preferred Shares and the Ordinary Shares

A comparison of the respective rights of the holders of the Series A Preferred Shares and the holders of the Ordinary Shares is set out below:

	Series A Preferred Shares	Ordinary Shares
Voting	Vote on an “as if” converted basis with the Shares	One vote per Ordinary Share
Dividends	Entitled to a quarterly fixed cumulative dividend of 5.5% per annum of the principal amount of the Series A Preferred Shares	Entitled to dividends when, as and if declared by the Company
Anti-dilution	Contains anti-dilution protections (see the section headed “Terms of Series A Preferred Shares” above)	No anti-dilution protections unless subject to contractual pre-emptive rights
Conversion	Convertible into Ordinary Shares (see the section headed “Terms of Series A Preferred Shares” above)	Not applicable
Preference	Preferential dividend and liquidation payments	No right to preferential payments
Ranking	Ranks senior to Shares	Ranks junior to Series A Preferred Shares

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	Series A Preferred Shares	Ordinary Shares
Accounting treatment	<p>Under the Hong Kong Financial Reporting Standards, the Series A Preferred Shares is a compound financial instrument, containing both a financial liability component and an equity component. On initial recognition: (a) fair value of the financial liability component is determined using valuation technique with reference to the present value of future cash flows on redemption and cumulative preferential cash dividend payments; and (b) the residual amount, determined by deducting the fair value of the financial liability component from the carrying amount of the Series A Preferred Shares, is regarded as the equity component. In subsequent periods, the financial liability component is measured at amortized cost using the effective interest method. Upon conversion: (i) the financial liability component is derecognized and an equity of the same amount is recognized; and (ii) the original equity component will remain as equity.</p>	<p>Ordinary Shares will be accounted for as share capital account with any share premium will be recognized to share premium account of the Ordinary Shares.</p>
Directors/Observers Nomination	<p>So long as Microsoft holds any Series A Preferred Shares or any Ordinary Shares issued upon conversion of the Series A Preferred Shares, shall have the right (but not the obligation) to nominate one person as Director. Microsoft may nominate two Directors to the Board if it holds 20% or more of the voting right at general meetings of the Company.</p> <p>So long as any Investor holds Series A Preferred Shares or Ordinary Shares comprising at least 5% of the outstanding voting equity interest of the Company on a fully-diluted basis, such Investor shall have the right to designate one observer to attend all meetings of the Board.</p>	<p>No such right to nominate any Directors.</p>

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THE INVESTORS' RIGHTS AGREEMENT

As part of the Subscription, and for the purpose of issue of the Series A Preferred Shares to the Investors, the Company will enter into the Investors' Rights Agreement with the Investors prior to the First Closing Date. The purpose of entering into the Investors' Rights Agreement is to clearly define the additional rights the Investors will have in their capacity as the holders of the Series A Preferred Shares. The rights under the Investors' Rights Agreement only confer to the holders of the Series A Preferred Shares. The Investors' Rights Agreement is one of the Conditions.

The Directors consider that the terms of the Investors' Rights Agreement are intended to promote high level of corporate governance and to set forth the rights of holders of the Series A Preferred Shares, which are subject to the approval of the independent Shareholders. In addition, the Investors' Rights Agreement forms part of the overall arrangements of the proposed issue of the Series A Preferred Shares which is, to the belief of the Directors, fair and reasonable and is in the interests of the Company and its Shareholders as a whole.

Rights to be granted to the Investors

The following summarizes the additional rights of the Investors provided in the Investors' Rights Agreement:–

Information right

Commencing on the First Closing Date and continuing for so long as the Investors hold the Series A Preferred Shares or any Ordinary Shares issued upon conversion of Series A Preferred Shares, subject to the Investors' strict compliance with the confidentiality obligation under the applicable laws and regulations, the Company will deliver to each Investor certain information including:–

- (1) copies of the Company's annual report, business plan and annual budget for each financial year;
- (2) unaudited quarterly consolidated financial statements; and
- (3) copies of all regulatory filings by the Company.

The Directors are of the view that the information right enforces a higher degree of governance for the Company and engages the Investors in a constant review and monitoring the financial performance of the Company.

Registration right

The holders of any Ordinary Shares issued or issuable upon conversion of any Series A Preferred Shares will have registration rights in the event of listing of any Ordinary Shares on any stock exchange where registration is required. The Directors would like to confirm that they have no definitive plan to apply for listing of the Ordinary Shares on any other stock exchange as at the Latest Practicable Date.

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The Directors are of the view that this right is an assurance to the Investors that the Series A Preferred Shares will be brought alone to be registered, if any registration event happens.

Pre-emptive right

The Investors will have a pre-emptive right in the event that the Company proposes to offer any shares of, or securities convertible into or exchangeable or exercisable for any shares of, any class of its share capital to any subscribers. This pre-emptive right, of which are mutually agreed by the Company and the Investors, will not be applicable to any issue by the Company of:- (i) Ordinary Shares issued or issuable upon conversion of the Series A Preferred Shares; (ii) additional Series A Preferred Shares issued pursuant to the Subscription Agreement; (iii) any Ordinary Shares issued pursuant to the exercise of options granted or to be granted under the Share Option Scheme; (iv) any Ordinary Shares to be issued pursuant to the general mandate granted or to be granted to the Directors to the extent such new issue of the Ordinary Shares will not exceed 10% of the total issued share capital of the Company pursuant to the requirements under the GEM Listing Rules; (v) any share split, share dividend, recapitalization or similar transaction for which proportional adjustments are made; and (vi) any Ordinary Shares issued in an underwritten public offering.

The Directors are of the view that the pre-emptive right, which entitles the Investors to subscribe for additional Ordinary Shares in certain circumstances, will enable the Investors to maintain the level of the participation of the Investors in the Group and its future business development. On this basis, the Directors consider that the grant of pre-emptive right is in the interests of the Company and its Shareholders as a whole.

Nomination of Directors and observer attending meetings of the Board

As at the Latest Practicable Date, the Board comprising of seven executive Directors, two non-executive Directors and three independent non-executive Directors. So long as Microsoft holds any Series A Preferred Shares or any Ordinary Shares issued upon conversion of the Series A Preferred Shares, it shall have a right, but not an obligation, to nominate one person as Director. Microsoft may nominate maximum two Directors if it holds 20% or more of the voting right at general meetings of the Company, following the exercise of its right to subscribe additional Series A Preferred Shares pursuant to the Subscription Agreement. In the event that Microsoft disposes of such number of Series A Preferred Shares or Ordinary Shares, it would no longer be entitled to nominate any Director.

If the Board determines in good faith that a nominee by the Investors to the Board would not be consistent with the fiduciary duties of the Directors, the Investors shall have the right to nominate another individual for election to be a Director.

Each Investor will be entitled to appoint an individual, who may be or may not be a Director nominated by the Investors, in a non-voting observer capacity, to the Board so long as it holds Series A Preferred Shares or any Ordinary Shares comprising at least 5% of the outstanding voting equity interest of the Company on a fully-diluted basis. The role of such is to ensure the Board is in compliance with relevant corporate governance which benefits the Company and its shareholders as a whole.

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The Company will adopt the procedures set under the section headed “Making parties ‘insiders’” of the Guidelines on Disclosure of Price-sensitive Information issued by the Stock Exchange whereby the relevant observer will be told that, if he or she attends the meeting, he or she must keep the relevant information strictly confidential and will be reminded not to deal with any securities of the Company, particularly during the period of one month immediately preceding the earlier of (i) the date of the Board meeting for the approval of the Company’s financial results; and (ii) the deadline for the Company to publish an announcement of its financial results, unless such information is in public domain.

Other matters that are required to be approved by the Investors:

Pursuant to the Investors’ Rights Agreement, so long as each Investor owns at least 50 per cent. of the number of Series A Preferred Shares upon the First Closing, or the Investors own more than 97,250,000 Series A Preferred Shares (as adjusted pursuant to the anti-dilution provisions), the following corporate acts of the Company (or, if appropriate, its subsidiaries) will require consent of the Investors representing 70 per cent. or more of the voting right of the Series A Preferred Shares in issue:—

- (a) commencing liquidation, dissolution or winding up the affairs of the Company or any of the subsidiaries as at the date of the Investors’ Rights Agreement;
- (b) entering into any merger, consolidation or sale, to the extent that any of such transaction involves all or substantially all of the asset of the Company, which results in the control of the Company at its general meetings being transferred to a third party;
- (c) creating, authorizing or issuing any class or series of equity, equity-linked or debt security senior to or pari passu with the Series A Preferred Shares or allowing any subsidiary of the Company to do the same;
- (d) authorizing or paying any dividend on any capital stock in preference to, or pari passu, with the dividends payable on the Series A Preferred Shares or of any subsidiary of the Company unless, in the case of dividends payable by subsidiaries, the entire amount of such dividends are solely payable to the Company;
- (e) making redemption or repurchase of any capital stock of the Company, except for bona fide open market purchase from time to time conducted by the company as approved by the Board;
- (f) making any loan or advancement to or issue any guarantee or indemnity for nay other company (other than a wholly-owned subsidiary of the Company) or persons (including connected persons) outside the ordinary course of business of the Group (which shall be determined by reference to the prevailing business activities and arrangements of the Group at that time);
- (g) issuing any other guarantee outside the ordinary course of business of the Group;

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- (h) incurring indebtedness of an aggregate amount of US\$5.0 million on a consolidated basis;
- (i) entering into any agreement with any officer, employee, director or shareholder or any affiliate of any member of the Group or any other related party, except transactions conducted in the ordinary course of business on an arm's length basis;
- (j) amending the Re-stated Memorandum and articles or the Corporate Governance Plan in any manner than would adversely affect the rights, privileges and preferences of the holders of the Series A Preferred Shares or their rights upon conversion into the Ordinary Shares; and
- (k) undertaking any transaction which would impair or reduce the rights, preferences or privileges of the holders of the Series A Preferred Shares or their rights upon conversion into the Ordinary Shares.

If a special resolution is passed in respect of (a) and (j) above, the consent of the holders of the Series A Preferred Shares shall have been deemed to be given.

The Directors are of the view that the above matters requiring the approval of the Investors, in the manner aforesaid mentioned, are intended to maintain good corporate governance of the Company. As the above arrangements do not deprive any right that the Shareholders may have under the GEM Listing Rules, the Directors are of the view that granting of these rights will not prejudice the rights of the Shareholders.

Lock-up

Pursuant to the terms of the Investors' Rights Agreement, the Investors agree to be subject to a lock-up with respect to the Series A Preferred Shares for a period commencing on the First Closing Date and ending on 30 June 2006. This lock-up period is the same as the lock-up period agreed by CS&S (HK) and Far East in respect of their holding of the Ordinary Shares.

THE CO-SALE DEED

For the purpose of facilitating the issue of the Series A Preferred Shares to the Investors, CS&S (HK) and Far East will enter into the Co-Sale Deed with the Investors prior to the First Closing Date. Under the Co-Sale Deed, CS&S (HK) and Far East will grant to each of the Investors a right of co-sale when CS&S (HK) or Far East wants to transfer its Ordinary Shares to any third parties. Pursuant to the terms and conditions of the Co-Sale Deed, if at any time CS&S (HK) or Far East proposes to transfer or dispose of the Ordinary Shares held by it, each of the Investors shall have a right, but not an obligation, to participate in the proposed sale of the relevant Ordinary Shares on the same terms and conditions as specified in such transfer notice, provided that the Investors shall comply with all relevant rules and regulations. The co-sale right granted by CS&S(HK) and Far East to the Investors should not apply to any transfer of the Ordinary Shares by CS&S(HK) and Far East to their respective wholly-owned subsidiaries or in the case of CS&S (HK), to China National Software and Service Company Limited (中國軟件與技術服務股份有限公司) ("CNSS") or any wholly-owned subsidiary

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of CNSS or any member of the public in ordinary market transactions through market intermediaries on the Stock Exchange on which the Ordinary Shares are trading. The entering into of the Co-Sale Deed is one of the Conditions.

APPROVAL FROM THE SHAREHOLDERS TO BE SOUGHT AT THE EGM

The Company will seek the approval from the independent Shareholders on the proposed issue of the Series A Preferred Shares (pursuant to the terms of the Subscription Agreement and the Investors' Rights Agreement) and the proposed new issue Ordinary Shares upon conversion of the Series A Preferred Shares by way of special resolutions to be proposed at the EGM. As none of the Shareholders has material interests in the issue of the Series A Preferred Shares under the First Subscription, no Shareholder shall abstain from voting at the EGM. In any event, if the Directors decide to proceed with the Milestone A Subscription or the Milestone B Subscription, the Company will be required to seek a further specific approval from the independent Shareholders at a general meeting with independent financial adviser's opinion and advice to the independent board committee of the Board.

NO SERIES A PREFERRED SHARES WILL BE LISTED ON GEM

No Series A Preferred Shares and other preferred equity in issue will be listed on GEM. The Company will not make any application for the listing of, and permission to deal in, the Series A Preferred Shares on GEM. However, the Company will apply to the GEM Listing Committee for the listing of, and permission to deal in, the new Ordinary Shares which may fall to be allotted and issued upon exercise of the conversion right attached with the Series A Preferred Shares.

INFORMATION ON THE INVESTORS

Microsoft

Microsoft is a company incorporated in the State of Washington in the United States of America and listed on NASDAQ National Market and is principally engaged in the development, manufacture, licensing and distribution of software products for various computing devices. Immediately upon completion of First Subscription, Microsoft will become a substantial shareholder and a connected person (as defined under the GEM Listing Rules) of the Company.

IFC

IFC, the private sector investment arm of the World Bank Group, is an international organization established by articles of agreement among its member countries. IFC is the largest multilateral source of loan and equity financing for private sector projects in the developing world. Immediately upon completion of First Subscription, Microsoft will become a substantial shareholder and a connected person (as defined under the GEM Listing Rules) of the Company.

As at the Latest Practicable Date, other than the proposed Series A Preferred Shares under the First Subscription, Microsoft, IFC and their concert parties do not have any interests in any shares, options, warrants, derivatives or securities convertible into Ordinary Shares of the Company.

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EXISTING AND FUTURE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, Far East and CS&S (HK) were the substantial shareholders of the Company, holding approximately 23.2% and 24.0%, respectively, of all the Ordinary Shares in issue. Ordinary Shares held in public hands represent approximately 25.30%. The Directors are interested in approximately 9.18% of all the Ordinary Shares in issue. The remaining 18.32% of all the Ordinary Shares in issue are held by three minority Shareholders, namely Authorative Industries Limited, ITG Venture Capital Limited and Prosperity International Investment Corporation (the “Minority Shareholders”), all of them have been Shareholders since the listing of the Company on GEM.

Whilst the Subscription Price for the First Subscription has yet to be determined pursuant to the terms of the Subscription Agreement, assuming that the Subscription Price under the First Subscription is HK\$0.80, the Company will issue 194,500,000 Series A Preferred Shares to the Investors following completion of the First Subscription, which may initially be converted into an equal number of the Ordinary Shares, subject to adjustment from time to time as provided in the Re-stated Memorandum and Articles.

Assuming that the Subscription Price under the First Subscription is HK\$0.70, the Company will issue 222,285,714 Series A Preferred Shares to the Investors, following completion of the First Subscription, which may initially be converted into an equal number of Ordinary Shares, subject to adjustment from time to time as provided in the Re-stated Memorandum and Articles. The percentage of the voting right at general meetings held by the Investors under both situations will be in the range between approximately 20.98% and 23.28%. Hence, there will be no implications under the Takeovers Code following completion of the First Subscription. The shareholding held by the public (including the Minority Shareholders) of the Company under both scenarios is expected to be in the range between approximately 35.47% and 33.46%, respectively. On this basis, the Directors consider that the Company will continue to be able to meet the public float requirement under the GEM Listing Rules.

For the Milestone A Subscription and the Milestone B Subscription, there is no fixed range on the Subscription Price and the number of Series A Preferred Share to be issued, hence, the definitive shareholding effect of the Company are not estimable. The Company and the Directors will take appropriate steps to ensure that there will be sufficient public float for the Ordinary Shares immediately following conversion of the Series A Preferred Shares under the Milestone A Subscription and the Milestone B Subscription.

The Stock Exchange has indicated that should the Subscription be completed, it will closely monitor the trading level of the Ordinary Shares if less than 25% of the issued share capital are held by public. If the Stock Exchange believes that a false market exists or may exist in the trading in the Ordinary Shares, or there are too few Ordinary Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the Ordinary Shares until a sufficient level of public float is attained.

The Stock Exchange will also closely monitor all future acquisitions or disposals of assets by the Company. The Stock Exchange has indicated that it has the discretion to require the Company to issue a circular to the Shareholders irrespective of the size of any proposed transactions, particularly when such proposed transactions represents a

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departure from the principal activities of the Company. The Stock Exchange also has the power to aggregate a series of transactions of the Company and any such transactions may result in the Company being treated as if it were a new listing applicant if in the opinion of the Stock Exchange they constitute an attempt to achieve a listing of the assets to be acquired and a means to circumvent the requirements for new applicants under the GEM Listing Rules.

The Investors have confirmed that if they would like to exercise their respective rights to subscribe for additional Series A Preferred Shares at the Milestone A Subscription and the Milestone B Subscription pursuant to the terms and conditions of the Subscription Agreement, they will comply with the applicable laws and regulations which will include, but without limitation to, the Takeovers Code.

The following table illustrates the existing and the proposed shareholding structure of the Company before and after the First Subscription and the exercise of the right by the Investors pursuant to the terms and conditions of the Subscription Agreement:

	As at the Latest Practicable Date		Assuming the Series A Preferred Shares after the First Closing were fully converted into an equal number of Ordinary Shares		Assuming the First Subscription and the Milestone A Subscription were fully converted into Ordinary Shares at the conversion price of HK\$0.05 (note 2)		Assuming the First Subscription, the Milestone A Subscription and the Milestone B Subscription were fully converted into Ordinary Shares at the conversion price of HK\$0.05 (note 2)	
	No. of Ordinary /Series A Preferred Shares	Voting %	No. of Ordinary Shares	Voting %	No. of Ordinary Shares	Voting %	No. of Ordinary Shares	Voting %
Ordinary Shares								
CS&S(HK)	175,762,453	24.00%	175,762,453	18.41%	175,762,453	8.28%	175,762,453	5.34%
Far East	169,889,822	23.20%	169,889,822	17.80%	169,889,822	8.01%	169,889,822	5.17%
Authoritative								
Industries Limited	57,485,834	7.85%	57,485,834	6.02%	57,485,834	2.71%	57,485,834	1.75%
ITG Venture								
Capital Limited	36,942,288	5.04%	36,942,288	3.87%	36,942,288	1.74%	36,942,288	1.12%
Prosperity								
International Investment Corporation	39,790,136	5.43%	39,790,136	4.17%	39,790,136	1.88%	39,790,136	1.21%
Directors								
– Chen Yuhong	22,967,472	3.14%	22,967,472	2.41%	22,967,472	1.08%	22,967,472	0.70%
– Cui Hui	20,000,000	2.73%	20,000,000	2.09%	20,000,000	0.94%	20,000,000	0.61%
– Peng Jiang	7,017,838	0.96%	7,017,838	0.74%	7,017,838	0.33%	7,017,838	0.21%
– Tang Zhenming	10,207,765	1.39%	10,207,765	1.07%	10,207,765	0.48%	10,207,765	0.31%
– Wang Hui	7,017,838	0.96%	7,017,838	0.74%	7,017,838	0.33%	7,017,838	0.21%
Public Shareholders	185,291,007	25.30%	185,291,007	19.40%	185,291,007	8.74%	185,291,007	5.64%
Total Ordinary Shares	732,372,453	100.00%						
Microsoft	–	–	111,142,857	11.64%	889,142,857	41.91%	1,667,142,857	50.69%
IFC	–	–	111,142,857	11.64%	500,142,857	23.57%	889,142,857	27.04%
TOTAL	732,372,453	100.00%	954,658,167	100.00%	2,121,658,167	100.00%	3,288,658,167	100.00%

LETTER FROM THE BOARD

Notes:

- (1) The above figures assume that: (1) the First Subscription is completed in all respects; (2) no redemption rights have been exercised by Microsoft and IFC; (3) for illustration purpose only, the Subscription Price under the First Subscription is HK\$0.70, 111,142,857 Series A Preferred Shares will therefore be issued and allotted to each of Microsoft and IFC, respectively.
- (2) The above shareholding structure assumed that Series A Preferred Shares under the Milestone A Subscription and the Milestone B Subscription is fully issued and allotted at the Subscription Price equal to par value of the Ordinary Share (i.e. HK\$0.05). As stated in the Subscription Agreement that the Subscription Price under the Milestone A/ the Milestone B Subscription shall be the lesser of (i) 90% of the 45 trading day average closing price of each Ordinary Share on the then current stock exchange on which the Ordinary Shares are listed prior to the last day of the first/ second anniversary of the First Closing Date; and (ii) 90% of the closing price of the Ordinary Shares on the then current stock exchange on which the Ordinary Shares are listed on the trading day immediately prior to the relevant subscription date as selected by Microsoft. Hence, this extreme situation of the Subscription Price equal to the par value of the Ordinary Share (i.e. HK\$0.05) would only happened when the 45 trading day average closing price of the Ordinary Share is traded at HK\$0.055 which is an approximately 95% discount to the closing price of HK\$1.13 per Ordinary Share as quoted on the Stock Exchange on 23 September 2005, being the last trading day prior to the date of the Subscription Agreement.
- (3) Upon conversion of the First Subscription, the shareholding held by public shareholders (including the Minority Shareholders) will be maintained at 33.46%.

Possible dilution effect on Shareholders

As the Company foresees there is a potential future dilution effect on the Shareholders as a result of the issue of the Series A Preferred Shares, the Company will promptly keep the Shareholders informed on the level of dilution effect by way of an announcement on the website of the Stock Exchange in the following manners:

1. Within 5 trading days after the end of each month, the Company will make an announcement (“Monthly Announcement”) in a table form disclosing:
 - (a) details of the conversion rights and redemption rights exercised by the Investors under the Subscription during that month, which include, inter alia, the conversion/redemption date, the total principal amount converted/ redeemed, number of Ordinary Shares converted/ redeemed, the Conversion Price, the percentage of dilution effect on the existing Shareholders and the number of outstanding Series A Preferred Shares after the conversion/ redemption of the Series A Preferred Shares. If there is no conversion/ redemption during the relevant month, a negative statement to that effect;
 - (b) the total issued share capital of the Company announced in the previous Monthly Announcement and the total issued share capital of the Company as at the commencement of the last day of the relevant month;
2. in addition to the Monthly Announcement, if the cumulative amount of Ordinary Shares issued pursuant to the conversion of the Series A Preferred Shares reaches 5% of the issued share capital of the Company as disclosed in the last Monthly

LETTER FROM THE BOARD

Announcement or any subsequent announcement made by the Company in respect of the Subscription (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange including details as stated in condition (1) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Subscription up to the date on which the total amount of Ordinary Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Subscription;

3. if the Company forms the view that any issue of Ordinary Shares under the Subscription will trigger the disclosure requirements under rule 17.10 of the GEM Listing Rules, then the Company is obliged to make such disclosures regardless of the issue of any announcements in relation to the Subscription; and
4. if the Series A Preferred Shares are fully converted into Ordinary Shares or redeemed under the Subscription, then the announcement requirements set out in the above conditions (1) to (3) will cease immediately.

PROPOSED USE OF NET PROCEEDS FROM THE ISSUE OF THE SERIES A PREFERRED SHARES UNDER THE FIRST SUBSCRIPTION

The Directors propose to use the net proceeds from the issue of the Series A Preferred Shares under the First Subscription as follow:-

- as to approximately 60% for acquiring businesses engaged in software outsourcing business;
- as to approximately 30% for acquiring the ownership in certain software/ IT solutions companies; and
- as to approximately the remaining 10% for general working capital of the Group (including Company's obligation under the Commercial Agreement).

After deducting related expenses, the estimated net proceeds from the First Subscription are estimated to be approximately US\$19.1 million (equivalent to approximately HK\$149 million).

On 15 November 2005, Chinasoft (HK), a wholly-owned subsidiary of the Company, entered into an agreement with CS&S (HK) for an acquisition of 49% registered capital of Chinasoft Resources Information Technology Services Limited. The Company intends to finance the cash payment of the above acquisition by the proceeds from the proposed issue of the Series A Preferred Shares. Details of which were announced by the Company on 18 November 2005.

LETTER FROM THE BOARD

A SUMMARY OF THE RE-STATED MEMORANDUM AND ARTICLES

The proposed issue of the Series A Preferred Shares will require substantive amendments to the Memorandum and the Articles, with the requirements of certain provisions therein contained under the GEM Listing Rules to be maintained. To facilitate the proposed issue of the Series A Preferred Shares under the Subscription Agreement and the Investors' Rights Agreement, the Board proposes to adopt the Re-stated Memorandum and Articles to replace the Memorandum and the Articles respectively. The adoption will be subject to the approval of the independent Shareholders by way of a special resolution to be proposed at the EGM.

Whilst the full text of the Re-stated Memorandum and Articles is set forth in appendix II to this circular, the following highlights some of the principal changes that are included therein, which are made to reflect the relevant provisions in the Subscription Agreement and the Investors' Rights Agreement:–

1. Clause 8 of the Memorandum is proposed to be amended to include the Series A Preferred Shares in the share capital of the Company. The proposed authorized share capital of the Company will be HK\$106,250,000 divided into 1,500,000,000 Ordinary Shares of HK\$0.05 each and 625,000,000 Series A Preferred Shares of HK\$0.05 each.
2. Article 2(1) is proposed to be amended generally in the following manner:–
 - (a) a new definition of “Additional Ordinary Shares will be include to reflect the pre-emptive rights proposed to be granted to the holders of the Series A Preferred Shares under the Investors’ Rights Agreement (please refer to page II-5 of appendix 2 to this circular for detailed information);
 - (b) a new definition of “Affiliate” is included for the purpose of the protective covenants under the Investors’ Rights Agreement (please refer to page II-6 of appendix 2 to this circular for detailed information);
 - (c) new definitions of “Baseline Amount of Milestone A”, “Baseline Amount of Milestone B”, “Baseline Amount of Milestone C” are included to reflect the principal terms of the Commercial Agreement (please refer to page II-6 of appendix 2 of this circular for detailed information);
 - (d) new definitions of “Beijing Chinasoft” and “Chinasoft Resources” are included (please refer to pages II-6 and II-7 of appendix 2 to this circular for detailed information), which are the wholly-owned subsidiaries of the Company and part of the “Key Subsidiaries” to reflect the inclusion of the liquidation events of the Series A Preferred Shares. New definition of “Liquidation Event” and “Material Adverse Effect” are also included to include the events that holders of the Series A Preferred Shares may exercise the mandatory redemption right attached with the Series A Preferred Shares (please refer to pages II-9 to II-11 of appendix 2 to this circular for detailed information);
 - (e) a new definition of “Commercial Agreement” is included (please refer to page II-7 of appendix 2 to this circular for detailed information);

LETTER FROM THE BOARD

- (f) definitions of “Conversion Price”, “Convertible Securities”, “Issue Price” and “Issue Date” are included to set out in the Articles the detailed arrangements on the conversion ratio between the Series A Shares and the Ordinary Shares from time to time. As such, the definitions of “Series A-1 Conversion Price”, “Series A-2 Conversion Price”, “Series A-3 Conversion Price”, “Series A-1 issue Price”, “Series A-2 Issue Price”, “Series A-3 Issue Price” are also included (please refer to page II-7, II-8, II-12 and II-13 of appendix 2 of this circular for detailed information);
 - (g) the identity of the “Investors”, namely “Microsoft” and “IFC” are included (please refer to page II-8 of appendix 2 of this circular for detailed information);
 - (h) a new definition of “Qualified Public Offering” is also included to facilitate the granting of the registration rights to the holders of the Series A Preferred Shares (please refer to page II-11 of appendix 2 of this circular for detailed information);
 - (i) a new definition of “Subscription Agreement” is included (please refer to page II-15 of appendix 2 of this circular for detailed information); and
 - (j) a new definition of “Subsidiary” is included to delineate the scope of the protective covenants granted to the Investors being holders of the Series A Preferred Shares (please refer to page II-15 of appendix 2 to this circular for detailed information).
3. Article 3 of the Articles is proposed to be amended to reflect the proposed issue of the Series A Preferred Shares (please refer to page II-17 of appendix 2 to this circular for detailed information).
4. Article 3A which is new sets forth the principal terms of the Series A Preferred Shares:–
- Dividends – which provides that no dividend will be paid during the first six months period of the date of issue of the Series A Preferred Shares and thereafter, the dividend payable thereon will be at a rate of 5.5 per cent. per annum payable on a quarterly basis (please refer to page II-17 of appendix 2 of this circular for detailed information);
 - Liquidation Preference – this Article sets forth certain liquidation events upon which holders of the Series A Preferred Shares will be entitled to exercise the mandatory redemption right attached with the Series A Preferred Shares (please refer to pages II-18 to II-19 of appendix 2 to this circular for detailed information);
 - Conversion rights – this Article sets forth the circumstances under which holders of the Series A Preferred Shares may convert their Series A Preferred Shares into the Ordinary Shares and the circumstances under which such

LETTER FROM THE BOARD

conversion is automatic. The anti-dilution provision, which resembles to that stated in the Investors' Rights Agreement, is also set forth in this Article (please refer to pages II-20 and II-27 of appendix 2 of this circular (please refer to pages II-18 to II-19 of appendix 2 to this circular for detailed information));

- Redemption – this Article sets forth the circumstances under which Microsoft can redeem (for cash) any of the Series A Preferred Shares and the circumstances under which the Company shall redeem the same (please refer to pages II-27 to II-29 of appendix 2 of this circular (please refer to pages II-18 to II-19 of appendix 2 to this circular for detailed information));
 - Voting rights – this Article provides that holders of the Series A Preferred Shares shall enjoy a voting right at general meetings of the Company on the basis that all of their Series A Preferred Shares were converted into the Ordinary Shares (please refer to page II-25 of appendix 2 to this circular for detailed information);
 - Protective covenants – this Article provides certain matters that require the approval of the holders of the Series A Preferred Shares (please refer to pages II-30 to II-31 of appendix 2 to this circular for detailed information); and
 - No withholding – this Article provides that all payments made to holders of the Series A Preferred Shares shall not be subject to any withholdings or tax deductions.
5. Articles 86(8), 86(9) and 86(10) which are new provide that Microsoft, so long as it holds any Series A Preferred Shares or Ordinary Shares issued upon conversion of the Series A Preferred Shares, shall have the right to nominate one (1) person to the Board. This right of nomination will increase to two if the shareholding of Microsoft in the Company, including the Series A Preferred Shares and the Ordinary Shares reaches 20 per cent., provided that the number of Directors shall not be less than 10. For so long as Microsoft and/or IFC holds Series A Shares or Ordinary Shares of five per cent. or more, they have a right to appoint an observer to the Board. Each of Microsoft and IFC, so long as it holds any Series A Preferred Shares, shall have a right to veto any nomination to act as independent non-executive Director under certain circumstance. Please refer to pages II-52 to II-54 of appendix 2 to this circular for detailed information.

The legal advisers to the Company as to Cayman Islands law and as to Hong Kong law respectively have confirmed to the Company that the Re-stated Memorandum and Articles are in full compliance with the applicable laws and regulations in the Cayman Islands and the contents requirements of the GEM Listing Rules.

LETTER FROM THE BOARD

THE COMMERCIAL AGREEMENT

Background and nature of the transaction

On 26 September 2005, the Company entered into the Commercial Agreement with Microsoft for a period of three years commencing from the First Closing Date. Pursuant to the Commercial Agreement, the Company and Microsoft have agreed to drive revenue associated with delivering software solutions using certain Microsoft software products and to assist the Company in growing its IT service business in the PRC.

Connection between the parties and continuing connected transactions

Following completion of the First Subscription, Microsoft is expected to hold more than 10% of the voting right at general meetings the Company and hence will be a connected person (as defined under the GEM Listing Rules) of the Company. On this basis, the transactions under the Commercial Agreement will constitute continuing connected transactions of the Company under rule 20.14 of the GEM Listing Rules and are subject to the reporting, announcement and independent Shareholders' approval and the annual cap amounts that will be approved by the independent Shareholders to be taken by poll at the EGM.

Conditions and Consideration

The Commercial Agreement is subject to the following conditions:

- (a) approval by the independent Shareholders of the Commercial Agreement and the transactions contemplated thereunder; and
- (b) completion of the Subscription Agreement.

Pursuant to the Commercial Agreement, the Company will achieve target revenue of US\$3.0 million (equivalent to HK\$23.34 million), US\$4.5 million (equivalent to HK\$35.01 million) and US\$6.75 million (equivalent to HK\$52.52 million), respectively for the next three years commencing from the First Closing Date. In order to achieve the respective target revenues, in addition to the software product provided by Microsoft, the Company will purchase Microsoft Consulting Services and Premier Support Services (the "Services"). The Services forms part of the Commercial Agreement provided by Microsoft and will be provided in form of one full-time Partner Solution Architect, subject to the following rates and within 45 calendar days after the end of each year, the Company may apply to Microsoft for repayment of

LETTER FROM THE BOARD

monies spent to fund its purchased of the Services, but will be capped at the lesser the actual amount spent or the amount specified above under repayment cap (the “Repayment Cap”) as the table shows below:

Year	Minimum amount paid for the Services	Repayment cap
1	US\$160,000 (equivalent to HK\$1.24 million) + travel and entertainment expenses	US\$380,000 (equivalent to HK\$2.96 million)
2	US\$160,000 (equivalent to HK\$1.24 million)+ annual rate increase + travel and entertainment expenses	US\$580,000 (equivalent to HK\$4.51 million)
3	US\$160,000 (equivalent to HK\$1.24 million)+ annual rate increase + travel and entertainment expenses	US\$760,000 (equivalent to HK\$5.91 million)

The Company will finance it by making use of the proceeds from the issue of the Series A Preferred Shares.

Basis of determining the caps amount

Pursuant to the Commercial Agreement, the Company will achieve a target revenue of US\$3.0 million (equivalent to HK\$23.34 million), US\$4.5 million (equivalent to HK\$35.01 million) and US\$6.75 million (equivalent to HK\$52.52 million), respectively for the next three years commencing from the First Closing Date. The target revenue is set based on the comparable products that Microsoft can provide and applied to the Group’s solutions, by reference to the cost of sales attributable to the Group’s solution business is approximately RMB 174 million (equivalent to approximately HK\$180.96 million) for the year ended 31 December 2004. In addition, the Company will constantly purchase the Services from Microsoft, to support Microsoft’s server system and Microsoft’s .net. products, for the next three years commencing from the 1 January 2006. Accordingly, based on the minimum target revenue and the Services provided by Microsoft, the Directors propose that the annual cap amounts for the transactions contemplated under the Commercial Agreement shall be US\$4.18 million (equivalent to HK\$32.52 million), US\$5.83 million (equivalent to HK\$45.36 million) and US\$8.305 million* (equivalent to HK\$64.61 million) for the three financial years ending 31 December 2008, respectively.

The Directors confirm that the caps amount is based on the target revenue that will be achieved by the Company pursuant to the Commercial Agreement plus the estimated amount of the Services provided by Microsoft in order to achieve the target revenue. There are no historical figures of the above transactions can be provided before the Commercial Agreement has been entered into.

* There was an immaterial typographical error on the Announcement wherein it was stated the cap amount for the financial year ending 31 December 2008 was US\$8.35 million, where it should be US\$8.305 million (equivalent to HK\$64.61 million). The Company apologises for any confusion caused.

LETTER FROM THE BOARD

REASONS FOR ENTERING INTO THE SUBSCRIPTION AGREEMENT AND THE COMMERCIAL AGREEMENT

The principal business activities of the Group are the provision of e-government solutions and customised software products, IT consulting and training services, IT outsourcing services and standalone software products for government authorities and respective IT services providers as its main target customers.

Microsoft is one of the world's largest software developers and, the Directors believe that the introduction of Microsoft as an investor of the Company will enhance future cooperation between the Group and Microsoft, as well as the Group's development in business, marketing, technological know how and products and services.

IFC, the private sector investment arm of the World Bank Group, is a global investor and adviser that is committed to promoting sustainable projects in its 178 members countries that are economically beneficial, financially and commercially sound, and environmentally and socially sustainable. The Directors believe that the introduction of IFC as a significant shareholder of the Company will enhance the Group's practices in corporate governance, environmental, health and safety etc.

By considering the principal business among the Company and the Investors, the Directors consider that neither Microsoft or IFC has a competing interest in business which is directly or indirectly compete with the Group.

The Directors believe that the Subscription is in the interest of the Company and the Shareholders as a whole since the Subscription will strengthen the capital base of the Group and the net proceeds from the Subscription will be applied to further develop and expand the business of the Group. The Board or the Investors do not intend to change the principal activities of business of the Group after completion of the Subscription.

The Directors consider that the proposed issue of Series A Preferred Shares is an appropriate means to raise additional capital of the Company as it not only provides an efficient means of raising substantial expansion capital, but also enables the Company to leverage the strategic value brought by the Investors. The Directors consider that the Group will strengthen its capital base and technological know-how by two well-known enterprises with a moderate dilution under the First Subscription is considered reasonable. The Board has considered various ways of raising funds other than the proposed issue of the Series A Preferred Shares, such as bank borrowing, rights issue, open offer and share placement. However, the Board considers that such other methods of financing would be less preferable and effective than the proposed issue of the Series A Preferred Shares in view of the size of the new capital to be raised, more cost and time required for other funding arrangements and the immediate dilution of existing Shareholders' interests.

The terms of the Subscription Agreement and the Commercial Agreement were negotiated following arm's length negotiations between the Company and the Investors. The Directors (including the independent non-executive Directors) consider that such terms are fair and reasonable and the proposed issue of the Series A Preferred Shares is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE GEM LISTING RULES

Proposed issue of the Series A Preferred Shares and the adoption of the Re-stated Memorandum and Articles

The proposed issue of the Series A Preferred Shares will require the approval of the independent Shareholders by way of a special resolution to be proposed at the EGM. As none of the Shareholders has material interests on the proposed issue of the Series A Preferred Shares under the First Subscription, no Shareholder shall abstain from voting.

The adoption of the Re-stated Memorandum and Articles will also require the approval of the independent Shareholders (with the advice from the Independent Board Committee and the opinion from Independent Financial Advisor) by way of a special resolution to be proposed at the EGM.

The Commercial Agreement

Following completion of the First Subscription, Microsoft is expected to hold more than 10% of the voting right at general meetings the Company and hence a connected person (as defined under the GEM Listing Rules) of the Company. On this basis, the transactions under the Commercial Agreement will constitute continuing connected transactions of the Company under rule 20.14 of the GEM Listing Rules and are subject to the reporting, announcement and independent Shareholders' approval and the cap amounts will be approved by the independent Shareholders to be taken by poll at the EGM.

In addition, in the event that further Series A Preferred Shares are issued under the Milestone A Subscription or the Milestone B Subscription, the proposed issue of such Series A Preferred Shares will require the approval of the independent Shareholders (with the advice from the Independent Board Committee and the opinion from Independent Financial Advisor) by way of special resolutions to be proposed at the EGM.

Independent Board Committee

The Company has appointed an independent financial adviser to make recommendations to the Independent Board Committee and the independent Shareholders as to whether the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the terms of the Commercial Agreement are fair and reasonable and whether it is in the interests of the Company and its Shareholders as a whole and to advise the independent Shareholders on how to vote at the EGM.

EGM

Set put on pages III-1 to III-3 of appendix 3 in this circular is a notice convening the EGM to be held at 3:00 p.m. on 28 December 2005 at 27th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong at which special resolutions will be proposed to approve the adoption of the Re-stated Memorandum and Articles, the issue of the Series A Preferred Shares (pursuant to the terms set forth in the Subscription Agreement, the Investors' Rights Agreement and the Re-stated Memorandum and Articles), the entering into the Commercial Agreement and such other matters incidental to the above.

LETTER FROM THE BOARD

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

PROCEDURE FOR DEMANDING A POLL

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

- (a) by the chairman of such meeting; or
- (b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by any Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (d) by any Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding Ordinary Shares conferring a right to vote at the meeting being Ordinary Shares on which an aggregate sum has been paid up equal to less than one-tenth of the total sum paid up on all the Ordinary Shares conferring the rights.

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

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of UOB Asia, considers that the terms of the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the Commercial Agreement are fair and reasonable to and in the interest of the Shareholders as a whole. Accordingly the Independent Board Committee recommends the independent Shareholders to vote in favour of the ordinary resolution and special resolutions to be proposed at the EGM approving the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the Commercial Agreement. The full text of the letter from the Independent Board Committee and the letter from UOB Asia are set out on pages 38 to 39 and pages 40 to 65 of this circular, respectively.

LETTER FROM THE BOARD

GENERAL

The principal business activities of the Group are the provision of e-government solutions and customised software products for government authorities and respective IT services providers as its main target customers.

You are advised to read carefully the letter from the Independent Board Committee (which contains its recommendation to the independent Shareholders as to voting at the EGM) on pages 38 to 39, the letter from UOB Asia (which contains its advice to the Independent Board Committee and the independent Shareholders in relation to the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the Commercial Agreement, and the principal factors and reasons it considered in arriving at its opinion) on pages 40 to 65 and other information as set out in this circular. In addition, your attention is drawn to the additional information set out in the appendix to this circular.

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



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)

2 December 2005

To the Shareholders,

Dear Sir or Madam,

As the Independent Board Committee, we have been appointed to advise you in connection with the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the continuing connected transactions, details of which are set out in the letter from the Board contained in the circular of the Company dated 2 December 2005 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Subscription (the terms of which are set forth in the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles), and the continuing connected transactions and to advise the independent Shareholders as to whether or not they would be fair and reasonable and in the interests of the independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Subscription (the terms of which are set forth in the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the continuing connected transactions. UOB Asia has been appointed to advise the Independent Board Committee and independent Shareholders in relation to the Subscription (the terms of which are set forth in the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the continuing connected transactions.

We wish to draw your attention to the letter from the Board and the letter from UOB Asia to the Independent Board Committee and independent Shareholders which contains its advice to us in relation to the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the continuing connected transactions as set out in this Circular.

Having considered the terms of the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the Commercial Agreement and the advice of UOB Asia in relation thereto as set out on pages 40 to 65 of the Circular, we are of the opinion that the terms of the Subscription (the terms of which are set forth in the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the terms of the Commercial Agreement are fair and reasonable to and in the interest of the Company and the

* *For identification purpose only*

LETTER FROM INDEPENDENT BOARD COMMITTEE

independent Shareholders as a whole. We therefore recommend that you vote in favour of the ordinary resolution to be proposed at the EGM to approve the Subscription (the terms of which are set forth in the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the continuing connected transactions pursuant to the Commercial Agreements.

Yours faithfully,

Independent Board Committee

Mr. AU YEUNG Shiu Kau Peter Mr. HE Ning Mr. ZENG Zhijie

Independent Non-Executive Director

LETTER FROM UOB ASIA

The following is the text of a letter of advice from UOB Asia, the independent financial adviser to the Independent Board Committee, which has been prepared for the purpose of incorporation into this circular, setting forth its advice to the Independent Board Committee in connection with the Subscription Agreement and the Commercial Agreement.

 **UOB ASIA (HONG KONG) LIMITED**
(A MEMBER OF THE UNITED OVERSEAS BANK GROUP)
Suite 601, 6/F Aon China Building
29 Queen's Road Central, Hong Kong

2 December, 2005

*To the Independent Board Committee of
Chinasoft International Limited*

Dear Sirs,

**PROPOSED ISSUE OF THE SERIES A PREFERRED SHARES
AND
CONTINUING CONNECTED TRANSACTION WITH MICROSOFT**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in relation to the terms of the Subscription Agreement and the Commercial Agreement, details of which are set forth in a circular (the "Circular") to the Shareholders dated 2 December, 2005, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Messrs. Au Yeung Shiu Kau, Peter, He Ning and Zeng Zhijie, the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the independent Shareholders on the proposed issue of the Series A Preferred Shares pursuant to the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the proposed continuing connected transaction pursuant to the Commercial Agreement.

We have been engaged to advise the Independent Board Committee as to whether or not the proposed issue of the Series A Preferred Shares pursuant to the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the proposed continuing connected transaction pursuant to the Commercial Agreement are fair and reasonable insofar as the Company and the independent Shareholders are concerned and whether they are in the interests of the Company and its Shareholders as a whole and to advise independent Shareholders on how to vote.

Details of the terms and conditions of the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the Commercial Agreement are set forth in the letter from the Board on pages 6 to 37 of the Circular.

LETTER FROM UOB ASIA

BASIS OF OUR OPINION

In arriving at our recommendation, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be true as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have sought and received confirmation from the Directors that there are no other facts or representations the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information which is presently available to enable us to reach an informed view on the fairness and reasonableness of the terms of the Subscription Agreement and the Commercial Agreement insofar as the Independent Shareholders are concerned. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy, or completeness of the information provided to us by the Directors. We have not, however, carried out any independent verification of the information, nor have we conducted any form of investigation into the business, operational aspects, financial standing and affairs of the Group or the Investors or their respective subsidiaries or associated companies.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation to the Independent Board Committee in respect of the Subscription Agreement and the Commercial Agreement, we have considered the following principal factors and reasons:

(I) The Subscription Agreement

(a) Background for the Subscription Agreement

On 26 September, 2005, the Company, Beijing Chinasoft and Chinasoft Resources entered into the Subscription Agreement with the Investors, Microsoft and IFC, pursuant to which the Investors have conditionally agreed to subscribe for cash, in three tranches, with a maximum of US\$35 million (equivalent to HK\$273 million) by way of subscription of the Series A Preferred Shares which will mature on the sixth anniversary of the First Closing Date unless earlier redeemed or converted into Ordinary Shares. The Subscription is conditional upon, inter alia, the approval of the Commercial Agreement, the adoption of the Re-stated Memorandum and Articles, the execution and delivery of the Investors' Right Agreement and the Co-Sale Deed. Please refer to the Letter from the Board in this Circular for further details.

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Pursuant to the Subscription Agreement, the Investors have conditionally agreed to subscribe for such number of the Series A Preferred Shares under the First Subscription, in cash in an aggregate amount of US\$20 million (equivalent to approximately HK\$156 million), as determined by the Subscription Price and the Investors shall have a right, but not an obligation, to subscribe for additional Series A Preferred Shares under the Milestone A Subscription and the Milestone B Subscription in cash in an aggregate amount of US\$15 million (equivalent to approximately HK\$117 million) subject to the approval of the Board and satisfaction of the Milestone A and the Milestone B within the required time period stated in the Commercial Agreement.

The issue of Series A Preferred Shares are divided into three tranches as below:

Investors	First Subscription <i>US\$ million</i> <i>Note (1)</i>	Milestone A Subscription <i>US\$ million</i> <i>Notes (2&4)</i>	Milestone B Subscription <i>US\$ million</i> <i>Notes (3) & (4)</i>	Total <i>US\$ million</i>
Microsoft <i>(Note 5)</i>	10.0	5.0	5.0	20.0
IFC <i>(Note 5)</i>	10.0	2.5	2.5	15.0
Total	<u>20.0</u>	<u>7.5</u>	<u>7.5</u>	<u>35.0</u>

Notes:

1. Each of Microsoft and IFC has conditionally agreed to subscribe US\$10 million Series A Preferred Shares under the First Subscription.
2. Subject to the fulfilment of Milestone A, whereby the Company has to achieve target revenue in aggregate of not less than US\$3 million pursuant to the terms of the Commercial Agreement prior to the first anniversary of the First Closing Date and with the approval of the Board, Microsoft shall have the right to subscribe for additional Series A Preferred Shares of up to an aggregate amount of US\$5 million under the Milestone A Subscription.
3. Subject to the fulfilment of Milestone B, whereby the Company has to achieve target revenue in aggregate of not less than US\$4.5 million pursuant to the terms of the Commercial Agreement prior to the second anniversary of the First Closing Date and with the approval of the Board, Microsoft shall have the right to subscribe for additional Series A Preferred Shares of up to an aggregate amount of US\$5 million under the Milestone B Subscription.
4. If and only if Microsoft subscribes for additional Series A Preferred Shares under the Milestone A Subscription and the Milestone B Subscription, IFC shall have the right to subscribe for up to 50% of the number of such Series A Preferred Shares available to Microsoft under the Milestone A Subscription and the Milestone B Subscription at the same terms.
5. **Upon completion of the First Subscription, the Investors are expected to hold more than 10% of the voting right at general meetings of the Company and hence, they will be connected persons of the Company.**
6. The Company and the Investor have agreed to extend the First Closing Date to 30 December 2005 or such later date as all parties to the Subscription Agreement may agree in writing.

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The principal terms of the Series A Preferred Shares are summarised as follows:–

Subscription Price: (i) *First Subscription*

The subscription price for each Series A Preferred Share under the First Subscription shall be the lesser of (i) HK\$0.80; (ii) 90% of the closing price of the Ordinary Shares on GEM on the trading day immediately prior to the First Closing Date and in any event shall not exceed HK\$0.80 or be less than HK\$0.70; and (iii) would not be issued at below par value of the Ordinary Share.

(ii) *Milestone A Subscription and Milestone B Subscription*

If Milestone A Subscription or Milestone B Subscription materialise, the Subscription Price for the Series A Preferred Shares will be the lesser of (i) 90% of the 45 days trailing average closing price of the Ordinary Shares on the then current stock exchange on which the Ordinary Shares are listed prior to the last day of the first or (as the case may be) second anniversary of the First Closing Date; and (ii) 90% of the closing price of the Ordinary Shares on the then current stock exchange on which the Ordinary Shares are listed on the trading day immediately prior to the relevant subscription date as selected by Microsoft.

Maturity date: Sixth anniversary of the First Closing Date unless earlier redeemed or converted into the Ordinary Shares.

Dividends: After the six months from the First Closing Date, the Series A Preferred Shares will bear a cumulative cash dividend, payable quarterly, at the rate of 5.5% per annum on the par value of each Series A Preferred Share.

Status of Series A Preferred Shares: Ordinary Shares that are to be issued upon the conversion of the Series A Preferred Shares will rank *pari passu* in all aspects with the Ordinary Shares in issue on the conversion date except that they will not be entitled to any rights or entitlement to dividends or distributions the record date for which precedes the conversion date, provided that if the conversion date is after the record date for any rights or dividend entitlements to be made by the Company for the benefits of the Ordinary Shares, the Investors will not be entitled to such rights or dividend.

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Conversion period: Holders of the Series A Preferred Shares shall have the right to convert the Series A Preferred Shares under the Subscription, at any time, into the Ordinary Shares and up to the maturity date and without payment of any additional consideration, at the initial conversion rate of 1:1 (subject to adjustment from time to time as provided in the Restated Memorandum and Articles).

Anti-dilution provisions: The Conversion Price will be subject to a weighted average adjustment (based on number of issued Series A Preferred Shares and Ordinary Shares) in the event that the Company issues additional equity securities, or securities or debt convertible or exercisable into such securities at a purchase price less than the Conversion Price then in effect. The Conversion Price will also be subject to adjustment for stock sub-division, capitalisation issues and capital reorganisation.

Redemption: (i) *Microsoft Redemption*

Upon the request of Microsoft, the Company shall redeem in cash such number of the Series A Preferred Shares then held by Microsoft plus the accrued and unpaid dividends if the Company fails to complete the baseline amount of US\$2.0 million, US\$3.0 million and US\$4.5 million as set forth in the Commercial Agreement prior to the first, second and third anniversary of the First Closing Date respectively.

(ii) *IFC Redemption*

IFC shall have a right, but not an obligation, to redeem the Series A Preferred Shares held by it in an aggregate amount of not more than US\$5.0 million if all the Series A Preferred Shares then held by Microsoft are redeemed by the Company. All accrued and unpaid dividends payable on the Series A Preferred Shares held by IFC shall also be payable by the Company at that time.

(iii) *Optional Redemption*

Upon request of any of the Investors, the Company shall redeem in cash any or all of the Series A Preferred Shares at any time on or after the occurrence of (a) the Company fails to become listed on an internationally recognised stock

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exchange, other than GEM, acceptable to the Investors, prior to the third anniversary of the First Closing Date; (b) the fifth anniversary of the First Closing Date; (c) the Company fails to implement the Corporate Governance Plan within four months from the First Closing Date; (d) The Company is in violation of IFC's prescribed requirements in environment, social, anti-corruption, anti-money laundering or insurance including the Policy Statement; and (e) Microsoft and the Company agree to terminate the Commercial Agreement.

(iv) Mandatory redemption

The Company shall redeem all of the Series A Preferred Shares then owned by the Investors on the sixth anniversary of the First Closing Date unless earlier redeemed or converted into the Ordinary Shares.

Mandatory conversion:	The Series A Preferred Shares shall be automatically converted into the Ordinary Shares if the Ordinary Shares are listed on any internationally recognised stock exchange (other than GEM) at an initial public offering under certain circumstances.
Ranking:	The Series A preferred Shares shall be entitled to dividends and distribution of assets of the Company (in the event of liquidation) in priority over: (1) any and all current or future preferred equity securities issued or to be issued by the Company; and (2) all the Ordinary Shares.
Transferability:	Subject to the lock-up requirement (which commences on the First Closing Date and ending on 30 June, 2006) in respect of the Series A Preferred Shares provided under the Investors' Rights Agreement, the Series A Preferred Shares and the Ordinary Shares issued upon conversion are freely transferable. The rights attached with the Series A Preferred Shares that may be transferred include, inter alia, the right to appoint an observer to the Board.
Voting rights:	Holders of the Series A Preferred Shares shall be entitled to vote with the Ordinary Shares in a single class, on an "as if" converted basis.

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The holder of each Series A Preferred Shares will have the right to one vote for each whole Ordinary Shares into which a Series A Preferred Shares is convertible at the close of business on the record date for any meeting of Shareholders at which such Series A Preferred Shares will be voted.

(b) Subscription Price

The Subscription Price (which would not be issued at below par value of the Ordinary Share) as well as the structure of the investment by the Investors were determined after arm's length discussions between the Company and the Investors. The Directors are of the view that the discount of the Subscription Price to the market price of the Ordinary Shares is considered appropriate by reference to the amount of the funds raised and the credibility and reputation of the Investors which provide a strategic value to the Company for its future development into the international market.

(i) First Subscription

As the actual Subscription Price of Series A Preferred Shares to be issued in respect of the Milestone A Subscription and/or the Milestone B Subscription, which are subject to Shareholders' approval, has yet to be confirmed, we will only focus our discussion on the Subscription Price under the First Subscription. The following illustrates the discount of the Subscription Price under the First Subscription in the range between HK\$0.70 and HK\$0.80 in different respects:

Subscription Price under the First Closing	HK\$0.70	HK\$0.75	HK\$0.80
Discount to the closing price of HK\$1.05 per Share as quoted on GEM on 28 June, 2005, being the last trading day immediately prior to the date of the clarification announcement of the Company on the proposed investment by IFC	33%	29%	24%
Discount to the closing price of HK\$1.13 per Share as quoted on GEM on 23 September, 2005, being the last trading day prior to the suspension of trading of the Ordinary Shares on 26 September, 2005 pending release of the Announcement	38%	34%	29%

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Subscription Price under the First Closing	HK\$0.70	HK\$0.75	HK\$0.80
Discount to the average closing price of HK\$1.211 per Ordinary Shares as quoted on GEM for the last 10 trading days up to and including 23 September, 2005	42%	38%	34%
Discount to the average closing price of HK\$1.26 per Ordinary Shares as quoted on GEM for the last 45 trading days up to and including 23 September, 2005	40%	36%	32%
Discount to the closing price of HK\$0.90 per Ordinary Share as quoted on GEM on the Latest Practicable Date	22%	17%	11%
Discount to the average closing price of HK\$0.965 per Ordinary Shares as quoted on GEM for the last 10 trading days up to and including the Latest Practicable Date	27%	22%	17%

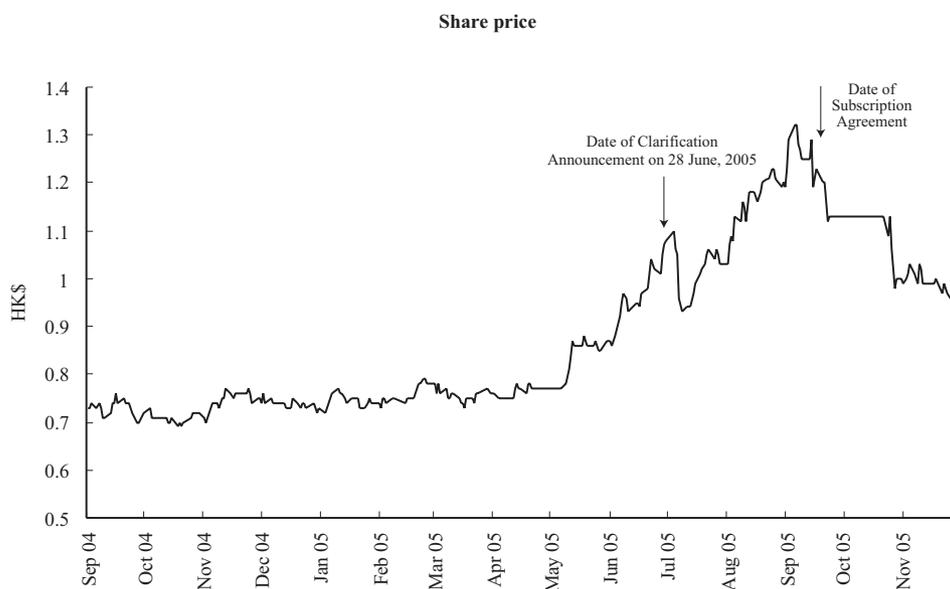
The Subscription Price under the First Subscription was arrived at after arm's length negotiation between the Company and the Investors with reference to the closing price of the Ordinary Share quoted on GEM in the range of HK\$0.70 to HK\$1.00 for the period between October 2004 and June 2005, during which an intermittent discussion between the Company and one of the Investors took place. The Company had issued a clarification announcement in relation to a proposed investment by IFC on 28 June, 2005 (the "Clarification Announcement").

The Directors are of the view that the Subscription Price for the First Subscription, which was determined by the then prevailing market prices of the Ordinary Shares during the period between October 2004 and June 2005, is fair and reasonable.

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(ii) *Market price of the Ordinary Shares and trading volume*

The average of the daily closing prices of the Ordinary Shares for the period from 1 September, 2004 (being the first date of the 12 full calendar month period prior to the Announcement) up to the Latest Practicable Date (the “Review Period”) are set forth as follows:



Source: Bloomberg

As shown above, the Ordinary Shares were trading at prices ranging from HK\$0.69 to HK\$1.32 per Ordinary Share during the Review Period. Compared to the lowest price and highest price of the Ordinary Shares during the Review Period, the Subscription Price, which ranges from HK\$0.70 to HK\$0.80 represents as follow:—

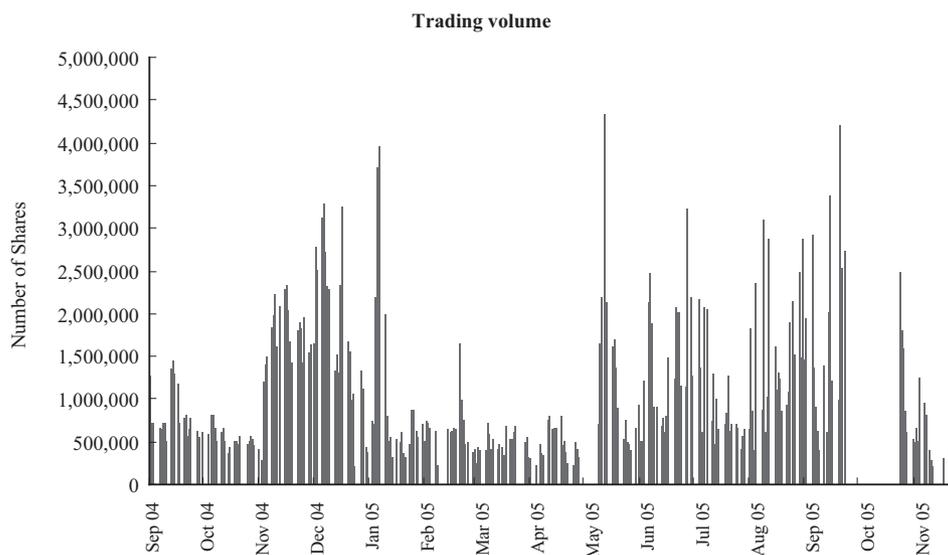
Subscription Price under the First Subscription	HK\$0.70	HK\$0.75	HK\$0.80
Highest Price HK\$1.32	47.0% discount	43.2% discount	39.4% discount
Lowest Price HK\$0.69	1.5% premium	8.7% premium	15.9% premium

During the Review Period, it should also be noted that the price of the Ordinary Shares has only performed favourably since the May 2005 and then rising from HK\$1.05 per Share on 28 June, 2005, the date of the Clarification Announcement, to HK\$1.13 on 23 September, 2005, being the last trading day prior to the date of the Subscription Agreement, representing an increase of approximately 7.6% and it starts to decrease to HK\$0.90 per Ordinary Share as at the Latest Practicable Date. Ordinary Shares were suspended from 29 April,

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2005 to 6 May, 2005 pending the announcement regarding acquisition of 51% of Chinasoft Resources from its shareholder, CS&S(HK). Subsequent to this announcement, the Ordinary Shares were suspended from 14 November, 2005 to 17 November, 2005 pending the announcement regarding a disclosable and connected transaction for the acquisition of the remaining 49% of Chinasoft Resources.

We have also considered the average trading volume of the Ordinary Shares during the Review Period as set forth below:



Source: Bloomberg

The average daily turnover of the Ordinary Shares during the 12 month period from 1 September, 2004 to 23 September, 2005 (being the last trading day before suspension in trading of the Ordinary Shares) was approximately 1,104,807 Ordinary Shares, representing approximately 0.15% of the total issued Ordinary Shares as at the Latest Practicable Date. The trading volume was thin with the highest average daily turnover amounting to approximately 4,340,000 Ordinary Shares, equivalent to approximately 0.59% of the total number of Ordinary Shares in issue as at the Latest Practicable Date. We also noted that the trading volume was thinner before 28 June, 2005, being the date of the Clarification Announcement with an average daily turnover of approximately 1,009,305 Ordinary Shares during the period from 1 September, 2004 to 28 June, 2005, equivalent to approximately 0.14% of the total number of the Ordinary Shares in issue as at the Latest Practicable Date. Even after the announcement on 28 June 2005, the average daily turnover during 4 July 2005 up to 23 September 2005 was 1,412,203, representing only approximately 0.19% of the total number of Ordinary Shares in issue as at the Latest Practicable Date.

Given the historic thin trading volume of the Ordinary Shares, it would be in our opinion difficult for the Company to raise funds in the equity market through the issue of Series A Preferred Shares if the Subscription Price does not represent a reasonable discount to the market price of the Ordinary Shares.

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(iii) Comparison with other convertible issues

In assessing the reasonableness of the terms of the Series A Preferred Shares, we have identified from the website of the Stock Exchange, and reviewed for reference purpose the principal terms of the unsecured convertible notes (the “CN Comparables”) issued by companies listed on the Stock Exchange with market capitalisations between HK\$100 million to HK\$1.0 billion and maturity from 2-6 years since 1 September, 2004 and up to the Latest Practicable Date. We consider convertible bonds of similar maturity to that of the Preferred Shares are of reference value since the convertible nature of the Preferred Shares behave similarly to traditional convertible bonds/notes. Whilst we understand that the principal terms of a convertible note issue are principally determined with regard to the particular business and financial position of each issuer, we consider that the CN Comparables would provide an indication as to the fairness of the principal terms of the Series A Preferred Shares. Set forth below is a summary of the principal terms of the CN Comparables.

Company (Stock code)	Date of announcement	Market Capitalisation as at the Latest Practicable Date (HK\$'m)	Type of convertible	Life (years)	Interest rate per annum	Premium/ (discount) of the convertible price over/ to the closing price of shares on the last trading day	Principal Amount (HK\$'million)
Lang Chao International Limited (8141)	15 September, 2005	427	Preferred Shares	6	6%	(39.2%)	195
Wo Kee Hong (Holdings) Limited (720)	18 August, 2005	117	Convertible Bonds	3	7.25%	49.25%	30
Coastal Greenland Limited (1124)	12 July, 2005	557	Convertible Bonds	3	9%	(i) 11.1% for tranche 1 (ii) 85.2% for tranche 2	97.5
South Sea Petroleum Holdings Limited (76)	23 June, 2005	221	Convertible Debentures	3	1%	<i>Note 1</i>	40

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Company (Stock code)	Date of announcement	Market Capitalisation as at the Latest Practicable Date (HK\$'m)	Type of convertible	Life (years)	Interest rate per annum	Premium/ (discount) of the convertible price over/ to the closing price of shares on the last trading day	Principal Amount (HK\$'million)
Culturecom Holdings Limited (343)	7 June, 2005	594	Convertible Bonds	5	7.75%	76.47%	300
TCL Communications Technology Holdings Limited (2618)	13 May, 2005	772	Convertible Notes	3	3%	29.3%	199.51
Chinainfo Holdings Limited (8206)	11 May, 2005	120	Convertible Bonds	2	4%	2.4%	5
See Corporation Limited (491)	29 April, 2005	129	Convertible Notes	5	0%	(50.4%)	300
Cheung Tai Hong Holdings Limited (199)	20 April, 2005	161	Convertible Notes	5	0%	8.6%	1,000
Orient Industries Holdings Limited (353)	15 April, 2005	193	Convertible Notes	2	0%	(52.0%)	33
Shimao China Holdings Limited (649)	23 February, 2005	546	Convertible Notes	2	1.0%	15.4%	250
Wang On Group Limited (1222)	7 February, 2005	472	Convertible Notes	3	1.0%	14.3%	68.64
China Sci-Tech Holdings Limited (985)	3 February, 2005	223	Convertible Notes	3	3%	3.45%	60

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Company (Stock code)	Date of announcement	Market Capitalisation as at the Latest Practicable Date (HK\$'m)	Type of convertible	Life (years)	Interest rate per annum	Premium/ (discount) of the convertible price over/ to the closing price of shares on the last trading day	Principal Amount (HK\$'million)
Universal Holdings Limited (419)	2 February, 2005	724	Convertible Notes	5	0%	4.26%	287.3
Shanghai Zendai Property Limited (755)	2 February, 2005	732	Convertible Notes	3	4.75% in the 1st year, 5.00% in the 2nd year, and 5.25% in the 3rd year	(4.0%)	80
Get Nice Holdings Limited (64)	29 December, 2004	421	Convertible Notes	3	3.0%	(7.8%)	80
Cheung Tai Hong Holdings Limited (199)	15 December, 2004	161	Convertible Notes	3	2.0%	(8.7%)	100
E-Life International Limited (370)	3 December, 2004	394	Convertible Bonds	2	1.0%	(10.0%)	US\$5 million
Wang On Group Limited (1222)	22 November, 2004	472	Convertible Notes	2.5	1.0%	0.77%	37.18
The Company	21 October, 2005	659	Preferred Shares	6	5.5%	(29%) – (38%) (Note 2)	156 – 273 (Note 3)
Maximum discount						(52.0%)	
Minimum discount						(4.0%)	
Average Discount						(24.59%)	
Maximum premium						85.2%	
Interest Rate on Average (Note 4)						3.67%	

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Notes:

1. The conversion price shall be 105% of the 5 day average closing price per share as quoted on the Stock Exchange over the 5 consecutive trading days immediately preceding the date of the conversion notice.
2. Based on the Subscription Price under the First Subscription between HK\$0.70 to HK\$0.80.
3. Based on the issuance of Series A Preferred Shares with a minimum of US\$20 million to a maximum of US\$35 million.
4. Shanghai Zendai Property Limited and those with zero coupon rates are excluded in this calculation.

As noted above, the subscription prices of the CN Comparables are within the range of a maximum premium of 85.2% to a maximum discount of 52.0% with an average discount of 24.59%. The discount of the Subscription Price under the First Subscription to the price of the Ordinary Shares for the Series A Preferred Shares, ranges from 29% to 38%, falls above the average discount but within the range of the CN Comparables. In addition, we understand that the Subscription Price for the First Subscription was determined with reference to the prevailing market prices of the Ordinary Shares at the range of HK\$0.70 to HK\$1.00 during the period between October 2004 and June 2005, as such the Subscription price of HK\$0.70 represents a discount of 30% to par respectively and the Subscription price of HK\$0.80 represents a premium of 14.28% to a discount of 20%, respectively. This range of 14.28% premium to 30% discount falls within the range of CN Comparables and is close to or below the discount average.

Among the CN Comparables, we reviewed the cases which raised over HK\$100 million in principal amount and noted that they were issued at a premium or a small discount but the subscribers were either the connected persons of the issuer or it was done by way of placing to numerous placees. In the circumstances of the Company, given the historic thin trading of the Ordinary Shares as discussed above and in order to introduce an independent reputable investor and strategic alliance like Microsoft or IFC, we consider it would be difficult for the Company to raise funds from them with a substantial amount through the issue of Series A Preferred Shares if the Subscription Price does not represent a considerable discount to the market price of the Ordinary Shares. We therefore consider the aforesaid discount range represented by the Subscription Price acceptable.

(c) Dividends

The Series A Preferred Shares will bear a cumulative cash dividend, payable quarterly, at the rate of 5.5% per annum on the par value of each Series A Preferred Share. This was determined after arm's length negotiation between the parties.

For comparison purpose, we note that the dividend rate is lower than the average prime lending rate of 7.75% quoted by commercial banks in Hong Kong as at the Latest Practicable Date. We note that higher coupon rates are offered by more recent issues. We consider that this phenomenon reflects the general economic environment and the recent interest rate hikes since May 2005. As the Series A Preferred Shares carry a dividend rate lower than the prime lending rate, the Company will incur less dividend expense by issuance of the Series A Preferred Shares as compared with commercial bank loan financing.

In addition, as noted from the table above, CN Comparables bear coupon ranging from 1% (excluding zero coupon convertible notes) to 7.75% per annum. We note that the rate, though falls above the average interest rate of 3.67%, is within the range of interest rates of the CN Comparables from 1% (excluding zero coupon convertible notes) to 7.75% per annum. Taken into account the abovementioned factors, we consider the dividend rate is fair and reasonable as far as the independent Shareholders are concerned.

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(d) Dilution of percentage shareholding

The following shows the shareholding structure of the Company before and after the First Subscription and the exercise of the right by the Investors pursuant to the terms and conditions of the Subscription Agreement:

	As at the Latest Practicable Date		Assuming the Series A Preferred Shares after the First Closing were fully converted into an equal number of Ordinary Shares		Assuming the First Subscription and the Milestone A Subscription were fully converted into Ordinary Shares at the conversion price of HK\$0.05 (note 2)		Assuming the First Subscription, the Milestone A Subscription and the Milestone B Subscription were fully converted into Ordinary Shares at the conversion price of HK\$0.05 (note 2)	
	No. of Ordinary/ Series A Preferred Shares	Voting %	No. of Ordinary Shares	Voting %	No. of Ordinary Shares	Voting %	No. of Ordinary Shares	Voting %
Ordinary Shares								
CS&S(HK)	175,762,453	24.00%	175,762,453	18.41%	175,762,453	8.28%	175,762,453	5.34%
Far East Authoritative Industries Limited	169,889,822	23.20%	169,889,822	17.80%	169,889,822	8.01%	169,889,822	5.17%
ITG Venture Capital Limited	57,485,834	7.85%	57,485,834	6.02%	57,485,834	2.71%	57,485,834	1.75%
Prosperity International Investment Corporation	36,942,288	5.04%	36,942,288	3.87%	36,942,288	1.74%	36,942,288	1.12%
	39,790,136	5.43%	39,790,136	4.17%	39,790,136	1.88%	39,790,136	1.21%
Directors								
– Chen Yuhong	22,967,472	3.14%	22,967,472	2.41%	22,967,472	1.08%	22,967,472	0.70%
– Cui Hui	20,000,000	2.73%	20,000,000	2.09%	20,000,000	0.94%	20,000,000	0.61%
– Peng Jiang	7,017,838	0.96%	7,017,838	0.74%	7,017,838	0.33%	7,017,838	0.21%
– Tang Zhenming	10,207,765	1.39%	10,207,765	1.07%	10,207,765	0.48%	10,207,765	0.31%
– Wang Hui	7,017,838	0.96%	7,017,838	0.74%	7,017,838	0.33%	7,017,838	0.21%
Public Shareholders	185,291,007	25.30%	185,291,007	19.40%	185,291,007	8.74%	185,291,007	5.64%
Total Ordinary Shares	732,372,453	100.00%						
Microsoft	–	–	111,142,857 (note 1)	11.64%	889,142,857	41.91%	1,667,142,857	50.69%
IFC	–	–	111,142,857 (note 1)	11.64%	500,142,857	23.57%	889,142,857	27.04%
TOTAL	732,372,453	100.00%	954,658,167	100.00%	2,121,658,167	100.00%	3,288,658,167	100.00%

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Notes:

1. The above figures assume that: (1) the First Subscription is completed in all respects; (2) no redemption rights have been exercised by Microsoft and IFC; (3) for illustration purpose only, the Subscription Price under the First Subscription is HK\$0.70, 111,142,857 Series A Preferred Shares will therefore be issued and allotted to each of Microsoft and IFC, respectively.
2. The above shareholding structure is assume that Series A Preferred Shares under the Milestone A Subscription and the Milestone B Subscription is fully issued and allotted at the Subscription Price equal to HK\$0.05, the par value of the Ordinary Share. This situation is the extreme case in which would only happened when the 45 trading day average closing price of the Ordinary Share is traded at HK\$0.055 which is an approximately 95% discount to the closing price of HK\$1.13 per Ordinary Share as quoted on the Stock Exchange on 23 September 2005, being the last trading day prior to the date of the Subscription Agreement.
3. Upon conversion of the First Subscription, the shareholding held by public Shareholders (including the minority Shareholders, namely Authorative Industries Limited, ITG Venture Capital Limited and Prosperity International Investment Corporation) will be maintained at approximately 33.46%.

The conversion of the Series A Preferred Shares will have a dilution effect on the shareholding of the existing Shareholders. The shareholding of the public Shareholders, excluding the minority Shareholders, of approximately 25.30% as at the Latest Practicable Date will be decreased to approximately 19.40% assuming full conversion of the 20 million Series A Preferred Shares under the First Subscription at HK\$0.70 per Ordinary Shares.

As the Company foresees that there is a potential future dilution effect on the Shareholders, the Company will promptly keep Shareholders informed of the level of dilution effect by way of an announcement in the manner as described in the “Letter from the Board” of this Circular.

We note that, upon completion of the First Subscription at range of HK\$0.70 to HK\$0.80 per Ordinary Shares, the percentage of voting right at general meetings held by the Investors under the proposed Subscription Price range will be in the range of 20.98% and 23.28%. We also note that, upon completion of the First Subscription, the shareholding held by public Shareholders (including the minority Shareholders, namely Authorative Industries Limited, ITG Venture Capital Limited and Prosperity International Investment Corporation) under the proposed Subscription Price range will be in the range of 35.47% and 33.46%. Taking into account that the dilution effect to public Shareholders, excluding the minority Shareholders, for the issuance of the Series A Preferred Shares under the First Subscription at HK\$0.70 per Ordinary Share will be diluted from approximately 25.30% to 19.40% and since further issuance of Ordinary Shares pursuant to the Milestone A Subscription and the Milestone B Subscription will depend on the issue price to be determined with reference to the date of completion of the corresponding milestones or the date on which the relevant announcement is published by the Company and will be subject to independent Shareholders’ approval, we are of the view that, with a relatively small dilution effect resulting from the completion of the First Subscription, the issue of Series A Preferred Shares under the First Subscription is fair and reasonable to the independent Shareholders.

LETTER FROM UOB ASIA

(e) Financial effects of the issue of the Series A Preferred Shares under the First Subscription

As the Milestone A Subscription and Milestone B Subscription B have yet to be ascertained as at the Latest Practicable Date and will be subject to independent Shareholders' approval, we will focus our analysis on the financial effects as a result of the issue of Series A Preferred Shares under the First Subscription at the Subscription Price of HK\$0.70 per Ordinary Share:

(i) Net assets

According to the latest interim results of the Company, unaudited net assets value of the Group amounted to approximately RMB210 million as at 30 June, 2005 and the unaudited net asset value per Ordinary Share of the Group was RMB0.31 as at 30 June, 2005.

Based on our understanding from the management and the auditors of the Company, the Series A Preferred Shares under Hong Kong Financial Reporting Standards ("HKFRS") is a compound financial instrument, containing both a financial liability component and an equity component. On initial recognition: (a) fair value of the financial liability component is determined using valuation technique with reference to the present value of future cash flows on redemption and cumulative preferential cash dividend payments; and (b) the residual amount, determined by deducting the fair value of the financial liability component from the carrying amount of the Series Convertible Preferred Shares, is regarded as the equity component and these cannot be ascertained as at the Latest Practicable Date. In subsequent periods, the financial liability component is measured at amortized cost using the effective interest method. Upon conversion: (i) the financial liability component is derecognized and an equity of the same amount is recognized; and (ii) the original equity component will remain as equity.

Assuming full conversion of the 20 million Series A Preferred Shares under the First Subscription at HK\$0.70 each, the adjusted consolidated net asset value per Ordinary Share will increase as the unaudited consolidated net asset value per Ordinary Share as at 30 June, 2005 is less than the Subscription Price under the First Subscription.

Since there will be positive effect on the net assets value of the Group and the net assets value per Ordinary Share upon full conversion of the Series A Preferred Shares under the First Subscription, we are of the opinion that the Subscription Agreement is in the interests of the Company and the Shareholders as a whole.

LETTER FROM UOB ASIA

(ii) Earnings

Based on our discussion with the management of the Group and subject to the audit by the auditors of the Company, the Company will incur additional finance cost equivalent to the product of (a) principal amount of the Series A Preferred Shares under First Subscription/Milestone A Subscription/Milestone B Subscription (as the case may be) and (b) the reference interest rate offered by the market at the time of their respective issue to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option or feature into Ordinary Shares under the new HKFRS upon completion of the First Subscription/Milestone A Subscription/Milestone B Subscription. In this respect, the earnings of the Company will decrease accordingly by the same amount.

(iii) Liquidity position

The current ratio will be improved from approximately 2.18 (calculated based on unaudited current assets of approximately RMB276.8 million as at 30 June, 2005 divided by unaudited current liabilities of approximately RMB126.8 million as at 30 June, 2005) to approximately 3.45 (calculated based on unaudited current assets as at 30 June, 2005 and as adjusted by the cash received by the Company upon full issue of the maximum 20 million Series A Preferred Shares under the First Subscription of approximately RMB436.8 million divided by unaudited current liabilities of approximately RMB126.8 million as at 30 June, 2005). The improved cash position will provide resources for the Group to fund its business expansion.

(iv) Gearing ratio

According to the interim results of the Company for the six months ended at 30 June, 2005, the Group had no borrowings but deferred tax liabilities of approximately HK\$1.52 million and unaudited current liabilities of approximately HK\$126.78 million and accordingly, the gearing ratio, based on the net external borrowings (excluding current liabilities) of the Company to its shareholders' funds and minority interests, is nil. The increase in net asset value as a result of the issue of the Series A Preferred Shares will not have any effect on the gearing ratio.

Having regard to the resulting increase in net asset value and the liquidity position of the Company upon full conversion of the Series A Preferred Shares under the First Subscription, we are of the view that the dilution effect of the earnings per Ordinary Share upon full conversion of the Series A Preferred Shares under the First Subscription is acceptable and the Subscription Agreement is in the interests of the Company and the Shareholders as a whole.

(f) Reasons for and use of proceeds from the First Subscription

The Group has been principally engaged in the provision of e-government solutions and customised software products, IT consulting and training services, IT outsourcing services and standalone software products for government authorities and respective IT services providers as its main target customers.

The Subscription Agreement represents an alternative funding means to the Company to finance the Group's acquisition plans and general working capital needs (including fulfilment of the Group's obligations under the Commercial Agreement). After deducting relating expenses, the net proceeds from the First Subscription are estimated to be approximately US\$19.1 million (equivalent to approximately HK\$149 million). The Directors intend to use the proceeds from all of the issue of the Series A Preferred Shares under the First Subscription as follows:

- (i) as to approximately 60% for acquiring business engaged in software outsourcing business;
- (ii) as to approximately 30% for acquiring the ownership in certain software/IT solutions companies; and
- (iii) as to approximately the remaining 10% for general working capital of the Group.

On 15 November, 2005, Chinasoft (HK), a wholly-owned subsidiary of the Company, entered into an agreement with CS&S (HK) for an acquisition of 49% registered capital of Chinasoft Resources, pursuant to which the consideration will be satisfied by cash at a maximum amount of HK\$41,881,132. The Company intends to finance the cash payment of the above acquisition by the proceeds from the proposed issue of the Series A Preferred Shares. Details have been announced by the Company on 18 November, 2005.

Microsoft is a company incorporated in the State of Washington in the United States of America and listed on NASDAQ National Market and is principally engaged in the development, manufacture, licensing and distribution of software products for various computing devices. Immediately upon completion of First Subscription, Microsoft will become a substantial shareholder and a connected person of the Company. Given that Microsoft is one of the world's largest software developers, the Directors believe that the introduction of Microsoft as a substantial shareholder of the Company will enhance future cooperation between the Group and Microsoft, as well as the Group's development in business, marketing, technological know how and products and services.

IFC, the private sector investment arm of the World Bank Group, is the largest multilateral source of loan and equity financing for private sector projects in the developing world. IFC, established in 1956, is a global investor and adviser that is committed to promoting sustainable projects in its 178 members countries that are economically beneficial, financially and commercially sound, and environmentally and socially sustainable. The Directors believe that the introduction of IFC as a significant shareholder of the Company will enhance the Group's practices in corporate governance, environmental, health and safety etc.

LETTER FROM UOB ASIA

Given the strong background, extensive experience, emphasis on economically beneficial, financially and commercially sound, and environmentally and social sustainable as well as the well-established reputation of the Investors, we concur with the Directors' view that introduction of the Investors as shareholders of the Company will enhance quality growth and future cooperation between the Group and the Investors, resulting in common synergies and benefits for both the Group and the Investors.

(g) Investors' Right Agreement

For the purpose of issue of the Series A Preferred Shares to the Investors, the Company will enter into the Investors' Right Agreement with the Investors prior to the First Closing Date. The entering into of the Investors' Rights Agreement is one of the conditions precedent to the completion of the Subscription.

Whilst a detailed summary of the provisions in the Investors' Right Agreement has been set forth in the "Letter from the Board", the following summarizes the additional rights of the Investors provided in the Investors' Right Agreement:–

(i) Information rights

Commencing on the First Closing Date and continuing for so long as the Investors hold the Series A Preferred Shares or any Ordinary Shares issued upon conversion of Series A Preferred Shares, subject to the Investors' strict compliance with the confidentiality obligation under the applicable laws and regulations, the Company will deliver (a) copies of the Company's annual report, business plan and annual budget for each financial year; (b) unaudited quarterly consolidated financial statements; and (c) copies of all regulatory filings by the Company. We consider it is a common practice for strategic investors to be provided with updated information of the Company.

(ii) Registration rights

The holders of any Ordinary Shares issued or issuable upon conversion of any Series A Preferred Shares will have registration rights in the event of listing of any Ordinary Shares on any stock exchange where registration is required.

(iii) Pre-emptive rights

Save for certain exceptions stated in the "Letter from the Board", the Investors will have a pre-emptive right in the event that the Company proposes to offer any shares of, or securities convertible into or exchangeable or exercisable for any shares of, any class of its share capital to any subscribers ("New Shares").

The Director are of the view that the pre-emptive right, which entitles the Investors to subscribe for additional Ordinary Shares in certain circumstances, will enable the Investors to maintain the level of the participation of the Investors in the Group and its future business development.

LETTER FROM UOB ASIA

As the pre-emptive right is exclusive to the Investors for the purpose of maintaining their shareholding in the Company, the Company shall first make an offering of any New Shares to the Investors any time the Company intends to offer any New Shares. We consider that this pre-emptive right exclusive to the Investors, whenever it is exercised and New Shares will be issued, should seek consent from the Shareholders unless the New Shares are issued pursuant to the general mandate granted by the Shareholders in advance or on a pro rata basis. As the pre-emptive right may be considered under the GEM Listing Rules as involving the issuance of new Ordinary Shares to connected persons, thereby requiring the approval of the independent shareholders of the Company, and having considered that the pre-emptive right will enable the Investors to maintain its shareholding in the Company and enhance its future business development, we consider that the grant of pre-emptive right, subject to consent or obtaining proper authority from the Shareholders in advance, is acceptable.

(iv) Nomination of Directors

So long as Microsoft holds any Series A Preferred Shares or any Ordinary Shares issued upon conversion of the Series A Preferred Shares, it shall have the right (but not the obligation) to nominate one person as Director. Microsoft may nominate maximum two Directors to the Board if it holds 20% or more of the voting right at general meetings of the Company, following the exercise of its right to subscribe additional Series A Preferred Shares pursuant to the Subscription Agreement. We consider that the right to nominate Director is a common practice for strategic investors especially they will have a substantial interest in the Company.

(v) Other matters that are required to be approved by the Investors

Pursuant to the Investors' Right Agreement, so long as the Investor owns at least 50% of the number Series A Preferred Shares upon the First Closing, or the Investors own more than 97,250,000 Series A Preferred Shares, consent of the Investors representing 70% or more of the voting right of the Series A Preferred Shares is required for the corporate acts listed in the Letter from the Board of the Circular.

(vi) Lock-up

Pursuant to the terms of the Investors' Rights Agreement, the Investors agree to be subject to a lock-up with respect to the Series A Preferred Shares for a period commencing on the First Closing Date and ending on 30 June 2006. This lock-up period is the same as the lock-up period agreed by CS&S (HK) and Far East in respect of their holding of the Ordinary Shares.

LETTER FROM UOB ASIA

(h) Co-sale deed

CS&S (HK) and Far East have entered into a co-sale deed with the Investors, pursuant to which CS&S (HK) and Far East will grant to each of the Investors a right, but not an obligation, of co-sale when CS&S or Far East wants to transfer its Ordinary Shares to any third parties on the same terms and conditions as specified in such transfer. The entering into of the Co-Sale Deed is one of the conditions precedent to completion of the Subscription.

(i) Re-stated Memorandum and Articles

The proposed issue of the Series A Preferred Shares will require substantive amendments to the Memorandum and the Articles, whilst the requirements of certain provisions therein contained under the GEM Listing Rules will be maintained. On this basis, the Board proposes to adopt the Re-stated Memorandum and Articles to replace the Memorandum and the Articles respectively. The adoption will be subject to the approval of all the independent Shareholders by way of a special resolution to be proposed at the EGM. Detailed information on the Re-stated Memorandum and Articles has been included in the Letter from the Board and Appendix 2 of this Circular.

The legal advisers to the Company as to Cayman Islands law and as to Hong Kong law have confirmed that the Re-stated Memorandum and Articles are in full compliance with the applicable laws and regulations in the Cayman Islands and the contents requirements of the GEM Listing Rules respectively. We understand that the proposed adoption of the Re-stated Memorandum and Articles is necessary to reflect the terms of the Subscription and based on the abovementioned legal advice on compliance with the respective laws and regulations and the GEM Listing Rules, we consider that it is acceptable for the purpose of facilitating the completion of the Subscription.

(j) Conclusion

Although the issue of Series A Preferred Shares under the First Subscription will, given the discount range of the Subscription Price under the First Subscription, potentially dilute the existing shareholding of the independent Shareholders, we consider that the Investors are international corporations which will offer expertise and experience that are expected to be valuable to the Company. The issue of Series A Preferred Shares will also raise funds for the Company which will be used to fund the Group's acquisition plans and general working capital needs.

Taking into account the fact that the issue of Series A Preferred Shares will strengthen the capital base and the financial position of the Company so as to facilitate the Group's plans to further develop its existing business, we are of the view that the terms of the Subscription Agreement are in the interests of the Company.

(II) The Commercial Agreement

(a) Background and reasons for the Commercial Agreement

On 26 September, 2005, the Company entered into the Commercial Agreement with Microsoft for a period of three years commencing from the First Closing Date. Upon completion of the Subscription Agreement, Microsoft will be considered to be a substantial shareholder of the Company. Pursuant to the Commercial Agreement, Microsoft and the Company are entering into a three year agreement to (i) drive revenue associated with delivering solutions using Microsoft software solutions; and (ii) assist the Group in growing its information technology service business on a worldwide basis.

(b) Commitments

(i) Revenue commitment

The Company will achieve the revenue target by licensing and procuring its customers' licensing of Microsoft products (i.e. Windows Server Products, Windows Server System Products and Microsoft.NET) set forth below for the next three years commencing the First Closing Date:

	Year 1	Year 2	Year 3
Target revenue	US\$3 million	US\$4.5 million	US\$6.75 million

The target revenue is set based on the comparable products that Microsoft can provide and applied to the Group's solutions, by reference to the cost of sales attributable to the Group's solution business of approximately RMB174 million for the year ended 31 December, 2004. In addition, the Company will constantly purchase consulting services and support services from Microsoft, to support Microsoft's server system and Microsoft's .net products, for the next three years commencing from the 1 January, 2006. The Company will finance the purchase by making use of the proceeds from the issue of the Series A Preferred Shares.

(ii) Services commitment

The Company will purchase Microsoft Consulting Services and Premier Support Services (the "Services") in the form of, at a minimum, one full-time Partner Solution Architect, subject to the following rates:–

Year	Minimum amount paid for the Services ("Minimum Amount")	Repayment cap
1	US\$160,000 + travel and entertainment expenses	US\$380,000
2	US\$160,000 + annual rate increase + travel and entertainment expenses	US\$580,000
3	US\$160,000 + annual rate increase + travel and entertainment expenses	US\$760,000

LETTER FROM UOB ASIA

Within 45 calendar days after the end of each year, the Company may apply to Microsoft for repayment of monies spent to fund its purchase of the Services, but will be capped at the lesser of the actual amount spent or the amount specified above under repayment cap (the “Repayment Cap”). We have discussed with the Company and understand that to achieve revenue of approximately US\$3 million, the services required will be equivalent to the employment of two full-time Partner Solution Architects. Accordingly, a full-time Partner Solution Architect will be able to support services for approximately US\$1.5 million revenue. We understand from the management of the Company that the Minimum Amount are determined with reference to the rates to be charged by Microsoft based on the previous dealings of Windows Server Products, Window Server System Products and Microsoft.NET between Microsoft and the Group prior to signing of the Commercial Agreement; and the estimated annual amount of Services to be purchased by the Group from Microsoft based on the projected schedule of the Group.

We understand from the management of the Company that the Services can only be purchased from Microsoft as the software products the Group purchased from Microsoft use the Microsoft platform, and the rates to be charged by Microsoft was equal to no more favourable than that of the previous dealings between Microsoft and the Group prior to the signing of the Commercial Agreement. Taking into account the revenue commitment as mentioned above, the travel and entertainment expenses and the annual rate of increase, we consider the Minimum Amount and the Repayment Caps to be fair and reasonable so far as the Independent Shareholders are concerned.

(c) Annual caps

The Directors propose that the annual caps for transaction contemplated under the Commercial Agreement for the three financial years ending 31 December, 2008 shall be US\$4.18 million, US\$5.83 million and US\$8.305 million, respectively.

We understand from the Directors that in determining the annual cap amounts, they have mainly taken into account of (i) the target revenue in each of the respective years pursuant to the Commercial Agreement plus the estimated amount of consulting services and supporting services provided by Microsoft; (ii) the costs for a maximum number of full-time Partner Solution Architects; and (iii) the potential growth and the possible expansion of the Group’s information technology service business in the near future. We have discussed with the management of the Group and reviewed on the basis of achieving the target revenue and the estimated amount of Services to be purchased from Microsoft, as well as comparing the cost of providing a full time Partner Solution Architects by Microsoft to other third parties.

Having taken into account the above considerations and that Microsoft is a leading global software corporation, we consider that the bases and amounts of the annual caps to be fair and reasonable so far as the Company and the independent Shareholders are concerned.

LETTER FROM UOB ASIA

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the terms of the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the Commercial Agreement are fair and reasonable and in the interests of the Company and the independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the independent Shareholders to vote in favour of the resolutions no. 2, 3 and 4 to be proposed at the EGM to approve the issue of the Series A Preferred Shares pursuant to the Subscription Agreement (including the adoption of the Re-stated Memorandum and Articles) and the continuing connected transaction pursuant to the Commercial Agreement.

Yours faithfully,
For and on behalf of
UOB Asia (Hong Kong) Limited
Yip Kwok Kwan
Chief Executive Officer

RESPONSIBILITY STATEMENT

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

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

SHARE CAPITAL AND OPTIONS

The authorised and issued capital of the Company as at the Latest Practicable Date were, and immediately following the First Closing Date will be, as follows:–

As at the Latest Practicable Date

<i>Authorised:–</i>		<i>HK\$</i>
<u>1,500,000,000</u>	Ordinary Shares	<u>75,000,000.00</u>
<i>Issued and fully paid:–</i>		
<u>732,372,453</u>	Total issued Ordinary Shares as at the Latest Practicable Date	<u>36,618,622.65</u>

Immediately following completion of the First Subscription

<i>Authorised:–</i>		<i>HK\$</i>
<u>1,500,000,000</u>	Ordinary Shares	<u>75,000,000.00</u>
<i>Issued and fully paid:–</i>		
<u>732,372,453</u>	Total issued Ordinary Shares as at the Latest Practicable Date	<u>36,618,622.65</u>
<i>Authorised:–</i>		<i>HK\$</i>
<u>625,000,000</u>	Series A Preferred Shares	<u>31,250,000.00</u>

Issued and to be issued and fully paid:–

		<i>HK\$</i>
222,285,714	Series A Preferred Shares issued under the First Subscription	11,114,285.70
222,285,714	Maximum number of Preferred Shares to be issued pursuant to the First Subscription	11,114,285.70

All the Ordinary Shares presently in issue rank pari passu in all respects as regards voting, dividends and return of capital.

DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interest of the Directors in the Ordinary Shares and underlying shares or debentures of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in rule 5.46 of the GEM Listing Rules were as follows: –

(a) Ordinary Shares

Name of Directors	Capacity	Nature of Interest	Number of Ordinary Shares held	Percentage of total issued share capital
Chen YuHong	Beneficial Owner	Personal	22,967,472	3.14%
Cui Hui	Beneficial Owner	Personal	22,967,472	3.14%
Peng Jiang	Beneficial Owner	Personal	7,017,838	0.96%
Tang Zhenming	Beneficial Owner	Personal	10,207,765	1.39%
Wang Hui	Beneficial Owner	Personal	7,017,838	0.96%

(b) Share options

Name of Directors	Exercise Price (HK\$)	No. of share options outstanding as at the Latest Practicable Date	Percentage of total issued share capital	Note
Chen Yuhong	0.58	1,200,000	0.16%	(1)
	0.65	5,000,000	0.68%	(2)
Cui Hui	0.65	500,000	0.07%	(2)
Duncan Chiu	0.65	1,000,000	0.14%	(2)
Peng Jiang	0.58	800,000	0.11%	(1)
	0.65	3,000,000	0.41%	(2)
Tang Zhenming	0.58	320,000	0.04%	(1)
	0.65	2,600,000	0.36%	(2)
Wang Hui	0.58	1,000,000	0.14%	(1)
	0.65	3,500,000	0.48%	(2)

Notes:

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

Exercise 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

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

Exercise 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

SHARE OPTION SCHEME

As at the Latest Practicable Date, share options to subscribe for an aggregate of 20,540,000 Ordinary Shares were granted to certain Directors and employees of the Group pursuant to the Share Option Scheme with terms on the exercise of the share options granted as set out in Notes (1) and (2) in the section headed "Directors' Interests" above.

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

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at the Latest Practicable Date, the following persons, not being a Director or chief executive of the Company, had an interest in the Ordinary Shares which were notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:—

Long positions in Ordinary Shares

Name	Type of interest	Approximate number of Ordinary Shares (million)	Approximate percentage of shareholding
CS&S(HK) (Note 1)	Beneficial interest	199.01	27.17%
中國軟件與技術服務股份有限公司 (China National Software and Service Company Limited) (“CNSS”) (Note 1)	interest of controlled corporation	199.01	27.17%
Chinasoft (HK) (Note 2)	Interest of persons acting in concert	199.01	27.17%
Far East (Note 3)	Beneficial interest	169.89	23.20%
International Finance Corporation (Note 4)	Beneficial interest	97.25	13.28%
Microsoft Corporation (Note 4)	Beneficial interest	97.25	13.28%
Authorative Industries Limited (“Authorative”) (Note 5)	Beneficial interest	57.49	7.85%
YANG Haimo (Note 5)	interest of controlled corporation	57.49	7.85%
Prosperity International Investment Corporation (“Prosperity”) (Note 6)	Beneficial interest	39.79	5.43%
Joseph Tian LI (Note 6)	Interest of controlled corporation	39.79	5.43%
ITG Venture Capital Limited (“ITG”) (Note 7)	Beneficial interest	36.94	5.04%
ZHOU Qi (Note 7)	Interest of controlled corporation	36.94	5.04%

Notes:

1. CNSS is taken to be interested in the Ordinary Shares through CS&S (HK), its subsidiary in which it holds approximately 99.3% of the total voting rights, with the remaining 0.7% held by an Independent Third Party. The number of Ordinary Shares in which CS&S(HK) is interested includes 23,248,302 Ordinary Shares which may be issued to itself pursuant to an acquisition agreement between Chinasoft (HK) and CS&S(HK) dated 28 April 2005 subject to fulfillment of a condition and the exercise of a cash option.
2. Chinasoft (HK) and CS&S(HK) are parties to agreements to acquire interest in the Company which includes provisions imposing restrictions with respect to the disposal of interests acquired, and Chinasoft (HK) is taken to be interested in the Shares in which CS&S(HK) is interested pursuant to section 318 of the SFO.
3. Mr. Duncan Chiu and Mr. David Chiu, an executive Director and a non-executive Director, respectively, are nominated by Far East. Both Mr. Duncan Chiu and Mr. David Chiu are directors of Far East.
4. International Finance Corporation and Microsoft Corporation were parties to the Subscription Agreement which would, subject to satisfaction of the Conditions and completion thereof, allow them to subscribe for the Series A Preferred Shares under the First Subscription which would, based on the initial conversion ratio, be converted into 97,250,000 Ordinary Shares.
5. Mr. Yang Haimo controls the exercise of more than one-third of the voting power at general meetings of Authorative, and is thus taken to be interested in the Ordinary Shares held by Authorative.
6. The entire issued share capital of Prosperity is beneficially owned by Mr. Joseph Tian Li. Mr. Joseph Tian Li is taken to be interested in the Ordinary Shares held by Prosperity.
7. The entire issued share capital of ITG is beneficially owned by Mr. Zhou Qi. Mr. Zhou Qi is taken to be interested in the Ordinary Shares held by ITG.

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, (a) of the Directors or chief executive of the Company had any interest or short position in any Ordinary Shares or underlying shares or interest in debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in rule 5.46 of the GEM Listing Rules; (b) there was no person known to the Directors who had an interest or short position in the Ordinary Shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was or was expected to be, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or had any options in respect of such capital.

SPONSORS' INTERESTS

As updated and notified by the Company's sponsor, Oriental Patron Asia Limited ("Oriental Patron"), neither Oriental Patron nor its directors, employees or associates had any interests in the share capital of the Company as at the Latest Practicable Date pursuant to Rules 6.35 and 18.63 of the GEM Listing Rules.

Pursuant to the agreement dated 9 June 2003 which was entered into between the Company and Oriental Patron, Oriental Patron has received and will receive a fee for acting as the Company's retained sponsor for the period from 20 June 2003 to 31 December 2005 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

LITIGATION

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

DIRECTORS' INTERESTS IN CONTRACTS

- (a) Madam TANG Min has entered into a service contract with the Company for an initial term of two years which commenced on 30 September 2004 at a monthly salary of RMB 10,000. Such service contract shall continue until terminated by either party giving to the other not less than three month's notice, such notice not to be given before the expiry of the initial term of two years.
- (b) Save as disclosed above, as at the Latest Practicable Date, none of the Directors has entered into any service contact with any member of the Group which is not determinable within one year without payment of compensation, other than statutory compensation.
- (c) Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2004 (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.
- (d) Save as disclosed herein, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular and which is significant in relation to the business of the Group.

EXPERT

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

Name	Qualification
UOB Asia (Hong Kong) Limited	A licensed corporation to carry out types 1, 4, 6 and 9 regulated activities (dealing in securities, advising on securities, advising on corporate finance and asset management) under the SFO
Conyers Dill & Pearman	Legal advisers to the Company as to Cayman Islands law
Paul, Hasting, Janofsky & Walker	Legal advisers to the Company as to Hong Kong law

As at the Latest Practicable Date: –

- (a) UOB Asia did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to or from any member of the Group since 31 December 2004 (the date to which the latest published audited consolidated accounts of the Company were made up) or proposed to be so acquired, disposed of or leased; and
- (b) UOB Asia did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

CONSENT

Each of UOB Asia, Paul, Hasting, Janofsky & Walker and Conyers Dill and Pearman has given and has not withdrawn its consent to the issue of this circular with the inclusion of their respective advice to the Company and in the case of UOB Asia, its letter and references to its name in the form and context in which they respectively appear.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

As at the Latest Practicable Date, Mr. CUI Hui, an executive Director, was interested in approximately 1.34% of the issued share capital of CNSS and also served as a director of CNSS. In addition, each of Mr. CUI Hui and Dr. CHEN Yuhong had been appointed as a senior vice president by CNSS since December 2003. 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 IT outsourcing.

Save as disclosed above, none of the Directors or the substantial shareholders (as defined under the GEM Listing Rules) of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

NO MATERIAL ADVERSE CHANGE

Since 31 December 2004, being the date to which the latest published audited accounts of the Company have been made up, the Directors are not aware of any material adverse change in the financial or trading position of the Group.

MISCELLANEOUS

- (a) The registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies.
- (b) The Qualified Accountant and the Secretary of the Company is Mr. FOK Ming Fuk, FCPA, FCCA and Chartered Accountant.
- (c) The Compliance Officer of the Company is Dr. CHEN Yuhong.

- (d) The Company's Hong Kong branch share registrar and transfer office is Computershare Hong Kong Investor Services Limited, which is situated at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) This circular has been prepared in both English and Chinese. In the case of any discrepancy, the English text shall prevail.
- (f) The Company established an audit committee on 2 June 2003 with written terms of reference in compliance with the requirements as set out in Rules 5.28 and 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee has three members comprising the three independent non-executive Directors, namely Mr. HE Ning, Mr. ZENG Zhijie and Mr. AU YEUNG Shiu Kau, Peter.

Mr. HE Ning was appointed as an independent non-executive Director on 2 July 2002. Mr. He has been the chief executive officer of Beijing CCG Technology Co. Ltd since September 2000. From January 1997 to August 2000, he was the vice president of the Beijing representative office of Merrill Lynch. Mr. He was the assistant officer of the China Stock Exchange Executive Council from July 1993 to December 1996. He also worked for Morgan Stanley as manager from May 1990 to June 1993. Mr. He obtained a master's degree in business administration from the University of Texas in 1984. Mr. He has over 10 years experience in investment banking, direct investment and venture business management in the PRC and the USA.

Mr. ZENG Zhijie was appointed as an independent non-executive Director on 21 April 2003. Mr. Zeng obtained a master's degree in business administration from Stanford University in June 2001, and is a vice president of Walden International, a global venture capital firm with an investment focus on the communications, electronics, software and IT services, semiconductors and life sciences/healthcare industries, since October 2001.

Mr. AU YEUNG Shiu Kau, Peter was appointed as an independent non-executive Director on 30 September 2004. Mr. Au Yeung holds a diploma in accountancy in Hong Kong. He has more than 20 years' experience in the accountancy profession in Hong Kong and is currently a fellow member of both The Hong Kong Institute of Certified Public Accountants and The Chartered Association of Certified Accountants. He runs a business as a Certified Public Accountant in the form of sole proprietorship in Hong Kong. He was previously an independent non-executive director of Golden 21 Investments Holdings Limited, a company listed on the Main Board of the Stock Exchange.

DOCUMENTS AVAILABLE FOR INSPECTION

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

- (i) the Subscription Agreement and the Investors' Rights Agreement;

- (ii) the full text of the Re-stated Memorandum and Articles;
- (iii) the Commercial Agreement;
- (iv) the letter from UOB Asia to the Independent Board Committee and the independent Shareholders, the text of which is set out on pages 40 to 65 of this circular;
- (v) the letter from the Independent Board Committee to the independent Shareholders, the text of which is set out on pages 38 to 39 of this circular; and
- (vi) the written consents referred to in paragraph headed “Consents” in this appendix.

Set out below is the full text of the Re-stated Memorandum and Articles to be adopted by the Company.

**THE COMPANIES LAW (REVISED)
OF THE CAYMAN ISLANDS
COMPANY LIMITED BY SHARES**

**AMENDED AND RESTATED
MEMORANDUM OF ASSOCIATION**

OF

CHINASOFT INTERNATIONAL LIMITED

**(adopted pursuant to a resolution passed at a meeting
of all the shareholders on 28 December, 2005)**

-
1. The name of the Company is Chinasoft International Limited.
 2. The Registered Office of the Company shall be at the offices of Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies.
 3. Subject to the following provisions of this Memorandum, the objects for which the Company is established are unrestricted.
 4. Subject to the following provisions of this Memorandum, the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided by Section 27(2) of The Companies Law (Revised).
 5. Nothing in this Memorandum shall permit the Company to carry on a business for which a license is required under the laws of the Cayman Islands unless duly licensed.
 6. If the Company is exempted, it shall not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands; provided that nothing in this clause shall be construed as to prevent the Company effecting and concluding contracts in the Cayman Islands, and exercising in the Cayman Islands all of its powers necessary for the carrying on its business outside the Cayman Islands.
 7. The liability of each member is limited to the amount from time to time unpaid on such member's shares.

8. The share capital of the Company is HK\$106,250,000 divided into one billion five hundred million (1,500,000,000) ordinary shares of a nominal or par value of HK\$0.05 each, and six hundred twenty five million (625,000,000) redeemable convertible preferred shares of HK\$0.05 each, divided into three series, namely two hundred twenty five million (225,000,000) Series A-1 Preferred Shares of a nominal or par value of HK\$0.05 each, two hundred million (200,000,000) Series A-2 Preferred Shares of a nominal or par value of HK \$0.05 each, and two hundred million (200,000,000) Series A-3 Preferred Shares of a nominal or par value of HK \$0.05 each, with power for the Company insofar as is permitted by law, to redeem or purchase any of its shares and to increase or reduce the said capital subject to the provisions of the Companies Law (Revised) and the Articles of Association and to issue any part of its capital, whether original, redeemed or increased with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions and so that unless the conditions of issue shall otherwise expressly declare every issue of shares whether declared to be preference or otherwise shall be subject to the powers hereinbefore contained.

**The Companies Law (Revised)
Company Limited by Shares**

AMENDED AND RESTATED

ARTICLES OF ASSOCIATION

OF

CHINASOFT INTERNATIONAL LIMITED

**(Adopted pursuant to a resolution passed at a meeting
of the shareholders on 28 December, 2005)**

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INTERPRETATION

TABLE A

1. The regulations in Table A in the Schedule to the Companies Law (Revised) do not apply to the Company.

INTERPRETATION

2. (1) In these Articles, unless the context otherwise requires, the words standing in the first column of the following table shall bear the meaning set opposite them respectively in the second column.

Word	Meaning
“Additional Ordinary Shares”	<p>all Ordinary Shares (including reissued shares) issued (or, pursuant to Article 3A(3)(f), deemed to be issued as a result of the issue of Options or Convertible Securities) by the Company after the Series A-1 Issue Date, other than:</p> <ul style="list-style-type: none"> (i) Ordinary Shares issued or issuable upon conversion of Series A Shares authorized herein; (ii) Series A-2 Shares and Series A-3 Shares issued pursuant to the Subscription Agreement; (iii) Ordinary Shares issued pursuant to the options granted or to be granted under the Share Option Scheme; (iv) Up to 69,750,000 Ordinary Shares to be issued pursuant to the general mandate granted to the Directors at the annual general meeting of the shareholders of the Company in April 2005 or up to 10% of the total issued share capital of the Company to be issued pursuant to such general mandate that may be granted to the Directors from time to time pursuant to the requirements under the GEM Listing Rules; (v) Ordinary Shares issued pursuant to any share split, share dividend, recapitalization or similar transaction for which proportional adjustments are made; (vi) Ordinary Shares issued in an underwritten public offering.

“Affiliate”	in relation to a Person, any other Person that directly or indirectly controls, or is controlled by, or is under common control with, such person, where control shall mean the direct or indirect ownership of more than twenty-five percent (25%) of the outstanding shares or the power to direct or cause the direction of the management and policies of such Person or the equivalent.
“Articles”	these Articles in their present form or as supplemented or amended or substituted from time to time.
“Auditor”	the auditor of the Company for the time being and may include any individual or partnership.
“associate”	the meaning attributed to it in the rules of the Designated Stock Exchange.
“Baseline Amount of Milestone A”	shall mean the Baseline amount of Direct Revenue (as such term is defined in the Commercial Agreement) and Justifiable Indirect Revenue (as such term is defined in the Commercial Agreement) listed opposite year 1 in the table contained in Section 3.3.2(d) of the Commercial Agreement.
“Baseline Amount of Milestone B”	shall mean the Baseline amount of Direct Revenue (as such term is defined in the Commercial Agreement) and Justifiable Indirect Revenue (as such term is defined in the Commercial Agreement) listed opposite year 2 in the table contained in Section 3.3.2(d) of the Commercial Agreement.
“Baseline Amount of Milestone C”	shall mean the Baseline amount of Direct Revenue (as such term is defined in the Commercial Agreement) and Justifiable Indirect Revenue (as such term is defined in the Commercial Agreement) listed opposite year 3 in the table contained in Section 3.3.2(d) of the Commercial Agreement.
“Beijing Chinasoft”	Beijing Chinasoft International Information Technology Limited (北京中軟國際信息技術有限公司), a wholly-foreign owned enterprise established under the laws of the PRC.
“Board” or “Directors”	the board of directors of the Company or the directors present at a meeting of directors of the Company at which a quorum is present.

“Business Day”	any day (excluding Saturdays, Sundays and public holidays in Hong Kong, New York and Washington D.C.) on which banks generally are open for business in Hong Kong.
“capital”	the share capital from time to time of the Company.
“Chinasoft Resources”	Chinasoft Resources Information Technology Services Limited (北京中軟資源信息科技服務有限公司), a wholly-foreign owned enterprise established under the laws of the PRC.
“clear days”	in relation to the period of a notice that period excluding the day when the notice is given or deemed to be given and the day for which it is given or on which it is to take effect.
“clearing house”	a clearing house recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction.
“Commercial Agreement”	an agreement to be entered into between Microsoft and the Company in relation to the sale and marketing of certain products of Microsoft in the People’s Republic of China, a form of which is attached as <u>Exhibit D</u> to the Subscription Agreement.
“Company”	Chinasoft International Limited.
“competent regulatory authority”	a competent regulatory authority in the territory where the shares of the Company are listed or quoted on a stock exchange in such territory.
“Conversion Price”	with respect to the Series A-1 Shares, the Series A-1 Conversion Price, with respect to the Series A-2 Shares, the Series A-2 Conversion Price, and with respect to the Series A-3 Shares, the Series A-3 Conversion Price.
“Convertible Securities”	any evidences of indebtedness, shares (other than Series A Shares and Ordinary Shares) or other securities directly or indirectly convertible into or exchangeable for Ordinary Shares.
“debenture” and “debenture holder”	debenture stock and debenture stockholder respectively.

“Designated Stock Exchange”	a stock exchange in respect of which the Ordinary Shares are listed or quoted and where such stock exchange deems such listing or quotation to be the primary listing or quotation of the Ordinary Shares.
“GEM Listing Rules”	The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.
“Group”	the Company and all its Subsidiaries, collectively.
“head office”	such office of the Company as the Directors may from time to time determine to be the principal office of the Company.
“HK\$”	Hong Kong Dollars, the legal currency of Hong Kong.
“holding company”	the meaning attributed to it in section 2 of the Companies Ordinance (Chapter 32, Laws of Hong Kong) (as amended from time to time).
“HKFRS”	Hong Kong financial reporting standards in effect from time to time, and applied on a consistent basis.
“IFC”	International Finance Corporation, an international organization established by articles of agreement among its member countries with its headquarters situated at 2121 Pennsylvania Avenue, Washington D.C. 20433.
“Investors”	Microsoft and IFC, each so long as they hold Series A Share or Ordinary Shares.
“Issue Date”	with respect to the Series A-1 Shares, the Series A-1 Issue Date, with respect to the Series A-2 Shares, the Series A-2 Issue Date, and with respect to the Series A-3 Shares, the Series A-3 Issue Date.
“Issue Price”	with respect to the Series A-1 Shares, the Series A-1 Issue Price, with respect to the Series A-2 Shares, the Series A-2 Issue Price, and with respect to the Series A-3 Shares, the Series A-3 Issue Price.
“Key Subsidiary”	any Subsidiary of the Company which, in the opinion of the Auditor of the Company, having considered the prevailing circumstances, represents a significant business operation of the Group. For the avoidance of doubt, the Auditor shall consider a Subsidiary of the Company to be a Key Subsidiary if and only if the Auditor issues a qualified audit opinion as a result of such Subsidiary ceasing its operations or disposing of

all or substantially all of its assets to third parties. Notwithstanding the foregoing, “Key Subsidiaries” shall at all times include Beijing Chinasoft and Chinasoft Resources.

“Law” The Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

“Liquidation Event” the following events which shall apply to the Company and each of its Subsidiaries:

- (a) any merger, consolidation or sale of all or substantially all of the assets of the Company or any Key Subsidiary or any sale of any shares of the Company which result in the control of the Company at its general meetings being transferred to a third party or parties For the purpose of this paragraph, “control” shall be defined as the direct or indirect ownership of more than fifty (50%) of the outstanding shares of the relevant Person;
- (b) any sale, merger, spin-off, transfer, sale of all or substantially all of the assets of, or other disposition of a Major Business of the Company or any sale, transfer or other disposition of all or substantially all of the assets of the Company, whether in a single transaction or a series or related transactions. For the purpose of this definition, “Major Business” shall be defined as a business entity or unit where the assets of such business entity or unit account for greater than two-thirds of the previous twelve (12) months consolidated assets, net profit or gross revenue of the Company, determined in accordance with HKFRS. Regardless of the aforementioned, each of Beijing Chinasoft and Chinasoft Resources will be regarded as a Major Business;
- (c) without limiting (a), the directors (the “Directors”) of the Company as at the Series A-1 Issue Date or any replacements thereof cease to constitute a majority in numbers and cease to exercise a majority of the voting rights of the Board at the relevant time;

- (d) delisting of the Ordinary Shares from GEM or such other exchange on which the Ordinary Shares are traded, except if the delisting is solely in connection with or a condition precedent to a Qualified Public Offering or other public offering where the Ordinary Shares will be listed on an internationally recognized stock exchange that is acceptable to the Investors and in compliance with the applicable laws and regulations;
- (e) any liquidation, dissolution or winding-up of the affairs of the Company or any Key Subsidiary;
- (f) any voluntary or involuntary bankruptcy event exists in respect of the Company or a Key Subsidiary, which, in the case of an involuntary event only, remains undismissed or unstayed for more than 60 days, provided that during such period the Company has diligently contested the event, and no other Material Adverse Event has occurred;
- (g) the Auditors of the Company issue a qualified opinion in the audited consolidated accounts of the Company in respect of “going concern” of the Company; or
- (h) any registration statement pertaining to the Ordinary Shares received by the Investors, upon conversion of the Series A Shares, becomes ineffective or otherwise may not be relied upon by the Investors.

“Material Adverse Effect”

any change, event or effect (“**Effect**”) that is, in the reasonable opinion of the Investors, using reasonable efforts to consult with the Board taking into account the circumstances, materially adverse to the business, operations, assets or results of operations of the Company and its Subsidiaries as a whole, PROVIDED THAT in no event shall any of the following be deemed, either alone or in combination, to constitute, nor shall any of the following be taken into account in determining whether there has been, a Material Adverse Effect.

- (i) any Effect that results from changes in general economic conditions; or

	(ii) any issue or condition that has been disclosed in the Disclosure Schedule.
“Member”	a duly registered holder from time to time of the shares in the capital of the Company, including, without limitation, the Ordinary Shares and the Series A Shares.
“Microsoft”	Microsoft Corporation, a corporation incorporated in the State of Washington, USA.
“month”	a calendar month.
“Notice”	written notice unless otherwise specifically stated and as further defined in these Articles.
“Office”	the registered office of the Company for the time being.
“Options”	rights, options or warrants to subscribe for, purchase or otherwise acquire either Ordinary Shares or Convertible Securities.
“ordinary resolution”	a resolution shall be an ordinary resolution when it has been passed by a simple majority of votes cast by such Members as, being entitled so to do, vote in person or, in the case of any Member being a corporation, by its duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which not less than fourteen (14) clear days’ Notice has been duly given.
“Ordinary Shares”	the Company’s ordinary shares of a par value of HK\$0.05 each.
“paid up”	paid up or credited as paid up.
“Person”	any natural person, corporation, company, partnership, firm, voluntary association, joint venture, trust, unincorporated organization, authority or any other entity whether acting in an individual, fiduciary or other capacity.
“Qualified Public Offering”	a firm commitment underwritten public offering by the Company of its Ordinary Shares on an international recognized stock exchange (other than GEM) at a price per share implying a market capitalization exceeding US\$300 million.

“Register”	the principal register and where applicable, any branch register of Members of the Company to be maintained at such place within or outside the Cayman Islands as the Board shall determine from time to time.
“Registration Office”	in respect of any class of share capital such place as the Board may from time to time determine to keep a branch register of Members in respect of that class of share capital and where (except in cases where the Board otherwise directs) the transfers or other documents of title for such class of share capital are to be lodged for registration and are to be registered.
“Seal”	common seal or any one or more duplicate seals of the Company (including a securities seal) for use in the Cayman Islands or in any place outside the Cayman Islands.
“Secretary”	any person firm or corporation appointed by the Board to perform any of the duties of secretary of the Company and includes any assistant, deputy, temporary or acting secretary.
“Series A-1 Conversion Price”	shall initially equal the Series A-1 Issue Price (resulting in an initial conversion rate of 1:1), and shall be subject to adjustment from time to time pursuant to these Articles.
“Series A-2 Conversion Price”	shall initially equal the Series A-2 Issue Price (resulting in an initial conversion rate of 1:1), and shall be subject to adjustment from time to time pursuant to these Articles.
“Series A-3 Conversion Price”	shall initially equal the Series A-3 Issue Price (resulting in an initial conversion rate of 1:1), and shall be subject to adjustment from time to time pursuant to these Articles.
“Series A-1 Holder”	a holder of Series A-1 Shares.
“Series A-2 Holder”	a holder of Series A-2 Shares.
“Series A-3 Holder”	a holder of Series A-3 Shares.
“Series A-1 Issue Price”	shall be the lesser of: (i) HK\$0.80, and (ii) 90% of the closing price of the Ordinary Shares on the Growth Enterprise Market (“GEM”) of The Stock

Exchange of Hong Kong Limited (the “**Stock Exchange**”) on the trading day immediately prior to the Series A-1 Issue Date but in no case shall the Series A-1 Issue Price exceed HK\$0.80 or be less than HK\$0.70.

“Series A-2 Issue Price” shall be the lesser of (i) 90% of the 45 trading day trailing average closing price of the Ordinary Shares on GEM, or the then current stock exchange on which the Ordinary Shares are listed, prior to the Series A-2 Issue Date, and (ii) 90% of the closing price of the Ordinary Shares on GEM, or the then current stock exchange on which the Ordinary Shares are listed, on the trading day immediately prior to the applicable Series A-2 Issue Date.

“Series A-3 Issue Price” shall be the lesser of (i) 90% of the 45 trading day trailing average closing price of the Ordinary Shares on GEM, or the then current stock exchange on which the Ordinary Shares are listed, prior to the Series A-3 Issue Date, and (ii) 90% of the closing price of the Ordinary Shares on GEM, or the then current stock exchange on which the Ordinary Shares are listed, on the trading day immediately prior to the applicable Series A-3 Issue Date.

“Series A-1 Issue Date” the date on which the first Series A-1 Share was issued.

“Series A-2 Issue Date” the date on which the first Series A-2 Share was issued.

“Series A-3 Issue Date” the date on which the first Series A-3 Share was issued.

“Series A-1 Shares” the Company’s Series A-1 Preferred Shares of a par value of HK\$0.05 each.

“Series A-2 Shares” the Company’s Series A-2 Preferred Shares of a par value of HK\$0.05 each.

“Series A-3 Shares” the Company’s Series A-3 Preferred Shares of a par value of HK\$0.05 each.

“Series A Holder” a holder of Series A-1 Shares, Series A-2 Shares, or Series A-3 Shares.

“Series A Shares” the Series A-1 Shares, Series A-2 Shares and Series A-3 Shares.

“Share Option Scheme” the Company’ share option scheme adopted by the Company on June 2, 2003, and in effect immediately before after the Series A-1 Issue Date providing for the allocation and grant of options to the Company’s employees, officers and directors.

“special resolution” subject to the paragraph below, a resolution shall be a special resolution when it has been passed by a majority of not less than three-fourths of votes cast by such Members entitled so to do, or with respect to the matters referred to in Article 3A(6)(a) and (j), when it has been passed by a majority of not less than three-fourths of votes cast by such holders of Ordinary Shares and 70% of vote cast of such holders of Series A Shares, in each case voting in person or, in the case of such Members as are corporations, by their respective duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days’ Notice, specifying (without prejudice to the power contained in these Articles to amend the same) the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the Members having the right to attend and vote at any such meeting, being a majority together holding not less than ninety-five (95) per cent. in par value of the shares giving that right and in the case of an annual general meeting, if it is so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days’ Notice has been given.

a special resolution shall be effective for any purpose for which an ordinary resolution is expressed to be required under any provision of these Articles or the Statutes.

“Statutes” the Law and every other law of the Legislature of the Cayman Islands for the time being in force applying to or affecting the Company, its Memorandum of Association and/or these Articles.

“Subscription Agreement”	the Subscription Agreement dated as of September 26, 2005 entered into between the Company, the Series A Holders, Beijing Chinasoft and Chinasoft Resources, in relation to the subscription of the Series A Shares.
“Subsidiary”	the subsidiaries of the Company, with the same meaning as defined under Section 2 of the Companies Ordinance. For the avoidance of doubt, as of the Series A-1 Issue Date, the Subsidiaries of the Company are:
	<ul style="list-style-type: none"> (a) Chinasoft International Holdings Limited; (b) Chinasoft (HK); (c) Beijing Chinasoft; (d) Chinasoft Resources; (e) Chinasoft International (Guangzhou) Information Technology Limited (中軟國際(廣州)信息技術有限公司); (f) Chinasoft International (Hangzhou) Information Technology Limited (中軟國際(杭州)信息技術有限公司); (g) Chinasoft International (Kunming) Information Technology Limited (中軟國際(昆明)信息技術有限公司); (h) Shanghai Chinasoft Resources Information Technology Services Limited (上海中軟資源技術服務有限公司); (i) Shenzhen Chinasoft Resources Information Technology Services Limited (深圳市中軟資源技術服務有限公司); (j) CS&S Computer Tech. Training Centre (中軟總公司計算機培訓中心).
“year”	a calendar year.
“US\$”	United States Dollars.

- (2) In these Articles, unless there be something within the subject or context inconsistent with such construction:
- (a) words importing the singular include the plural and vice versa;
 - (b) words importing a gender include both gender and the neuter;
 - (c) words importing persons include companies, associations and bodies of persons whether corporate or not;
 - (d) the words:
 - (i) “may” shall be construed as permissive;
 - (ii) “shall” or “will” shall be construed as imperative;
 - (e) expressions referring to writing shall, unless the contrary intention appears, be construed as including printing, lithography, photography and other modes of representing words or figures in a visible form, and including where the representation takes the form of electronic display, provided that both the mode of service of the relevant document or notice and the Member’s election comply with all applicable Statutes, rules and regulations;
 - (f) references to any law, ordinance, statute or statutory provision shall be interpreted as relating to any statutory modification or re-enactment thereof for the time being in force;
 - (g) save as aforesaid words and expressions defined in the Statutes shall bear the same meanings in these Articles if not inconsistent with the subject in the context;
 - (h) references to a document being executed include references to it being executed under hand or under seal or by electronic signature or by any other method and references to a notice or document include a notice or document recorded or stored in any digital, electronic, electrical, magnetic or other retrievable form or medium and information in visible form whether having physical substance or not.

SHARE CAPITAL

3. (1) Unless otherwise determined by the Members in accordance with these Articles, the authorized share capital of the Company shall be HK\$106,250,000 divided into two classes:
- (a) six hundred twenty five million (625,000,000) redeemable convertible preferred shares of HK\$0.05 each, divided into three series:
 - (i) two hundred twenty five million (225,000,000) Series A-1 Shares,
 - (ii) two hundred million (200,000,000) Series A-2 Shares, and
 - (iii) two hundred million (200,000,000) Series A-3 Shares; and
 - (b) one billion five hundred million (1,500,000,000) ordinary shares of par value of HK\$0.05 each.
- (2) Subject to the Law, the Company's Memorandum of Association and these Articles and, where applicable, the rules of any Designated Stock Exchange and/or any competent regulatory authority, any power of the Company to purchase or otherwise acquire its own shares shall be exercisable by the Board in such manner, upon such terms and subject to such conditions as it thinks fit.
- (3) Except as allowed by the Law and subject further to compliance with the rules and regulations of the Designated Stock Exchange and any other relevant regulatory authority the Company shall not give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.
- (4) No share shall be issued to bearer.

RIGHTS OF SHARES

3A. Notwithstanding anything else to the contrary in these Articles, the Series A Shares shall have the following special rights and restrictions and, as between themselves, shall carry equal rights and rank pari passu with one another:

(1) Dividends

- (a) No dividends shall accrue or be paid with respect to any Series A Shares until six months after the Series A-1 Issue Date (the "**Grace Period**"). Commencing on the later of the end of the Grace Period and the Issue Date of a particular series of Series A Shares, the holders of such Series A Shares shall be entitled to receive out of any funds legally available therefore, dividends at the rate of 5.5% per annum on the relevant Issue Price plus any accrued but unpaid dividends. To the extent permissible under the Law, the Directors shall declare and pay such dividends

quarterly in priority to any other dividends on equity securities of the Company. Dividends on the Series A Shares shall be accumulated if and to the extent not paid hereunder. For the avoidance of doubt, the first payment date of the dividends on the Series A Shares shall be the last day of the first calendar quarter immediately after the Grace Period and if the Grace Period expires after a calendar quarter end date (i.e., March 31, June 30, September 30 and December 31) of a year, the first payment of dividends shall be prorated from the period commencing on the day after the Grace Period ends to the first dividend payment date.

- (b) Notwithstanding any other provision of this Article 3A(1), subject to the approval of the Board, the Company may at any time, out of funds legally available therefor, repurchase Ordinary Shares of the Company issued to or held by employees, officers or directors of the Company upon termination of their employment or services, in such manner as provided under the Share Option Scheme, whether or not dividends on Series A Shares shall have been declared, and such repurchase shall not be considered a dividend payment.

(2) Liquidation Preference

- (a) In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, or any Liquidation Event upon the election of any Series A Holder, the Series A Holders shall be entitled on a pari passu basis to receive, prior to any distribution to the holders of the Ordinary Shares or any other class of shares, an amount per share equal to (i) with respect to each Series A-1 Share, 100% of the Series A-1 Issue Price, plus all accrued or declared but unpaid dividends thereon, (ii) with respect to each Series A-2 Share, 100% of the Series A-2 Issue Price, plus all accrued or declared but unpaid dividends thereon, and (iii) with respect to each Series A-3 Share, 100% of the Series A-3 Issue Price, plus all accrued or declared but unpaid dividends thereon (the foregoing (i), (ii) and (iii) together, the “**Preference Amount**”), in each case, as adjusted for share dividends, share splits, combinations, recapitalizations, reclassifications and similar transactions. After the full Preference Amount on all outstanding Series A Shares has been paid, any remaining funds or assets of the Company legally available for distribution to Members shall be distributed pro rata among holders of the Ordinary Shares. If the Company has insufficient assets to permit payment of the Preference Amount in full to all Series A Holders, the Company shall distribute ratably its assets to all Series A Holders in proportion to the Preference Amount each such holder would otherwise be entitled to receive.
- (b) Upon a Liquidation Event, the Series A Holders may elect to be paid in cash or in securities received from the acquiring company or companies (if applicable), or in a combination thereof, at the closing of any such transaction, prior and in preference to any other payment or distribution

of consideration to other Members of the Company, an amount equal to the Preference Amount with respect to such Series A Shares then held which would be payable to the holders of the Series A Shares pursuant to this Article 3A(2) if all consideration received by the Company and its Members in connection with such event were being distributed in a liquidation of the Company. In the event the requirements of this Article 3A(2) are not complied with, the Company shall forthwith either (i) cause such closing to be postponed until such time as the requirements of this Article 3A(2) have been complied with, or (ii) cause such transaction to be cancelled.

- (c) In the event that the Company proposes to distribute assets other than cash in connection with any liquidation, dissolution or winding up of the Company (not including a Liquidation Event), the value of the assets to be distributed to the Series A Holders and holders of Ordinary Shares shall be determined in good faith by the liquidator (or, in the case of any proposed distribution in connection with a transaction which is a Liquidation Event hereunder, by the Board). Any securities not subject to investment letter or similar restrictions on free marketability shall be valued as follows:
- (i) If traded on a securities exchange, the value shall be deemed to be the average of the security's closing prices on such exchange over the thirty (30) day period ending one (1) day prior to the distribution;
 - (ii) If actively traded over-the-counter, the value shall be deemed to be the average of the closing bid prices over the thirty (30) day period ending three (3) days prior to the distribution; and
 - (iii) If there is no active public market, the value shall be the fair market value thereof as determined in good faith by the liquidator (or, in the case of any proposed distribution in connection with a transaction that is a Liquidation Event hereunder, by the Board).

The method of valuation of securities subject to restrictions on free marketability shall be adjusted to make an appropriate discount from the market value determined as above in sub-paragraphs (i), (ii) or (iii) of this Article 3A(2)(c) to reflect the fair market value thereof as determined in good faith by the liquidator (or, in the case of any proposed distribution in connection with a transaction which is a Liquidation Event hereunder, by the Board). The holders of any of the outstanding Series A Shares shall have the right to challenge any determination by the liquidator or the Board, as the case may be, of fair market value pursuant to this Article 3A(2)(c), in which case the determination of fair market value shall be made by an independent appraiser selected jointly by the liquidator or the Board, as the case may be, and the challenging Series A Holders, the cost of such appraisal to be borne by the Company.

(3) Conversion Rights

Each Series A Share shall be convertible into such number of fully paid and nonassessable Ordinary Shares as is determined by dividing the Issue Price for such series of Series A Shares by the then-effective Conversion Price for such series. The Conversion Price for each series of Series A Shares is subject to adjustment as provided herein.

- (a) *Voluntary Conversion.* Unless converted earlier pursuant to Article 3A(3)(b) below, each Series A Holder shall have the right, at such holder's sole discretion, to convert all or any portion of his, her or its Series A Shares into Ordinary Shares at any time.
- (b) *Automatic Conversion.* Subject to the applicable laws and regulations and without any further act of the Company or the Series A Holders, unless otherwise agreed in writing by the Series A Holders, each Series A Share will automatically be converted into Ordinary Shares, based on the then applicable Conversion Price for such series, immediately upon the closing of a Qualified Public Offering.
- (c) *Mechanics of Conversion.*
 - (i) *No Fractional Shares.* No fractional Ordinary Share shall be issued upon conversion of Series A Shares. In lieu of any fractional shares to which the holder would otherwise be entitled, the Company shall pay such holder cash equal to such fraction multiplied by the then effective Conversion Price of such series. Before any Series A Holder shall be entitled to convert the same into full Ordinary Shares and to receive certificates therefor, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Company or of any transfer agent for the Series A Shares and shall give written notice to the Company at such office that he elects to convert the same. The Company shall, as soon as practicable thereafter, issue and deliver to such Series A Holder a certificate or certificates for the number of Ordinary Shares to which he shall be entitled as aforesaid and a cheque payable to the holder in the amount of any cash amounts payable as the result of a conversion into fractional Ordinary Shares, and shall reflect such conversion in the Company's Register. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the Series A Shares to be converted, and the Person or Persons entitled to receive the Ordinary Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders of such Ordinary Shares on such date.
 - (ii) *Reservation of Shares Issuable Upon Conversion.* The Company shall at all times reserve and keep available out of its authorized but unissued Ordinary Shares solely for the purpose of effecting the

conversion of the Series A Shares, such number of its Ordinary Shares as shall from time to time be sufficient to effect the conversion of all the outstanding Series A Shares, and if at any time the number of authorized but unissued Ordinary Shares shall not be sufficient to effect the conversion of all the Series A Shares then outstanding, in addition to such other remedies as shall be available to the Series A Holder, the Company and the holders of Ordinary Shares will take such corporate action as may be necessary to increase its authorized but unissued Ordinary Shares to such number of shares as shall be sufficient for such purposes.

(d) *Adjustment of Conversion Price Upon New Issuance of Additional Ordinary Shares below the Conversion Price.* If the Company issues Additional Ordinary Shares for a consideration per share less than the Conversion Price for a particular series of Series A Shares in effect immediately prior to such issue, then and in such event, the Conversion Price for such series shall be reduced, concurrently with such issue, to a price (calculated to the nearest cent) as set forth herein.

(i) *Adjustment Formula.* In the event of the issuance of Additional Ordinary Shares at a at a subscription price per Ordinary Share (on an as-converted basis) that is less than the Series A Conversion Price for any Series A Share (as adjusted from time to time) in effect on the date of and immediately prior to such issuance, the Series A Conversion Price for such Series A Share shall be reduced, concurrently with such issuance, to a price (calculated to the nearest cent) determined as set forth below. The mathematical formula for determining the adjusted Series A Conversion Price is as follows and is subject to the more detailed textual description set forth thereafter:

$$AP = OP * (OS + (NP/OP))/(OS + NS)$$

WHERE:

AP = adjusted Series A Conversion Price.

OP = Series A Conversion Price in effect immediately before such issuance of Additional Ordinary Shares.

OS = the number of outstanding Ordinary Shares immediately before the Additional Ordinary Shares are issued or sold.

NP = the total consideration received for the issuance or sale of Additional Ordinary Shares.

NS = the number of Additional Ordinary Shares issued or sold.

provided that for the purposes of this Article 3A(3)(d)(i), all Ordinary Shares issuable upon conversion of outstanding Series A Shares shall be deemed to be outstanding, but no other Ordinary Shares issuable upon exercise of Convertible Securities shall be deemed to be outstanding.

- (e) *No Adjustment to Conversion Price.* No adjustment in the Conversion Price for any series of Series A Shares shall be made in respect of the issuance of Additional Ordinary Shares unless the consideration per share for an Additional Ordinary Share issued or deemed to be issued by the Company is less than the Conversion Price for such series in effect on the date of and immediately prior to such issuance.

- (f) *Deemed Issuance of Additional Ordinary Shares.* In the event that the Company at any time or from time to time after the Issue Date for any series of Series A Shares shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number (as set forth in the instrument relating thereto without regard to any provisions contained therein for a subsequent adjustment of such number that would result in an adjustment pursuant to sub-paragraph (ii) below) of Ordinary Shares issuable upon the exercise of such Options or, in the case of Convertible Securities and Options for Convertible Securities, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Ordinary Shares issued as of the time of such issuance or, in case such a record date shall have been fixed, as of the close of business on such record date, provided that Additional Ordinary Shares shall not be deemed to have been issued with respect to any series of Series A Shares unless the consideration per share (determined pursuant to Article 3A(3)(g) hereof) of such Additional Ordinary Shares would be less than the conversion price for such series of Series A Shares in effect on the date of and immediately prior to such issuance, or such record date, as the case may be, and provided further that in any such case in which Additional Ordinary Shares are deemed to be issued:
 - (i) no further adjustment to the Conversion Price shall be made upon the subsequent issuance of Convertible Securities or Ordinary Shares upon the exercise of such options or conversion or exchange of such Convertible Securities;

 - (ii) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase or decrease in the consideration payable to the Company, or increase or decrease in the number of Ordinary Shares issuable, upon the exercise, conversion or exchange thereof, the Conversion Price computed upon the original issuance thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments

based thereon, shall, upon any such increase or decrease becoming effective be recomputed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities;

(iii) upon the expiration of any such Options or any rights of conversion or exchange under such Convertible Securities which have not been exercised, the Conversion Price computed upon the original issuance thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration, be recomputed as if:

(A) in the case of Convertible Securities or Options for Ordinary Shares, the only Additional Ordinary Shares issued were Ordinary Shares, if any, actually issued upon the exercise of such Options or the conversion or exchange of such Convertible Securities, and the consideration received therefor was the consideration actually received by the Company for the issuance of all such Options or Convertible Securities, whether or not exercised or converted, plus the consideration actually received by the Company upon such exercise, conversion or exchange, or for the issuance of all such Convertible Securities which were actually converted or exchanged, plus the additional consideration, if any, actually received by the Company upon such conversion or exchange, and

(B) in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued upon the exercise thereof were issued at the time of issuance of such Options, and the consideration received by the Company for the Additional Ordinary Shares deemed to have been then issued was the consideration actually received by the Company for the issuance of all such Options, whether or not exercised, plus the consideration deemed to have been received by the Company upon the issuance of the Convertible Securities with respect to which such Options were actually exercised;

Provided that:

(I) no readjustment pursuant to sub-paragraph (ii) or (iii) above shall have the effect of increasing the Conversion Price to an amount which exceeds the lower of (x) the Conversion Price on the original adjustment date, or (y) the applicable Conversion Price that would have resulted from any issuance of Additional Ordinary Shares between the original adjustment date and such readjustment date; and

(II) in the case of any Options which expire by their terms not more than thirty (30) days after the date of issuance thereof, no adjustment of the Conversion Price shall be made until the expiration or exercise of all such Options, whereupon such adjustment shall be made in the manner provided in sub-paragraph (iii) above.

(g) *Determination of Consideration.* For purposes of this Article 3A(3), the consideration received by the Company for the issuance of any Additional Ordinary Shares shall be computed as follows:

(i) *Cash and Property.* Except as provided in sub-paragraph (ii) below, such consideration shall:

(A) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Company excluding amounts paid or payable for accrued interest for accrued dividends;

(B) insofar as it consists of property other than cash, be computed at the fair value thereof at the time of such issuance, as determined in good faith by the Board; provided, however, that no value shall be attributed to any services performed by any employee, officer or director of the Company; and

(C) in the event Additional Ordinary Shares are issued together with other shares or securities or other assets of the Company for consideration which covers both, be the proportion of such consideration so received with respect to such Additional Ordinary Shares, computed as provided in sub-paragraph (i) above, as determined in good faith by the Board.

(ii) *Options and Convertible Securities.* The consideration per share received by the Company for Additional Ordinary Shares deemed to have been issued pursuant to Article 3A(3)(f), relating to Options and Convertible Securities, shall be determined by dividing:

(A) the total amount, if any, received or receivable by the Company as consideration for the issuance of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Company upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by

- (B) the maximum number of Ordinary Shares (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.
- (h) *Adjustments for Share Dividends, Subdivisions, Combinations or Consolidations of Ordinary Shares.* In the event that the outstanding Ordinary Shares shall be subdivided (by share dividend, share split, or otherwise), into a greater number of Ordinary Shares, the Conversion Price for each series of Series A Shares then in effect shall, concurrently with the effectiveness of such subdivision, be proportionately decreased. In the event the outstanding Ordinary Shares shall be combined or consolidated, by reclassification or otherwise, into a lesser number of Ordinary Shares, the Conversion Price for each series of Series A Shares then in effect shall, concurrently with the effectiveness of such combination or consolidation, be proportionately increased.
- (i) *Adjustments for Other Distributions.* In the event that the Company at any time or from time to time makes, or files a record date for the determination of holders of Ordinary Shares entitled to receive any distribution payable in securities or assets of the Company other than Ordinary Shares, then and in each such event provision shall be made so that the Series A Holders shall receive upon conversion thereof, in addition to the number of Ordinary Shares receivable thereupon, the amount of securities or assets of the Company which they would have received had their shares been converted into Ordinary Shares on the date of such event and had they thereafter, during the period from the date of such event to and including the date of conversion, retained such securities or assets receivable by them as aforesaid during such period, subject to all other adjustment called for during such period under this Article 3A(3) with respect to the rights of the Series A Holders.
- (j) *Adjustments for Reclassification, Exchange and Substitution.* If the Ordinary Shares issuable upon conversion of Series A Shares shall be changed into the same or a different number of shares of any other class or classes of shares, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares provided for above), then and in each such event the Series A Holder shall have the right thereafter to convert such share into the kind and amount of shares and other securities and property receivable upon such reorganization or reclassification or other change by holders of the number of Ordinary Shares that would have been subject to receipt by the holders upon conversion of Series A Shares immediately before that change, all subject to further adjustment as provided herein.

- (k) *No Impairment.* The Members of the Company will not, by the amendment of the Company's Memorandum of Association or these Articles or through any reorganization, transfer of assets, consolidation, merger, dissolution, issuance or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder but will at all times in good faith assist in the carrying out of all the provisions of this Article 3A(3) and in the taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the Series A Holders against impairment.
- (l) *Certificate as to Adjustments.* Upon the occurrence of each adjustment or readjustment of the Conversion Price of the Series A Shares pursuant to this Article 3A(3), the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of the affected series of Series A Shares a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request at any time of any Series A Holder, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Price for such series at the time in effect, and (iii) the number of Ordinary Shares and the amount, if any, of other property which at the time would be received upon the conversion of Series A Shares.
- (m) *Miscellaneous.*
- (i) All calculations under this Article 3A(3) shall be made to the nearest one hundredth (1/100) of a cent or to the nearest one hundredth (1/100) of a share, as the case may be.
- (ii) The holders of any of the outstanding Series A Shares shall have the right to challenge any determination by the Board of fair value pursuant to this Article 3A(3), in which case such determination of fair value shall be made by an independent appraiser selected jointly by the Board and the challenging Series A Holders, the cost of such appraisal to be borne by the Company.
- (iii) No adjustment in the Conversion Price for any series need be made if such adjustment would result in a change in such conversion price of less than HK\$0.01. Any adjustment of less than HK\$0.01 which is not made shall be carried forward and shall be made at the time of and together with any subsequent adjustment which, on a cumulative basis, amounts to an adjustment of HK\$0.01 or more in such conversion price.
- (iv) The Conversion Price for the Series A Shares shall not in any circumstances fall below the par value of the Ordinary Shares.

- (v) The conversion shall be effected in any manner available under applicable law including redeeming or repurchasing the relevant Series A Shares and immediately applying the proceeds thereof towards payment for the new Ordinary Shares. For purposes of the repurchase or redemption, the Board may use any funds legally available under the Law, including the share capital of the Company.

(4) Redemption

- (a) *Microsoft Redemption.* So long as Microsoft is a Series A Holder at such time and subject to the Law, the Company shall redeem the Series A Shares requested to be redeemed by Microsoft in accordance with this Article 3A(4)(a) at the relevant Issue Price of such Series A Shares plus any accrued and unpaid dividends thereon on or after the occurrence of the following:
 - (i) if the Company fails to complete the Baseline Amount of Milestone A as set forth in the Commercial Agreement prior to the first anniversary of the Series A-1 Issue Date, the Company shall, upon receipt of a Microsoft Redemption Notice (as defined below), redeem such Series A Shares designated by Microsoft, with an aggregate Issue Price of up to US\$5 million;
 - (ii) if the Company fails to complete the Baseline Amount of Milestone B as set forth in the Commercial Agreement prior to the second anniversary of the Series A-1 Issue Date, the Company shall, upon receipt of a Microsoft Redemption Notice, redeem such Series A Shares designated by Microsoft, with an aggregate Issue Price of up to US\$5 million; or
 - (iii) if the Company fails to complete the Baseline Amount of Milestone C as set forth in the Commercial Agreement prior to the third anniversary of the Series A-1 Issue Date, the Company shall, upon receipt of a Microsoft Redemption Notice, redeem such Series A Shares designated by Microsoft, with an aggregate Issue Price of up to US\$5 million.

The redemption amount shall be paid from any funds legally available for such purpose, and shall be paid by wire transfer of immediately available United States Dollars, to an account designated by Microsoft, within 30 days (the “**Redemption Date**”) of written notice delivered by Microsoft to the Company (the “Microsoft Redemption Notice”) requesting redemption in accordance with this Article 3A(4)(a).

- (b) *IFC Redemption.* If, pursuant to a Microsoft Redemption Notice issued under Article 3A(4)(a), all the Series A Shares held by Microsoft at the date of the relevant Microsoft Redemption Notice will be redeemed by the Company, then the Company shall promptly notify IFC, and IFC shall

have ten (10) Business Days to request in writing that the Company redeems, on the Redemption Date on which all of the Series A Shares held by Microsoft will be redeemed by the Company such Series A Shares as designated by IFC and the Company shall subject to the Law redeem such Series A Shares on the Redemption Date, provided that the Series A Shares requested by IFC to be redeemed shall have an aggregate Issue Price of no more US\$5 million. The redemption amount shall be the aggregate Issue Price of the designated Series A Shares, plus any accrued but unpaid dividends thereon, and shall be paid from any funds legally available for such purpose by wire transfer of immediately available United States Dollars, to an account designated in writing by IFC to the Company.

- (c) *Optional Redemption.* Upon the written request of any of the Series A Holders, the Company shall subject to the Law redeem any or all of the Series A Shares then held by such Series A Holders, at the relevant Issue Price plus any accrued and unpaid dividends thereon, from any funds legally available for such purpose, by wire transfer of immediately available United States Dollars, to an account designated by such requesting Series A Holder, at any time on or after the occurrence of any of the following events:
- (i) The Company fails to become listed on an internationally recognized stock exchange, other than GEM, acceptable to the Series A Holders (it being agreed that the Main Board of The Stock Exchange of Hong Kong Limited (the “**Hong Kong Main Board**”) is acceptable to the Series A Holders for the purpose of this provision), prior to the third anniversary of the Series A-1 Issue Date;
 - (ii) the fifth anniversary of the Series A-1 Issue Date;
 - (iii) The Company fails to implement the corporate governance plan attached as Exhibit E to the Subscription Agreement (the “Corporate Governance Plan”) to the satisfaction of the Series A Holders within 4 months from the Series A-1 Issue Date (save for paragraph 3 of the Corporate Governance Plan where the Company shall have 18 months to implement the recruitment plan) or fails to meet the ongoing requirements as stipulated under the Corporate Governance Plan to the reasonable satisfaction of the Series A Holders;
 - (iv) The Company is in violation of IFC’s environment, social, anti-corruption, anti-money laundering or insurance requirements, contained in Sections 4.7, 4.8, 4.23, 6.8, 6.9, 6.10, Exhibit F or Exhibit G to the Subscription Agreement; or
 - (v) Microsoft and the Company agree to terminate the Commercial Agreement.

- (d) *Mandatory Redemption.* The Company shall subject to the Law redeem all of the Series A Shares then owned by the Series A Holders, at the relevant Issue Prices plus any accrued and unpaid dividends thereon, from any funds legally available for such purpose, by wire transfer of immediately available United States Dollars, to an account designated by the requesting Series A Holder, upon the sixth anniversary of the Series A-1 Issue Date, unless earlier redeemed or converted into the Ordinary Shares pursuant to the terms and conditions in these Articles.
- (e) *Allocation of Redemption Amounts.* In the event that the number of Series A Shares that may be legally redeemed by the Company is less than the aggregate of: (a) the number of Series A Shares held by Microsoft which are to be redeemed on the relevant redemption date (the “**Microsoft Redemption Shares**”), and (b) the number of Series A Shares held by IFC which are to be redeemed on the relevant redemption date (the “**IFC Redemption Shares**”), then those funds that are legally available will be used to redeem the Series A Shares pro rata amongst the relevant Series A Holders, based upon their then holdings of the Microsoft Redemption Shares and the IFC Redemption Shares. The Series A Shares not redeemed shall remain outstanding and entitled to all the rights and preferences provided herein, including the rights of conversion set forth herein. The outstanding amount shall be owed by the Company to the relevant Series A Holders as a senior debt ranking *pari passu* with the unsecured creditors of the Company, and the Company shall execute such documents and perform such acts to give effect to this, including issuing an interest-bearing promissory note to the relevant Series A Holder(s) for such appropriate outstanding amount, which note shall remain outstanding until such time as all Shares requested to be redeemed have been redeemed in full. In addition, the Company shall in good faith use all reasonable efforts as expeditiously as possible to increase the amount of funds that are legally available for redemption, including without limitation, causing its Subsidiaries to distribute any and all available funds to the Company for such purpose. If any time thereafter additional funds become legally available for the redemption, such funds will immediately be used to redeem the balance of the shares which the Company has become obliged to redeem on any Redemption Date but which it has not redeemed.
- (f) *Redemption Funds.* The Board shall have the power to redeem the Series A Shares out of funds legally available under the Law, including the share capital of the Company.

(5) Voting Rights

Except as expressly provided herein, Series A Holders shall enjoy the same voting power as holders of Ordinary Shares and shall be entitled to vote on all matters required to be submitted for votes by all Members of the Company. Each Series A Holder shall be entitled to the number of votes equal to the number of

votes attaching to the number of Ordinary Shares into which such Series A Shares could be converted based on the applicable Conversion Price. Series A Holders shall vote together with holders of Ordinary Shares and not as a separate class except as provided in Article 3A(6).

(6) Protective Provisions

Notwithstanding any provision to the contrary in these Articles, and subject to any additional approval required by the Law, so long as each Investor owns at least 50 per cent. (50%) of the number of Series A Shares subscribed to upon the Series A-1 Issue Date or the Series A Holders collectively own more than 97,250,000 Series A Shares (as adjusted for share splits, combinations, recapitalizations, reclassifications and similar transactions), the Shareholders shall exercise their voting powers in relation to the Company to procure that the Company shall not and shall procure that none of its Subsidiaries shall, either directly or by amendment, merger, consolidation or otherwise, without prior written consent of holders of at least seventy per cent. (70%) of all outstanding Series A Shares save that in the case of sub-paragraphs (a) and (j) below, such consent shall be deemed to have been given if a special resolution is passed in accordance with the Company's articles of association.

- (a) Liquidate, dissolve or wind-up the affairs of the Company or any of its Subsidiaries;
- (b) Enter into any merger, consolidation or sale to the extent that any of such transactions involves all or substantially all of the assets of the Company or any Key Subsidiary or any sale of any shares of the Company which result in the control of the Company at its general meetings being transferred to a third party or third parties;
- (c) Create, authorize or issue any class or series of equity, equity-linked or debt security senior to or *pari passu* with the Series A Shares or allow any Subsidiary to create, authorize or issue any such security;
- (d) Authorize or pay a dividend on any share (i) in preference to, or *pari passu* with, the dividends payable on the Series A Shares, or (ii) of any Subsidiary, unless (in the case of this clause (ii)) such dividend is payable solely to the Company;
- (e) Redeem or repurchase any share of (i) the Company, except for bona fide open market purchases from time to time as part of the Company's share repurchase activities approved by the Board, or (ii) any Subsidiary;
- (f) Make any loan or advance to or issue any guarantee or indemnity for any other company (other than for a wholly-owned Subsidiary of the Company) or Person (including but not limited to, any employee, director or shareholder), outside the ordinary course of its business, which shall be determined with reference to the prevailing business activities and arrangements of the Company and its Subsidiaries at that time;

- (g) Issue any other guarantee outside of the ordinary course of business, which shall be determined with reference to the prevailing business activities and arrangements of the Company and its Subsidiaries at that time;
- (h) Incur indebtedness in excess of US\$5,000,000, on a consolidated basis;
- (i) Enter into or be a party to any transaction with any officer, employee, director or shareholder or Affiliate of the Company or any Subsidiary or any associate thereof, or any other related party (including with limitation, China National Software & Service Co. Limited (中國軟件與技術服務股份有限公司), a joint stock limited company established under the laws of the PRC and its Affiliates), except transactions in the ordinary course of its business concluded on arm's-length terms;
- (j) Amend, alter or repeal the Company's Memorandum and Articles of Association or Revised Articles or Corporate Governance Plan in any manner which would adversely effect the rights, privileges and preferences of the holders of the Series A Shares or the rights which the holders of the Series A Shares may have upon the conversion of the Series A Shares to Ordinary Shares; or
- (k) Undertake any other transaction, which would impair or reduce the rights, preferences or privileges of the holders of the Series A Shares or the rights which the holders of the Series A Shares may have upon the conversion of the Series A Shares to Ordinary Shares.

(7) No Withholdings

All payments to the Series A Holders will be made without deduction or withholding for any taxes; provided, however, that if any taxes are required to be deducted or withheld, the Company will pay an additional amount so that the total received by the relevant Series A Holder shall be equal to the amount that would have been received in the absence of such deduction or withholding. The Company shall pay the full amount of any required deductions or withholdings to the relevant taxation authority. The Company shall also provide a tax indemnity in favor of the Series A Holder for any payments required to be made by the Series A Holder on account of such taxes. It is acknowledged that IFC is immune from all forms of taxation (including withholding) under its Articles of Agreement.

3B. The holders of Ordinary Shares shall, subject to the provision of these Articles:

- (a) be entitled to one vote per share;
- (b) be entitled to such dividends as the Board may from time to time declare;
- (c) in the event of a winding-up or dissolution of the Company, whether voluntary or involuntary or for the purpose of a reorganization or otherwise or upon any distribution of capital, be entitled to the surplus assets of the Company; and
- (d) generally be entitled to enjoy all of the rights attaching to shares.

ALTERATION OF CAPITAL

4. The Company may from time to time by ordinary resolution in accordance with the Law alter the conditions of its Memorandum of Association to:
 - (a) increase its capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe;
 - (b) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
 - (c) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination by the Company in general meeting, as the Directors may determine provided always that where the Company issues shares which do not carry voting rights, the words “non-voting” shall appear in the designation of such shares and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words “restricted voting” or “limited voting”;
 - (d) sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum of Association (subject, nevertheless, to the Law), and may by such resolution determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred, deferred or other rights or be subject to any such restrictions as compared with the other or others as the Company has power to attach to unissued or new shares;
 - (e) cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled or, in the case of shares, without par value, diminish the number of shares into which its capital is divided.
5. The Board may settle as it considers expedient any difficulty which arises in relation to any consolidation and division under the last preceding Article and in particular but without prejudice to the generality of the foregoing may issue certificates in respect of fractions of shares or arrange for the sale of the shares representing fractions and the distribution of the net proceeds of sale (after deduction of the expenses of such sale) in due proportion amongst the Members who would have been entitled to the fractions, and for this purpose the Board may authorise some person to transfer the shares representing fractions to their purchaser or resolve that such net proceeds be paid to the Company for the Company’s benefit. Such purchaser will not be bound to see to the application of the purchase money nor will his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

6. Subject to the rights, privileges or restrictions of any class or classes of shares, the Company may from time to time by special resolution, subject to any confirmation or consent required by the Law, reduce its share capital or any share premium account or any capital redemption reserve or other undistributable reserve in any manner permitted by law.
7. Except so far as otherwise provided by the conditions of issue, or by these Articles, any capital raised by the creation of new shares shall be treated as if it formed part of the original capital of the Company, and such shares shall be subject to the provisions contained in these Articles with reference to the payment of calls and instalments, transfer and transmission, forfeiture, lien, cancellation, surrender, voting and otherwise.

SHARE RIGHTS

8. (1) Subject to the provisions of the Law and the Memorandum of Association and these Articles and to any special rights conferred on the holders of any shares or class of shares, any share in the Company (whether forming part of the present capital or not) may be issued with or have attached thereto such rights or restrictions whether in regard to dividend, voting, return of capital or otherwise as the Company may by ordinary resolution determine or, if there has not been any such determination or so far as the same shall not make specific provision, as the Board may determine.

(2) Subject to the provisions of the Law, the rules of any Designated Stock Exchange and the Memorandum of Association and these Articles of the Company, and to any special rights conferred on the holders of any shares or attaching to any class of shares, shares may be issued on the terms that they may be, or at the option of the Company or the holder are, liable to be redeemed on such terms and in such manner, including out of capital, as the Board may deem fit.
9. Subject to the Law and the Memorandum of Association and these Articles, any preference shares may be issued or converted into shares that, at a determinable date or at the option of the Company or the holder, are liable to be redeemed on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution of the Members determine. Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender shall be limited to a maximum price as may from time to time be determined by the Company in general meeting, either generally or with regard to specific purchases. If purchases are by tender, tenders shall be available to all Members alike.

VARIATION OF RIGHTS

10. Subject to the Law and without prejudice to Article 8, all or any of the special rights for the time being attached to the shares or any class of shares may, unless otherwise provided by the terms of issue of the shares of that class, from time to time (whether or not the Company is being wound up) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in par value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting all the provisions of these Articles relating to general meetings of the Company shall, mutatis mutandis, apply, but so that:
- (a) the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a Member being a corporation, its duly authorized representative) holding or representing by proxy not less than one-third in par value of the issued shares of that class and at any adjourned meeting of such holders, two holders present in person (or in the case of a Member being a corporation, its duly authorized representative) or by proxy (whatever the number of shares held by them) shall be a quorum;
 - (b) every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him; and
 - (c) any holder of shares of the class present in person or by proxy or authorised representative may demand a poll.
11. The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied, modified or abrogated by the creation or issue of further shares ranking *pari passu* therewith.

SHARES

12. (1) Subject to the Law, these Articles, any direction that may be given by the Company in general meeting and, where applicable, the rules of any Designated Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, the unissued shares of the Company (whether forming part of the original or any increased capital) shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration and upon such terms and conditions as the Board may in its absolute discretion determine but so that no shares shall be issued at a discount. Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to Members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration

statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable.

Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of Members for any purpose whatsoever.

- (2) The Board may issue warrants or Convertible Securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.
13. The Company may in connection with the issue of any shares exercise all powers of paying commission and brokerage conferred or permitted by the Law. Subject to the Law, the commission may be satisfied by the payment of cash or by the allotment of fully or partly paid shares or partly in one and partly in the other.
14. Except as required by law, no person shall be recognised by the Company as holding any share upon any trust and the Company shall not be bound by or required in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share or any fractional part of a share or (except only as otherwise provided by these Articles or by law) any other rights in respect of any share except an absolute right to the entirety thereof in the registered holder.
15. Subject to the Law and these Articles, the Board may at any time after the allotment of shares but before any person has been entered in the Register as the holder, recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share a right to effect such renunciation upon and subject to such terms and conditions as the Board considers fit to impose.

SHARE CERTIFICATES

16. Every share certificate shall be issued under the Seal or a facsimile thereof and shall specify the number and class and distinguishing numbers (if any) of the shares to which it relates, and the amount paid up thereon and may otherwise be in such form as the Directors may from time to time determine. No certificate shall be issued representing shares of more than one class. The Board may by resolution determine, either generally or in any particular case or cases, that any signatures on any such certificates (or certificates in respect of other securities) need not be autographic but may be affixed to such certificates by some mechanical means or may be printed thereon.
17. (1) In the case of a share held jointly by several persons, the Company shall not be bound to issue more than one certificate therefor and delivery of a certificate to one of several joint holders shall be sufficient delivery to all such holders.

(2) Where a share stands in the names of two or more persons, the person first named in the Register shall as regards service of notices and, subject to the provisions of these Articles, all or any other matters connected with the Company, except the transfer of the shares, be deemed the sole holder thereof.

18. Every person whose name is entered, upon an allotment of shares, as a Member in the Register shall be entitled, without payment, to receive one certificate for all such shares of any one class or several certificates each for one or more of such shares of such class upon payment for every certificate after the first of such reasonable out-of-pocket expenses as the Board from time to time determines.
19. Share certificates shall be issued within the relevant time limit as prescribed by the Law or as the Designated Stock Exchange may from time to time determine, whichever is the shorter, after allotment or, except in the case of a transfer which the Company is for the time being entitled to refuse to register and does not register, after lodgment of a transfer with the Company.
20. (1) Upon every transfer of shares the certificate held by the transferor shall be given up to be cancelled, and shall forthwith be cancelled accordingly, and a new certificate shall be issued to the transferee in respect of the shares transferred to him at such fee as is provided in paragraph (2) of this Article. If any of the shares included in the certificate so given up shall be retained by the transferor a new certificate for the balance shall be issued to him at the aforesaid fee payable by the transferor to the Company in respect thereof.

(2) The fee referred to in paragraph (1) above shall be an amount not exceeding the relevant maximum amount as the Designated Stock Exchange may from time to time determine provided that the Board may at any time determine a lower amount for such fee.
21. If a share certificate shall be damaged or defaced or alleged to have been lost, stolen or destroyed a new certificate representing the same shares may be issued to the relevant Member upon request and on payment of such fee as the Designated Stock Exchange may determine to be the maximum fee payable or such lesser sum as the Board may determine and, subject to compliance with such terms (if any) as to evidence and indemnity and to payment of the costs and reasonable out-of-pocket expenses of the Company in investigating such evidence and preparing such indemnity as the Board may think fit and, in case of damage or defacement, on delivery of the old certificate to the Company provided always that where share warrants have been issued, no new share warrant shall be issued to replace one that has been lost unless the Directors are satisfied beyond reasonable doubt that the original has been destroyed.

LIEN

22. The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys (whether presently payable or not) called or payable at a fixed time in respect of that share. The Company shall also have a first and paramount lien on every share (not being a fully paid share) registered in the name of a Member (whether or not jointly with other Members) for all amounts of money presently payable by such Member or his estate to the Company whether the same shall have been incurred before or after notice to the Company of any equitable or other interest of any person other than such Member, and whether the period for the

payment or discharge of the same shall have actually arrived or not, and notwithstanding that the same are joint debts or liabilities of such Member or his estate and any other person, whether a Member of the Company or not. The Company's lien on a share shall extend to all dividends or other moneys payable thereon or in respect thereof. The Board may at any time, generally or in any particular case, waive any lien that has arisen or declare any share exempt in whole or in part, from the provisions of this Article.

23. Subject to these Articles, the Company may sell in such manner as the Board determines any share on which the Company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable, or the liability or engagement in respect of which such lien exists is liable to be presently fulfilled or discharged nor until the expiration of fourteen clear days after a notice in writing, stating and demanding payment of the sum presently payable, or specifying the liability or engagement and demanding fulfilment or discharge thereof and giving notice of the intention to sell in default, has been served on the registered holder for the time being of the share or the person entitled thereto by reason of his death or bankruptcy.
24. The net proceeds of the sale shall be received by the Company and applied in or towards payment or discharge of the debt or liability in respect of which the lien exists, so far as the same is presently payable, and any residue shall (subject to a like lien for debts or liabilities not presently payable as existed upon the share prior to the sale) be paid to the person entitled to the share at the time of the sale. To give effect to any such sale the Board may authorise some person to transfer the shares sold to the purchaser thereof. The purchaser shall be registered as the holder of the shares so transferred and he shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

CALLS ON SHARES

25. Subject to these Articles and to the terms of allotment, the Board may from time to time make calls upon the Members in respect of any moneys unpaid on their shares (whether on account of the par value of the shares or by way of premium), and each Member shall (subject to being given at least fourteen (14) clear days' Notice specifying the time and place of payment) pay to the Company as required by such notice the amount called on his shares. A call may be extended, postponed or revoked in whole or in part as the Board determines but no Member shall be entitled to any such extension, postponement or revocation except as a matter of grace and favour.
26. A call shall be deemed to have been made at the time when the resolution of the Board authorising the call was passed and may be made payable either in one lump sum or by instalments.

27. A person upon whom a call is made shall remain liable for calls made upon him notwithstanding the subsequent transfer of the shares in respect of which the call was made. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect thereof or other moneys due in respect thereof.
28. If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the amount unpaid from the day appointed for payment thereof to the time of actual payment at such rate (not exceeding twenty per cent. (20%) per annum) as the Board may determine, but the Board may in its absolute discretion waive payment of such interest wholly or in part.
29. No Member shall be entitled to receive any dividend or bonus or to be present and vote (save as proxy for another Member) at any general meeting either personally or by proxy, or be reckoned in a quorum, or exercise any other privilege as a Member until all calls or instalments due by him to the Company, whether alone or jointly with any other person, together with interest and expenses (if any) shall have been paid.
30. On the trial or hearing of any action or other proceedings for the recovery of any money due for any call, it shall be sufficient to prove that the name of the Member sued is entered in the Register as the holder, or one of the holders, of the shares in respect of which such debt accrued, that the resolution making the call is duly recorded in the minute book, and that notice of such call was duly given to the Member sued, in pursuance of these Articles; and it shall not be necessary to prove the appointment of the Directors who made such call, nor any other matters whatsoever, but the proof of the matters aforesaid shall be conclusive evidence of the debt.
31. Any amount payable in respect of a share upon allotment or at any fixed date, whether in respect of nominal value or premium or as an instalment of a call, shall be deemed to be a call duly made and payable on the date fixed for payment and if it is not paid the provisions of these Articles shall apply as if that amount had become due and payable by virtue of a call duly made and notified.
32. On the issue of shares the Board may differentiate between the allottees or holders as to the amount of calls to be paid and the times of payment.
33. The Board may, if it thinks fit, receive from any Member willing to advance the same, and either in money or money's worth, all or any part of the moneys uncalled and unpaid or instalments payable upon any shares held by him and upon all or any of the moneys so advanced (until the same would, but for such advance, become presently payable) pay interest at such rate (if any) as the Board may decide. The Board may at any time repay the amount so advanced upon giving to such Member not less than one month's Notice of its intention in that behalf, unless before the expiration of such notice the amount so advanced shall have been called up on the shares in respect of which it was advanced. Such payment in advance shall not entitle the holder of such share or shares to participate in respect thereof in a dividend subsequently declared.

FORFEITURE OF SHARES

34. (1) If a call remains unpaid after it has become due and payable the Board may give to the person from whom it is due not less than fourteen (14) clear days' Notice:
- (a) requiring payment of the amount unpaid together with any interest which may have accrued and which may still accrue up to the date of actual payment; and
 - (b) stating that if the Notice is not complied with the shares on which the call was made will be liable to be forfeited.
- (2) If the requirements of any such Notice are not complied with, any share in respect of which such Notice has been given may at any time thereafter, before payment of all calls and interest due in respect thereof has been made, be forfeited by a resolution of the Board to that effect, and such forfeiture shall include all dividends and bonuses declared in respect of the forfeited share but not actually paid before the forfeiture.
35. When any share has been forfeited, notice of the forfeiture shall be served upon the person who was before forfeiture the holder of the share. No forfeiture shall be invalidated by any omission or neglect to give such Notice.
36. The Board may accept the surrender of any share liable to be forfeited hereunder and, in such case, references in these Articles to forfeiture will include surrender.
37. Any share so forfeited shall be deemed the property of the Company and may be sold, re-allotted or otherwise disposed of to such person, upon such terms and in such manner as the Board determines, and at any time before a sale, re-allotment or disposition the forfeiture may be annulled by the Board on such terms as the Board determines.
38. A person whose shares have been forfeited shall cease to be a Member in respect of the forfeited shares but nevertheless shall remain liable to pay the Company all moneys which at the date of forfeiture were presently payable by him to the Company in respect of the shares, with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate (not exceeding twenty per cent. (20%) per annum) as the Board determines. The Board may enforce payment thereof if it thinks fit, and without any deduction or allowance for the value of the forfeited shares, at the date of forfeiture, but his liability shall cease if and when the Company shall have received payment in full of all such moneys in respect of the shares. For the purposes of this Article any sum which, by the terms of issue of a share, is payable thereon at a fixed time which is subsequent to the date of forfeiture, whether on account of the par value of the share or by way of premium, shall notwithstanding that time has not yet arrived be deemed to be payable at the date of forfeiture, and the same shall become due and payable immediately upon the forfeiture, but interest thereon shall only be payable in respect of any period between the said fixed time and the date of actual payment.

39. A declaration by a Director or the Secretary that a share has been forfeited on a specified date shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share, and such declaration shall (subject to the execution of an instrument of transfer by the Company if necessary) constitute a good title to the share, and the person to whom the share is disposed of shall be registered as the holder of the share and shall not be bound to see to the application of the consideration (if any), nor shall his title to the share be affected by any irregularity in or invalidity of the proceedings in reference to the forfeiture, sale or disposal of the share. When any share shall have been forfeited, notice of the declaration shall be given to the Member in whose name it stood immediately prior to the forfeiture, and an entry of the forfeiture, with the date thereof, shall forthwith be made in the register, but no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice or make any such entry.
40. Notwithstanding any such forfeiture as aforesaid the Board may at any time, before any shares so forfeited shall have been sold, re-allotted or otherwise disposed of, permit the shares forfeited to be bought back upon the terms of payment of all calls and interest due upon and expenses incurred in respect of the share, and upon such further terms (if any) as it thinks fit.
41. The forfeiture of a share shall not prejudice the right of the Company to any call already made or instalment payable thereon.
42. The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the par value of the share or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

REGISTER OF MEMBERS

43. (1) The Company shall keep in one or more books a Register of its Members and shall enter therein the following particulars, that is to say:
 - (a) the name and address of each Member, the number and class of shares held by him and, in respect of any shares that are not fully paid, the amount paid or agreed to be considered as paid on such shares;
 - (b) the date on which each person was entered in the Register; and
 - (c) the date on which any person ceased to be a Member.
- (2) The Company may keep an overseas or local or other branch register of Members resident in any place, and the Board may make and vary such regulations as it determines in respect of the keeping of any such register and maintaining a Registration Office in connection therewith.

44. The Register and branch register of Members, as the case may be, shall be open to inspection for at least two (2) hours on every business day by Members without charge or by any other person, upon a maximum payment of HK\$2.50 or such lesser sum specified by the Board, at the Office or such other place at which the Register is kept in accordance with the Law or, if appropriate, upon a maximum payment of HK\$1.00 or such lesser sum specified by the Board at the Registration Office. The Register including any overseas or local or other branch register of Members may, after notice has been given by advertisement in an appointed newspaper or any other newspapers in accordance with the requirements of any Designated Stock Exchange or by any electronic means in such manner as may be accepted by the Designated Stock Exchange to that effect, be closed at such times or for such periods not exceeding in the whole thirty (30) days in each year as the Board may determine and either generally or in respect of any class of shares.

RECORD DATES

45. Notwithstanding any other provision of these Articles the Company or the Directors may fix any date as the record date for:
- (a) determining the Members entitled to receive any dividend, distribution, allotment or issue and such record date may be on, or at any time not more than thirty (30) days before or after, any date on which such dividend, distribution, allotment or issue is declared, paid or made;
 - (b) determining the Members entitled to receive notice of and to vote at any general meeting of the Company.

TRANSFER OF SHARES

46. Subject to these Articles, any Member may transfer all or any of his shares by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange or in any other form approved by the Board and may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.
47. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case which it thinks fit in its discretion to do so. Without prejudice to the last preceding Article, the Board may also resolve, either generally or in any particular case, upon request by either the transferor or transferee, to accept mechanically executed transfers. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register in respect thereof. Nothing in these Articles shall preclude the Board from recognising a renunciation of the allotment or provisional allotment of any share by the allottee in favour of some other person.

48. (1) The Board may, in its absolute discretion, and without giving any reason therefor, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve, or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also, without prejudice to the foregoing generality, refuse to register a transfer of any share to more than four (4) joint holders or a transfer of any share (not being a fully paid up share) on which the Company has a lien.
- (2) No transfer shall be made to an infant or to a person of unsound mind or under other legal disability.
- (3) The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the Register to any branch register or any share on any branch register to the Register or any other branch register. In the event of any such transfer, the shareholder requesting such transfer shall bear the cost of effecting the transfer unless the Board otherwise determines.
- (4) Unless the Board otherwise agrees (which agreement may be on such terms and subject to such conditions as the Board in its absolute discretion may from time to time determine, and which agreement the Board shall, without giving any reason therefor, be entitled in its absolute discretion to give or withhold), no shares upon the Register shall be transferred to any branch register nor shall shares on any branch register be transferred to the Register or any other branch register and all transfers and other documents of title shall be lodged for registration, and registered, in the case of any shares on a branch register, at the relevant Registration Office, and, in the case of any shares on the Register, at the Office or such other place at which the Register is kept in accordance with the Law.
49. Without limiting the generality of the last preceding Article, the Board may decline to recognise any instrument of transfer unless.
- (a) a fee of such maximum sum as the Designated Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof;
- (b) the instrument of transfer is in respect of only one class of share;
- (c) the instrument of transfer is lodged at the Office or such other place at which the Register is kept in accordance with the Law or the Registration Office (as the case may be) accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do); and
- (d) if applicable, the instrument of transfer is duly and properly stamped.

50. If the Board refuses to register a transfer of any share, it shall, within two (2) months after the date on which the transfer was lodged with the Company, send to each of the transferor and transferee notice of the refusal.
51. The registration of transfers of shares or of any class of shares may, after notice has been given by advertisement in an appointed newspaper or any other newspapers or by any other means in accordance with the requirements of any Designated Stock Exchange to that effect be suspended at such times and for such periods (not exceeding in the whole thirty (30) days in any year) as the Board may determine.

TRANSMISSION OF SHARES

52. If a Member dies, the survivor or survivors where the deceased was a joint holder, and his legal personal representatives where he was a sole or only surviving holder, will be the only persons recognised by the Company as having any title to his interest in the shares; but nothing in this Article will release the estate of a deceased Member (whether sole or joint) from any liability in respect of any share which had been solely or jointly held by him.
53. Any person becoming entitled to a share in consequence of the death or bankruptcy or winding-up of a Member may, upon such evidence as to his title being produced as may be required by the Board, elect either to become the holder of the share or to have some person nominated by him registered as the transferee thereof. If he elects to become the holder he shall notify the Company in writing either at the Registration Office or Office, as the case may be, to that effect. If he elects to have another person registered he shall execute a transfer of the share in favour of that person. The provisions of these Articles relating to the transfer and registration of transfers of shares shall apply to such notice or transfer as aforesaid as if the death or bankruptcy of the Member had not occurred and the notice or transfer were a transfer signed by such Member.
54. A person becoming entitled to a share by reason of the death or bankruptcy or winding-up of a Member shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share. However, the Board may, if it thinks fit, withhold the payment of any dividend payable or other advantages in respect of such share until such person shall become the registered holder of the share or shall have effectually transferred such share, but, subject to the requirements of Article 75(2) being met, such a person may vote at meetings.

UNTRACEABLE MEMBERS

55. (1) Without prejudice to the rights of the Company under paragraph (2) of this Article, the Company may cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered.

- (2) The Company shall have the power to sell, in such manner as the Board thinks fit, any shares of a Member who is untraceable, but no such sale shall be made unless:
- (a) all cheques or warrants in respect of dividends of the shares in question, being not less than three in total number, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period in the manner authorised by the Articles of the Company have remained uncashed;
 - (b) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the Member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; and
 - (c) the Company, if so required by the rules governing the listing of shares on the Designated Stock Exchange, has given notice to, and caused advertisement in newspapers in accordance with the requirements of, the Designated Stock Exchange to be made of its intention to sell such shares in the manner required by the Designated Stock Exchange, and a period of three (3) months or such shorter period as may be allowed by the Designated Stock Exchange has elapsed since the date of such advertisement.

For the purpose of the foregoing, the “relevant period” means the period commencing twelve years before the date of publication of the advertisement referred to in paragraph (c) of this Article and ending at the expiry of the period referred to in that paragraph.

- (3) To give effect to any such sale the Board may authorise some person to transfer the said shares and an instrument of transfer signed or otherwise executed by or on behalf of such person shall be as effective as if it had been executed by the registered holder or the person entitled by transmission to such shares, and the purchaser shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale. The net proceeds of the sale will belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former Member for an amount equal to such net proceeds. No trust shall be created in respect of such debt and no interest shall be payable in respect of it and the Company shall not be required to account for any money earned from the net proceeds which may be employed in the business of the Company or as it thinks fit. Any sale under this Article shall be valid and effective notwithstanding that the Member holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.

GENERAL MEETINGS

56. An annual general meeting of the Company shall be held in each year other than the year of the Company's incorporation (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or not more than eighteen (18) months after the date of incorporation, unless a longer period would not infringe the rules of the Designated Stock Exchange, if any) at such time and place as may be determined by the Board.
57. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting. General meetings may be held in any part of the world as may be determined by the Board.
58. The Board may whenever it thinks fit call extraordinary general meetings. Any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

NOTICE OF GENERAL MEETINGS

59. (1) An annual general meeting and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by not less than twenty-one (21) clear days' Notice. All other extraordinary general meetings may be called by not less than fourteen (14) clear days' Notice but a general meeting may be called by shorter notice, subject to the Law, if it is so agreed:
 - (a) in the case of a meeting called as an annual general meeting, by all the Members entitled to attend and vote thereat; and
 - (b) in the case of any other meeting, by a majority in number of the Members having the right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. (95%) in par value of the issued shares giving that right.
- (2) The notice shall specify the time and place of the meeting and, in case of special business, the general nature of the business. The notice convening an annual general meeting shall specify the meeting as such. Notice of every general meeting shall be given to all Members other than to such Members as, under the provisions of these Articles or the terms of issue of the shares they

hold, are not entitled to receive such notices from the Company, to all persons entitled to a share in consequence of the death or bankruptcy or winding-up of a Member and to each of the Directors and the Auditors.

60. The accidental omission to give Notice of a meeting or (in cases where instruments of proxy are sent out with the Notice) to send such instrument of proxy to, or the non-receipt of such Notice or such instrument of proxy by, any person entitled to receive such Notice shall not invalidate any resolution passed or the proceedings at that meeting.

PROCEEDINGS AT GENERAL MEETINGS

61. (1) All business shall be deemed special that is transacted at an extraordinary general meeting, and also all business that is transacted at an annual general meeting, with the exception of:
- (a) the declaration and sanctioning of dividends;
 - (b) consideration and adoption of the accounts and balance sheet and the reports of the Directors and Auditors and other documents required to be annexed to the balance sheet;
 - (c) the election of Directors whether by rotation or otherwise in the place of those retiring;
 - (d) appointment of Auditors (where special notice of the intention for such appointment is not required by the Law) and other officers;
 - (e) the fixing of the remuneration of the Auditors, and the voting of remuneration or extra remuneration to the Directors;
 - (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares in the capital of the Company representing not more than 20 per cent. in par value of its existing issued share capital; and
 - (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.
- (2) No business other than the appointment of a chairman of a meeting shall be transacted at any general meeting unless a quorum is present at the commencement of the business. Two (2) Members entitled to vote and present in person or by proxy or (in the case of a Member being a corporation) by its duly authorised representative shall form a quorum for all purposes.
62. If within thirty (30) minutes (or such longer time not exceeding one hour as the chairman of the meeting may determine to wait) after the time appointed for the meeting a quorum is not present, the meeting, if convened on the requisition of

Members, shall be dissolved. In any other case it shall stand adjourned to the same day in the next week at the same time and place or to such time and place as the Board may determine. If at such adjourned meeting a quorum is not present within half an hour from the time appointed for holding the meeting, the meeting shall be dissolved.

63. The chairman of the Company shall preside as chairman at every general meeting. If at any meeting the chairman, is not present within fifteen (15) minutes after the time appointed for holding the meeting, or is not willing to act as chairman, the managing director of the Company, if one has been appointed by the Board, shall preside as chairman at the meeting or if he is absent from the meeting or not willing to act as chairman, the Directors present shall choose one of their number to act, or if one Director only is present he shall preside as chairman if willing to act. If no Director is present, or if each of the Directors present declines to take the chair, or if the chairman chosen shall retire from the chair, the Members present in person or by proxy and entitled to vote shall elect one of their number to be chairman.
64. The chairman may, with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place as the meeting shall determine, but no business shall be transacted at any adjourned meeting other than the business which might lawfully have been transacted at the meeting had the adjournment not taken place. When a meeting is adjourned for fourteen (14) days or more, at least seven (7) clear days' notice of the adjourned meeting shall be given specifying the time and place of the adjourned meeting but it shall not be necessary to specify in such notice the nature of the business to be transacted at the adjourned meeting and the general nature of the business to be transacted. Save as aforesaid, it shall be unnecessary to give notice of an adjournment.
65. If an amendment is proposed to any resolution under consideration but is in good faith ruled out of order by the chairman of the meeting, the proceedings on the substantive resolution shall not be invalidated by any error in such ruling. In the case of a resolution duly proposed as a special resolution, no amendment thereto (other than a mere clerical amendment to correct a patent error) may in any event be considered or voted upon.

VOTING

66. Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Articles, at any general meeting on a show of hands every Member present in person (or being a corporation, is present by a duly authorised representative), or by proxy shall have one vote and on a poll every Member present in person or by proxy or, in the case of a Member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in these Articles, where more than one proxy is appointed by a Member which is a clearing

house (or its nominee(s)), each such proxy shall have one vote on a show of hands. A resolution put to the vote of a meeting shall be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Members having the right to vote at the meeting; or
- (d) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

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

- 67. Unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the facts without proof of the number or proportion of the votes recorded for or against the resolution.
- 68. If a poll is duly demanded the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. There shall be no requirement for the chairman to disclose the voting figures on a poll.
- 69. A poll demanded on the election of a chairman, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken in such manner (including the use of ballot or voting papers or tickets) and either forthwith or at such time (being not later than thirty (30) days after the date of the demand) and place as the chairman directs. It shall not be necessary (unless the chairman otherwise directs) for notice to be given of a poll not taken immediately.
- 70. The demand for a poll shall not prevent the continuance of a meeting or the transaction of any business other than the question on which the poll has been demanded, and, with the consent of the chairman, it may be withdrawn at any time before the close of the meeting or the taking of the poll, whichever is the earlier.

71. On a poll votes may be given either personally or by proxy.
72. A person entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way.
73. All questions submitted to a meeting shall be decided by a simple majority of votes except where a greater majority is required by these Articles or by the Law. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of such meeting shall be entitled to a second or casting vote in addition to any other vote he may have.
74. Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register in respect of the joint holding. Several executors or administrators of a deceased Member in whose name any share stands shall for the purposes of this Article be deemed joint holders thereof.
75. (1) A Member who is a patient for any purpose relating to mental health or in respect of whom an order has been made by any court having jurisdiction for the protection or management of the affairs of persons incapable of managing their own affairs may vote, whether on a show of hands or on a poll, by his receiver, committee, curator bonis or other person in the nature of a receiver, committee or curator bonis appointed by such court, and such receiver, committee, curator bonis or other person may vote on a poll by proxy, and may otherwise act and be treated as if he were the registered holder of such shares for the purposes of general meetings, provided that such evidence as the Board may require of the authority of the person claiming to vote shall have been deposited at the Office, head office or Registration Office, as appropriate, not less than forty-eight (48) hours before the time appointed for holding the meeting, or adjourned meeting or poll, as the case may be.
- (2) Any person entitled under Article 53 to be registered as the holder of any shares may vote at any general meeting in respect thereof in the same manner as if he were the registered holder of such shares, provided that forty-eight (48) hours at least before the time of the holding of the meeting or adjourned meeting, as the case may be, at which he proposes to vote, he shall satisfy the Board of his entitlement to such shares, or the Board shall have previously admitted his right to vote at such meeting in respect thereof.
76. (1) No Member shall, unless the Board otherwise determines, be entitled to attend and vote and to be reckoned in a quorum at any general meeting unless he is duly registered and all calls or other sums presently payable by him in respect of shares in the Company have been paid.

- (2) Where the Company has knowledge that any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.

77. If:

- (a) any objection shall be raised to the qualification of any voter; or
- (b) any votes have been counted which ought not to have been counted or which might have been rejected; or
- (c) any votes are not counted which ought to have been counted;

the objection or error shall not vitiate the decision of the meeting or adjourned meeting on any resolution unless the same is raised or pointed out at the meeting or, as the case may be, the adjourned meeting at which the vote objected to is given or tendered or at which the error occurs. Any objection or error shall be referred to the chairman of the meeting and shall only vitiate the decision of the meeting on any resolution if the chairman decides that the same may have affected the decision of the meeting. The decision of the chairman on such matters shall be final and conclusive.

77A. Where the Company has knowledge that any Member is, under the rules of any Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.

PROXIES

78. Any Member entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A Member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a Member. In addition, a proxy or proxies representing either a Member who is an individual or a Member which is a corporation shall be entitled to exercise the same powers on behalf of the Member which he or they represent as such Member could exercise.

79. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed,

unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the facts.

80. The instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to such place or one of such places (if any) as may be specified for that purpose in or by way of note to or in any document accompanying the notice convening the meeting (or, if no place is so specified at the Registration Office or the Office, as may be appropriate) not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than twenty-four (24) hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of twelve (12) months from the date named in it as the date of its execution, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within twelve (12) months from such date. Delivery of an instrument appointing a proxy shall not preclude a Member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
81. Instruments of proxy shall be in any common form or in such other form as the Board may approve (provided that this shall not preclude the use of the two-way form) and the Board may, if it thinks fit, send out with the notice of any meeting forms of instrument of proxy for use at the meeting. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates.
82. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal, or revocation of the instrument of proxy or of the authority under which it was executed, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company at the Office or the Registration Office (or such other place as may be specified for the delivery of instruments of proxy in the notice convening the meeting or other document sent therewith) two (2) hours at least before the commencement of the meeting or adjourned meeting, or the taking of the poll, at which the instrument of proxy is used.
83. Anything which under these Articles a Member may do by proxy he may likewise do by his duly appointed attorney and the provisions of these Articles relating to proxies and instruments appointing proxies shall apply mutatis mutandis in relation to any such attorney and the instrument under which such attorney is appointed.

CORPORATIONS ACTING BY REPRESENTATIVES

84. (1) Any corporation which is a Member may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or at any meeting of any class of Members. The person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual Member and such corporation shall for the purposes of these Articles be deemed to be present in person at any such meeting if a person so authorised is present thereat.
- (2) If a clearing house (or its nominee(s)), being a corporation, is a Member, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of Members provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of this Article shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominee(s)) including the right to vote individually on a show of hands.
- (3) Any reference in these Articles to a duly authorised representative of a Member being a corporation shall mean a representative authorised under the provisions of this Article.

WRITTEN RESOLUTIONS OF MEMBERS

85. A resolution in writing signed (in such manner as to indicate, expressly or impliedly, unconditional approval) by or on behalf of all persons for the time being entitled to receive notice of and to attend and vote at general meetings of the Company shall, for the purposes of these Articles, be treated as a resolution duly passed at a general meeting of the Company and, where relevant, as a special resolution so passed. Any such resolution shall be deemed to have been passed at a meeting held on the date on which it was signed by the last Member to sign, and where the resolution states a date as being the date of his signature thereof by any Member the statement shall be prima facie evidence that it was signed by him on that date. Such a resolution may consist of several documents in the like form, each signed by one or more relevant Members.

BOARD OF DIRECTORS

86. (1) Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two (2). There shall be no maximum number of Directors unless otherwise determined from time to time by the Members in general meeting. The Directors shall be elected or appointed in the first place by the subscribers to the Memorandum of Association or by a majority of them

and thereafter in accordance with Article 87 and shall hold office until their successors are elected or appointed.

- (2) Subject to the Articles and the Law, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board.
- (3) Subject to the Articles, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.
- (4) Neither a Director nor an alternate Director shall be required to hold any shares of the Company by way of qualification and a Director or alternate Director (as the case may be) who is not a Member shall be entitled to receive notice of and to attend and speak at any general meeting of the Company and of all classes of shares of the Company.
- (5) Subject to any provision to the contrary in these Articles the Members may, at any general meeting convened and held in accordance with these Articles, by special resolution remove a Director at any time before the expiration of his period of office notwithstanding anything in these Articles or in any agreement between the Company and such Director (but without prejudice to any claim for damages under any such agreement).
- (6) A vacancy on the Board created by the removal of a Director under the provisions of subparagraph (5) above may be filled by the election or appointment by ordinary resolution the Members at the meeting at which such Director is removed.
- (7) The Company may from time to time in general meeting by ordinary resolution increase or reduce the number of Directors but so that the number of Directors shall never be less than two (2).
- (8) Microsoft, so long as it holds any Series A Shares or any Ordinary Shares issued upon conversion of the Series A Shares, shall have the right (but not the obligation) to nominate one (1) person as director of the Company. Microsoft shall have the right (but not the obligation) to nominate up to two (2) persons in aggregate as directors of the Company as long as it holds Series A Shares or Ordinary Shares representing 20% or more of the outstanding voting equity interest of the Company on a fully-diluted basis, provided that the number of directors on the Board is not less than ten (10). In the event that Microsoft disposes of such number of Series A Shares or Ordinary Shares that it would no longer be entitled to nominate a candidate that is a sitting director, such candidate shall be entitled to remain on the Board until the next general meeting of the shareholders.

- (9) Each of Microsoft and IFC, so long as it holds any Series A Shares, shall have the right to veto any nomination of an independent director to be appointed to the Board if it demonstrates that: (i) the nomination does not meet the criteria for qualification as an independent director as stipulated under the applicable rules and regulations; or (ii) the procedures for the nomination and appointment of such independent director have not been followed or satisfied in any material respect.
- (10) For so long as Microsoft and/or IFC holds Series A Shares or Ordinary Shares comprising at least 5% of the voting equity interest of the Company, Microsoft and/or IFC, as applicable, shall have the right, from time to time, and at any time, to designate one individual (the “**Observer**”) to attend all meetings of the Board and all committees thereof (whether in person, by telephone or other) in a non-voting observer capacity. The Company shall provide to the Observer, concurrently with the members of the Board, and in the same manner, notice of such meeting and a copy of all materials provided to such members.

RETIREMENT OF DIRECTORS

87. (1) Notwithstanding any other provisions in the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation.
- (2) A retiring Director shall be eligible for re-election. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Any Director appointed pursuant to Article 86(2) or Article 86(3) shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.
88. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office no earlier than the day after the dispatch of the notice of the meeting and no later than seven (7) clear days before the date appointed for the meeting.

DISQUALIFICATION OF DIRECTORS

89. The office of a Director shall be vacated if the Director:
- (1) resigns his office by notice in writing delivered to the Company at the Office or tendered at a meeting of the Board;
 - (2) becomes of unsound mind or dies;
 - (3) without special leave of absence from the Board, is absent from meetings of the Board for six consecutive months, and his alternate Director, if any, shall not during such period have attended in his stead and the Board resolves that his office be vacated;
 - (4) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
 - (5) is prohibited by law from being a Director; or
 - (6) ceases to be a Director by virtue of any provision of the Statutes or is removed from office pursuant to these Articles.

EXECUTIVE DIRECTORS

90. The Board may from time to time appoint any one or more of its body to be a managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. Any such revocation or termination as aforesaid shall be without prejudice to any claim for damages that such Director may have against the Company or the Company may have against such Director. A Director appointed to an office under this Article shall be subject to the same provisions as to removal as the other Directors of the Company, and he shall (subject to the provisions of any contract between him and the Company) ipso facto and immediately cease to hold such office if he shall cease to hold the office of Director for any cause.
91. Notwithstanding Articles 96, 97, 98 and 99, an executive director appointed to an office under Article 90 hereof shall receive such remuneration (whether by way of salary, commission, participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time determine, and either in addition to or in lieu of his remuneration as a Director.

ALTERNATE DIRECTORS

92. Any Director may at any time by Notice delivered to the Office or head office or at a meeting of the Directors appoint any person (including another Director) to be his alternate Director. Any person so appointed shall have all the rights and powers of the Director or Directors for whom such person is appointed in the alternative provided that such person shall not be counted more than once in determining whether or not a quorum is present. An alternate Director may be removed at any time by the body which appointed him and, subject thereto, the office of alternate Director shall continue until the happening of any event which, if we were a Director, would cause him to vacate such office or if his appointor ceases for any reason to be a Director. Any appointment or removal of an alternate Director shall be effected by Notice signed by the appointor and delivered to the Office or head office or tendered at a meeting of the Board. An alternate Director may also be a Director in his own right and may act as alternate to more than one Director. An alternate Director shall, if his appointor so requests, be entitled to receive notices of meetings of the Board or of committees of the Board to the same extent as, but in lieu of, the Director appointing him and shall be entitled to such extent to attend and vote as a Director at any such meeting at which the Director appointing him is not personally present and generally at such meeting to exercise and discharge all the functions, powers and duties of his appointor as a Director and for the purposes of the proceedings at such meeting the provisions of these Articles shall apply as if he were a Director save that as an alternate for more than one Director his voting rights shall be cumulative.
93. An alternate Director shall only be a Director for the purposes of the Law and shall only be subject to the provisions of the Law insofar as they relate to the duties and obligations of a Director when performing the functions of the Director for whom he is appointed in the alternative and shall alone be responsible to the Company for his acts and defaults and shall not be deemed to be the agent of or for the Director appointing him. An alternate Director shall be entitled to contract and be interested in and benefit from contracts or arrangements or transactions and to be repaid expenses and to be indemnified by the Company to the same extent mutatis mutandis as if he were a Director but he shall not be entitled to receive from the Company any fee in his capacity as an alternate Director except only such part, if any, of the remuneration otherwise payable to his appointor as such appointor may by Notice to the Company from time to time direct.
94. Every person acting as an alternate Director shall have one vote for each Director for whom he acts as alternate (in addition to his own vote if he is also a Director). If his appointor is for the time being absent from Hong Kong or otherwise not available or unable to act, the signature of an alternate Director to any resolution in writing of the Board or a committee of the Board of which his appointor is a member shall, unless the notice of his appointment provides to the contrary, be as effective as the signature of his appointor.

95. An alternate Director shall ipso facto cease to be an alternate Director if his appointor ceases for any reason to be a Director, however, such alternate Director or any other person may be re-appointed by the Directors to serve as an alternate Director PROVIDED always that, if at any meeting any Director retires but is re-elected at the same meeting, any appointment of such alternate Director pursuant to these Articles which was in force immediately before his retirement shall remain in force as though he had not retired.

DIRECTORS' FEES AND EXPENSES

96. The ordinary remuneration of the Directors shall from time to time be determined by the Board and shall (unless otherwise directed by the resolution by which it is voted) be divided amongst the Board in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office. Such remuneration shall be deemed to accrue from day to day.
97. Each Director and each Observer shall be entitled to be repaid or prepaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by him in attending meetings of the Board or committees of the Board or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of his duties as a Director or Observer, as applicable.
98. Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Article.
99. The Board shall obtain the approval of the Company in general meeting before making any payment to any Director or past Director of the Company by way of compensation for loss of office, or as consideration for or in connection with his retirement from office (not being payment to which the Director is contractually entitled).

DIRECTORS' INTERESTS

100. A Director may:
- (a) hold any other office or place of profit with the Company (except that of Auditor) in conjunction with his office of Director for such period and upon such terms as the Board may determine. Any remuneration (whether by way of salary, commission, participation in profits or otherwise) paid to any Director in respect of any such other office or place of profit shall be in addition to any remuneration provided for by or pursuant to any other Article;

- (b) act by himself or his firm in a professional capacity for the Company (otherwise than as Auditor) and he or his firm may be remunerated for professional services as if he were not a Director;
- (c) continue to be or become a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or member of any other company promoted by the Company or in which the Company may be interested as a vendor, shareholder or otherwise and (unless otherwise agreed) no such Director shall be accountable for any remuneration, profits or other benefits received by him as a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or member of or from his interests in any such other company. Subject as otherwise provided by these Articles the Directors may exercise or cause to be exercised the voting powers conferred by the shares in any other company held or owned by the Company, or exercisable by them as Directors of such other company in such manner in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of them directors, managing directors, joint managing directors, deputy managing directors, executive directors, managers or other officers of such company) or voting or providing for the payment of remuneration to the director, managing director, joint managing director, deputy managing director, executive director, manager or other officers of such other company and any Director may vote in favour of the exercise of such voting rights in manner aforesaid notwithstanding that he may be, or about to be, appointed a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer of such a company, and that as such he is or may become interested in the exercise of such voting rights in manner aforesaid.

101. Subject to the Law and to these Articles, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the Members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established provided that such Director shall disclose the nature of his interest in any contract or arrangement in which he is interested in accordance with Article 102 herein.

102. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first considered, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested. For the purposes of this Article, a general Notice to the Board by a Director to the effect that:

- (a) he is a member or officer of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the Notice be made with that company or firm; or
- (b) he is to be regarded as interested in any contract or arrangement which may after the date of the Notice be made with a specified person who is connected with him;

shall be deemed to be a sufficient declaration of interest under this Article in relation to any such contract or arrangement, provided that no such Notice shall be effective unless either it is given at a meeting of the Board or the Director takes reasonable steps to secure that it is brought up and read at the next Board meeting after it is given.

103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or any other proposal in which he or any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange) is materially interested, but this prohibition shall not apply to any of the following matters namely:
- (i) any contract or arrangement for the giving to such Director or his associate(s) (as defined by the rules, where applicable, of any Designated Stock Exchange) any security or indemnity in respect of money lent by him or any of them or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its Subsidiaries;
 - (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its Subsidiaries for which the Director or his associate(s) (as defined by the rules, where applicable, of any Designated Stock Exchange) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
 - (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) (as defined by the rules, where applicable, of any Designated Stock Exchange) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
 - (iv) any contract or arrangement in which the Director or his associate(s) (as defined by the rules, where applicable, of any Designated Stock Exchange) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its Subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;

- (v) any contract or arrangement concerning any other company in which the Director or his associate(s) (as defined by the rules, where applicable, of any Designated Stock Exchange) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director or his associate(s) (as defined by the rules, where applicable, of any Designated Stock Exchange) is/are beneficially interested in shares of that company, other than a company in which the Director and any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange) are not in aggregate beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of his associate(s) (as defined by the rules, where applicable, of any Designated Stock Exchange) is derived);
 - (vi) any proposal concerning the adoption, modification or operation of a share option plan, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associate(s) (as defined by the rules, where applicable, of any Designated Stock Exchange) and employees of the Company or of any of its Subsidiaries and does not provide in respect of any Director, or his associate(s) (as defined by the rules, where applicable, of any Designated Stock Exchange) as such any privilege or advantage not accorded to the employees to which such scheme or fund relates; or
 - (vii) any contract or arrangement in which the Director or his associates (as defined by the rules, where applicable, of any Designated Stock Exchange) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.
- (2) A company shall be deemed to be a company in which a Director owns five (5) per cent. or more if and so long as (but only if and so long as) he and his associates (as defined by the rules, where applicable, of any Designated Stock Exchange) (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) (as defined by the rules, where applicable, of any Designated Stock Exchange) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the Director's interest or that of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange) is in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associates (as defined by the rules, where applicable, of any Designated Stock Exchange) is interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

- (3) Where a company in which a Director together with his associates (as defined by the rules, where applicable, of the Designated Stock Exchange) holds five (5) per cent. or more is materially interested in a transaction, then that Director shall also be deemed materially interested in such transaction.
- (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associates (as defined by the rules, where applicable, of any Designated Stock Exchange) as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director or his associates (as defined by the rules, where applicable, of any Designated Stock Exchange) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.

GENERAL POWERS OF THE DIRECTORS

104. (1) The business of the Company shall be managed and conducted by the Board, which may pay all expenses incurred in forming and registering the Company and may exercise all powers of the Company (whether relating to the management of the business of the Company or otherwise) which are not by the Statutes or by these Articles required to be exercised by the Company in general meeting, subject nevertheless to the provisions of the Statutes and of these Articles and to such regulations being not inconsistent with such provisions, as may be prescribed by the Company in general meeting, but no regulations made by the Company in general meeting shall invalidate any prior act of the Board which would have been valid if such regulations had not been made. The general powers given by this Article shall not be limited or restricted by any special authority or power given to the Board by any other Article.
- (2) Any person contracting or dealing with the Company in the ordinary course of business shall be entitled to rely on any written or oral contract or agreement or deed, document or instrument entered into or executed as the case may be by any two of the Directors acting jointly on behalf of the Company and the same shall be deemed to be validly entered into or executed by the Company as the case may be and shall, subject to any rule of law, be binding on the Company.

- (3) Without prejudice to the general powers conferred by these Articles, but subject to the provisions of these Articles and subject to the rights, privileges or restrictions of any class or classes of shares, it is hereby expressly declared that the Board shall have the following powers:
- (a) To give to any person the right or option of requiring at a future date that an allotment shall be made to him of any share at par or at such premium as may be agreed.
 - (b) To give to any Directors, officers or servants of the Company an interest in any particular business or transaction or participation in the profits thereof or in the general profits of the Company either in addition to or in substitution for a salary or other remuneration.
 - (c) To resolve that the Company be deregistered in the Cayman Islands and continued in a named jurisdiction outside the Cayman Islands subject to the provisions of the Law.
- (4) Except as would, if the Company were a company incorporated in Hong Kong, be permitted by Section 157H of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force at the date of adoption of these Articles, and except as permitted under the Law, the Company shall not directly or indirectly:
- (i) make a loan to a Director or a director of any holding company of the Company or to any of their respective associates (as defined by the rules, where applicable, of the Designated Stock Exchange);
 - (ii) enter into any guarantee or provide any security in connection with a loan made by any person to a Director or such a director; or
 - (iii) if any one or more of the Directors hold (jointly or severally or indirectly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

Article 104(4) shall only have effect for so long as the shares of the Company are listed on The Stock Exchange of Hong Kong Limited.

105. The Board may establish any regional or local boards or agencies for managing any of the affairs of the Company in any place, and may appoint any persons to be members of such local boards, or any managers or agents, and may fix their remuneration (either by way of salary or by commission or by conferring the right to participation in the profits of the Company or by a combination of two or more of these modes) and pay the working expenses of any staff employed by them upon the business of the Company. The Board may delegate to any regional or local board, manager or agent any of the powers, authorities and discretions vested in or exercisable by the Board (other than its powers to make calls and forfeit shares),

with power to sub-delegate, and may authorise the members of any of them to fill any vacancies therein and to act notwithstanding vacancies. Any such appointment or delegation may be made upon such terms and subject to such conditions as the Board may think fit, and the Board may remove any person appointed as aforesaid, and may revoke or vary such delegation, but no person dealing in good faith and without notice of any such revocation or variation shall be affected thereby.

106. The Board may by power of attorney appoint under the Seal any company, firm or person or any fluctuating body of persons, whether nominated directly or indirectly by the Board, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Board under these Articles) and for such period and subject to such conditions as it may think fit, and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board may think fit, and may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretions vested in him. Such attorney or attorneys may, if so authorised under the Seal of the Company, execute any deed or instrument under their personal seal with the same effect as the affixation of the Company's Seal.
107. The Board may entrust to and confer upon a managing director, joint managing director, deputy managing director, an executive director or any Director any of the powers exercisable by it upon such terms and conditions and with such restrictions as it thinks fit, and either collaterally with, or to the exclusion of, its own powers, and may from time to time revoke or vary all or any of such powers but no person dealing in good faith and without notice of such revocation or variation shall be affected thereby.
108. All cheques, promissory notes, drafts, bills of exchange and other instruments, whether negotiable or transferable or not, and all receipts for moneys paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed, as the case may be, in such manner as the Board shall from time to time by resolution determine. The Company's banking accounts shall be kept with such banker or bankers as the Board shall from time to time determine.
109. (1) The Board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's moneys to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit under the Company or any of its Subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such person.

- (2) The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as mentioned in the last preceding paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of or upon or at any time after his actual retirement.

BORROWING POWERS

110. The Board may exercise all the powers of the Company to raise or borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Law and subject to the rights, privileges or restrictions of any class or classes of shares, to issue debentures, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.
111. Debentures, bonds and other securities may be made assignable free from any equities between the Company and the person to whom the same may be issued.
112. Any debentures, bonds or other securities may be issued at a discount (other than shares), premium or otherwise and with any special privileges as to redemption, surrender, drawings, allotment of shares, attending and voting at general meetings of the Company, appointment of Directors and otherwise.
113. (1) Where any uncalled capital of the Company is charged, all persons taking any subsequent charge thereon shall take the same subject to such prior charge, and shall not be entitled, by notice to the Members or otherwise, to obtain priority over such prior charge.
- (2) The Board shall cause a proper register to be kept, in accordance with the provisions of the Law, of all charges specifically affecting the property of the Company and of any series of debentures issued by the Company and shall duly comply with the requirements of the Law in regard to the registration of charges and debentures therein specified and otherwise.

PROCEEDINGS OF THE DIRECTORS

114. The Board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of any equality of votes the chairman of the meeting shall have an additional or casting vote.
115. A meeting of the Board may be convened by the Secretary on request of a Director or by any Director. The Secretary shall convene a meeting of the Board of which notice may be given in writing or by telephone or in such other manner as the Board

may from time to time determine whenever he shall be required so to do by the president or chairman, as the case may be, or any Director.

116. (1) The quorum necessary for the transaction of the business of the Board may be fixed by the Board and, unless so fixed at any other number, shall be two (2). An alternate Director shall be counted in a quorum in the case of the absence of a Director for whom he is the alternate provided that he shall not be counted more than once for the purpose of determining whether or not a quorum is present.
- (2) Directors may participate in any meeting of the Board by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a meeting as if those participating were present in person.
- (3) Any Director who ceases to be a Director at a Board meeting may continue to be present and to act as a Director and be counted in the quorum until the termination of such Board meeting if no other Director objects and if otherwise a quorum of Directors would not be present.
117. The continuing Directors or a sole continuing Director may act notwithstanding any vacancy in the Board but, if and so long as the number of Directors is reduced below the minimum number fixed by or in accordance with these Articles, the continuing Directors or Director, notwithstanding that the number of Directors is below the number fixed by or in accordance with these Articles as the quorum or that there is only one continuing Director, may act for the purpose of filling vacancies in the Board or of summoning general meetings of the Company but not for any other purpose.
118. The Board may elect a chairman and a managing director and determine the period for which they are respectively to hold such office. The chairman of the Board shall preside as chairman of all meetings of directors and in his absence, the managing director shall preside as chairman. If no chairman or managing director is elected, or if at any meeting neither the chairman nor the managing director is present within five (5) minutes after the time appointed for holding the same, the Directors present may choose one of their number to be chairman of the meeting.
119. A meeting of the Board at which a quorum is present shall be competent to exercise all the powers, authorities and discretions for the time being vested in or exercisable by the Board.
120. (1) The Board may delegate any of its powers, authorities and discretions to committees, consisting of such Director or Directors and other persons as it thinks fit, and they may, from time to time, revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes. Any committee so formed shall, in the

exercise of the powers, authorities and discretions so delegated, conform to any regulations which may be imposed on it by the Board.

- (2) All acts done by any such committee in conformity with such regulations, and in fulfilment of the purposes for which it was appointed, but not otherwise, shall have like force and effect as if done by the Board, and the Board shall have power, with the consent of the Company in general meeting, to remunerate the members of any such committee, and charge such remuneration to the current expenses of the Company.
121. The meetings and proceedings of any committee consisting of two or more members shall be governed by the provisions contained in these Articles for regulating the meetings and proceedings of the Board so far as the same are applicable and are not superseded by any regulations imposed by the Board under the last preceding Article.
122. A resolution in writing signed by all the Directors except such as are temporarily unable to act through ill-health or disability, and all the alternate Directors, if appropriate, whose appointors are temporarily unable to act as aforesaid shall (provided that such number is sufficient to constitute a quorum and further provided that a copy of such resolution has been given or the contents thereof communicated to all the Directors for the time being entitled to receive notices of Board meetings in the same manner as notices of meetings are required to be given by these Articles) be as valid and effectual as if a resolution had been passed at a meeting of the Board duly convened and held. Such resolution may be contained in one document or in several documents in like form each signed by one or more of the Directors or alternate Directors and for this purpose a facsimile signature of a Director or an alternate Director shall be treated as valid.
123. All acts bona fide done by the Board or by any committee or by any person acting as a Director or members of a committee, shall, notwithstanding that it is afterwards discovered that there was some defect in the appointment of any member of the Board or such committee or person acting as aforesaid or that they or any of them were disqualified or had vacated office, be as valid as if every such person had been duly appointed and was qualified and had continued to be a Director or member of such committee.

MANAGERS

124. The Board may from time to time appoint a general manager, a manager or managers of the Company and may fix his or their remuneration either by way of salary or commission or by conferring the right to participation in the profits of the Company or by a combination of two or more of these modes and pay the working expenses of any of the staff of the general manager, manager or managers who may be employed by him or them upon the business of the Company.
125. The appointment of such general manager, manager or managers may be for such period as the Board may decide, and the Board may confer upon him or them all or any of the powers of the Board as they may think fit.

126. The Board may enter into such agreement or agreements with any such general manager, manager or managers upon such terms and conditions in all respects as the Board may in their absolute discretion think fit, including a power for such general manager, manager or managers to appoint an assistant manager or managers or other employees whatsoever under them for the purpose of carrying on the business of the Company.

OFFICERS

127. (1) The officers of the Company shall consist of a chairman, the Directors and Secretary and such additional officers (who may or may not be Directors) as the Board may from time to time determine, all of whom shall be deemed to be officers for the purposes of the Law and these Articles.

(2) The Directors shall, as soon as may be after each appointment or election of Directors, elect amongst the Directors a chairman and if more than one (1) Director is proposed for this office, the election to such office shall take place in such manner as the Directors may determine.

(3) The officers shall receive such remuneration as the Directors may from time to time determine.

128. (1) The Secretary and additional officers, if any, shall be appointed by the Board and shall hold office on such terms and for such period as the Board may determine. If thought fit, two (2) or more persons may be appointed as joint Secretaries. The Board may also appoint from time to time on such terms as it thinks fit one or more assistant or deputy Secretaries.

(2) The Secretary shall attend all meetings of the Members and shall keep correct minutes of such meetings and enter the same in the proper books provided for the purpose. He shall perform such other duties as are prescribed by the Law or these Articles or as may be prescribed by the Board.

129. The officers of the Company shall have such powers and perform such duties in the management, business and affairs of the Company as may be delegated to them by the Directors from time to time.

130. A provision of the Law or of these Articles requiring or authorising a thing to be done by or to a Director and the Secretary shall not be satisfied by its being done by or to the same person acting both as Director and as or in place of the Secretary.

REGISTER OF DIRECTORS AND OFFICERS

131. (1) The Company shall cause to be kept in one or more books at its Office a Register of Directors and Officers in which there shall be entered the full names and addresses of the Directors and Officers and such other particulars as required by the Law or as the Directors may determine. The Company shall send to the Registrar of Companies in the Cayman Islands a copy of such register, and shall from time to time notify to the said Registrar of any change that takes place in relation to such Directors and Officers as required by the Law.

MINUTES

132. (1) The Board shall cause minutes to be duly entered in books provided for the purpose:
- (a) of all elections and appointments of officers;
 - (b) of the names of the Directors present at each meeting of the Directors and of any committee of the Directors;
 - (c) of all resolutions and proceedings of each general meeting of the Members, meetings of the Board and meetings of committees of the Board and where there are managers, of all proceedings of meetings of the managers.
- (2) Minutes shall be kept by the Secretary at the Office.

SEAL

133. (1) The Company shall have one or more Seals, as the Board may determine. For the purpose of sealing documents creating or evidencing securities issued by the Company, the Company may have a securities seal which is a facsimile of the Seal of the Company with the addition of the word "Securities" on its face or in such other form as the Board may approve. The Board shall provide for the custody of each Seal and no Seal shall be used without the authority of the Board or of a committee of the Board authorised by the Board in that behalf. Subject as otherwise provided in these Articles, any instrument to which a Seal is affixed shall be signed autographically by one Director and the Secretary or by two Directors or by such other person (including a Director) or persons as the Board may appoint, either generally or in any particular case, save that as regards any certificates for shares or debentures or other securities of the Company the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature. Every instrument executed in manner provided by this Article shall be deemed to be sealed and executed with the authority of the Board previously given.

- (2) Where the Company has a Seal for use abroad, the Board may by writing under the Seal appoint any agent or committee abroad to be the duly authorised agent of the Company for the purpose of affixing and using such Seal and the Board may impose restrictions on the use thereof as may be thought fit. Wherever in these Articles reference is made to the Seal, the reference shall, when and so far as may be applicable, be deemed to include any such other Seal as aforesaid.

AUTHENTICATION OF DOCUMENTS

134. Any Director or the Secretary or any person appointed by the Board for the purpose may authenticate any documents affecting the constitution of the Company and any resolution passed by the Company or the Board or any committee, and any books, records, documents and accounts relating to the business of the Company, and to certify copies thereof or extracts therefrom as true copies or extracts, and if any books, records, documents or accounts are elsewhere than at the Office or the head office the local manager or other officer of the Company having the custody thereof shall be deemed to be a person so appointed by the Board. A document purporting to be a copy of a resolution, or an extract from the minutes of a meeting, of the Company or of the Board or any committee which is so certified shall be conclusive evidence in favour of all persons dealing with the Company upon the faith thereof that such resolution has been duly passed or, as the case may be, that such minutes or extract is a true and accurate record of proceedings at a duly constituted meeting.

DESTRUCTION OF DOCUMENTS

135. (1) The Company shall be entitled to destroy the following documents at the following times:
- (a) any share certificate which has been cancelled at any time after the expiry of one (1) year from the date of such cancellation;
 - (b) any dividend mandate or any variation or cancellation thereof or any notification of change of name or address at any time after the expiry of two (2) years from the date such mandate variation cancellation or notification was recorded by the Company;
 - (c) any instrument of transfer of shares which has been registered at any time after the expiry of seven (7) years from the date of registration;
 - (d) any allotment letters after the expiry of seven (7) years from the date of issue thereof; and
 - (e) copies of powers of attorney, grants of probate and letters of administration at any time after the expiry of seven (7) years after the account to which the relevant power of attorney, grant of probate or letters of administration related has been closed;

and it shall conclusively be presumed in favour of the Company that every entry in the Register purporting to be made on the basis of any such documents so destroyed was duly and properly made and every share certificate so destroyed was a valid certificate duly and properly cancelled and that every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and that every other document destroyed hereunder was a valid and effective document in accordance with the recorded particulars thereof in the books or records of the Company. Provided always that: (1) the foregoing provisions of this Article shall apply only to the destruction of a document in good faith and without express notice to the Company that the preservation of such document was relevant to a claim; (2) nothing contained in this Article shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any case where the conditions of proviso (1) above are not fulfilled; and (3) references in this Article to the destruction of any document include references to its disposal in any manner.

- (2) Notwithstanding any provision contained in these Articles, the Directors may, if permitted by applicable law, authorise the destruction of documents set out in sub-paragraphs (a) to (e) of paragraph (1) of this Article and any other documents in relation to share registration which have been microfilmed or electronically stored by the Company or by the share registrar on its behalf provided always that this Article shall apply only to the destruction of a document in good faith and without express notice to the Company and its share registrar that the preservation of such document was relevant to a claim.

DIVIDENDS AND OTHER PAYMENTS

136. Subject to the Law, the Company in general meeting may from time to time declare dividends in any currency to be paid to the Members but no dividend shall be declared in excess of the amount recommended by the Board.
137. Dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Law.
138. Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide:
- (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for the purposes of this Article as paid up on the share; and
 - (b) all dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

139. The Board may from time to time pay to the Members such interim dividends as appear to the Board to be justified by the profits of the Company and in particular (but without prejudice to the generality of the foregoing) if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend and provided that the Board acts bona fide the Board shall not incur any responsibility to the holders of shares conferring any preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferential rights and may also pay any fixed dividend which is payable on any shares of the Company half-yearly or on any other dates, whenever such profits, in the opinion of the Board, justifies such payment.
140. The Board may deduct from any dividend or other moneys payable to a Member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.
141. No dividend or other moneys payable by the Company on or in respect of any share shall bear interest against the Company.
142. Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address or, in the case of joint holders, addressed to the holder whose name stands first in the Register in respect of the shares at his address as appearing in the Register or addressed to such person and at such address as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the Register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.
143. All dividends or bonuses unclaimed for one (1) year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed. Any dividend or bonuses unclaimed after a period of six (6) years from the date of declaration shall be forfeited and shall revert to the Company. The payment by the Board of any unclaimed dividend or other sums payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof.
144. Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind and in

particular of paid up shares, debentures or warrants to subscribe securities of the Company or any other company, or in any one or more of such ways, and where any difficulty arises in regard to the distribution the Board may settle the same as it thinks expedient, and in particular may issue certificates in respect of fractions of shares, disregard fractional entitlements or round the same up or down, and may fix the value for distribution of such specific assets, or any part thereof, and may determine that cash payments shall be made to any Members upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Board and may appoint any person to sign any requisite instruments of transfer and other documents on behalf of the persons entitled to the dividend, and such appointment shall be effective and binding on the Members. The Board may resolve that no such assets shall be made available to Members with registered addresses in any particular territory or territories where, in the absence of a registration statement or other special formalities, such distribution of assets would or might, in the opinion of the Board, be unlawful or impracticable and in such event the only entitlement of the Members aforesaid shall be to receive cash payments as aforesaid. Members affected as a result of the foregoing sentence shall not be or be deemed to be a separate class of Members for any purpose whatsoever.

145. (1) Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on any class of the share capital of the Company, the Board may further resolve either:
- (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the Members entitled thereto will be entitled to elect to receive such dividend (or part thereof if the Board so determines) in cash in lieu of such allotment. In such case, the following provisions shall apply:
 - (i) the basis of any such allotment shall be determined by the Board;
 - (ii) the Board, after determining the basis of allotment, shall give not less than two (2) weeks' Notice to the holders of the relevant shares of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective;
 - (iii) the right of election may be exercised in respect of the whole or part of that portion of the dividend in respect of which the right of election has been accorded; and
 - (iv) the dividend (or that part of the dividend to be satisfied by the allotment of shares as aforesaid) shall not be payable in cash on shares in respect whereof the cash election has not been duly exercised ("the non-elected shares") and in satisfaction thereof shares of the relevant class shall be allotted credited as fully paid up

to the holders of the non-elected shares on the basis of allotment determined as aforesaid and for such purpose the Board shall capitalise and apply out of any part of the undivided profits of the Company (including profits carried and standing to the credit of any reserves or other special account, share premium account, capital redemption reserve other than the Subscription Rights Reserve) as the Board may determine, such sum as may be required to pay up in full the appropriate number of shares of the relevant class for allotment and distribution to and amongst the holders of the non-elected shares on such basis; or

(b) that the Members entitled to such dividend shall be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit. In such case, the following provisions shall apply:

(i) the basis of any such allotment shall be determined by the Board;

(ii) the Board, after determining the basis of allotment, shall give not less than two (2) weeks' Notice to the holders of the relevant shares of the right of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective;

(iii) the right of election may be exercised in respect of the whole or part of that portion of the dividend in respect of which the right of election has been accorded; and

(iv) the dividend (or that part of the dividend in respect of which a right of election has been accorded) shall not be payable in cash on shares in respect whereof the share election has been duly exercised ("the elected shares") and in lieu thereof shares of the relevant class shall be allotted credited as fully paid up to the holders of the elected shares on the basis of allotment determined as aforesaid and for such purpose the Board shall capitalise and apply out of any part of the undivided profits of the Company (including profits carried and standing to the credit of any reserves or other special account, share premium account, capital redemption reserve other than the Subscription Rights Reserve) as the Board may determine, such sum as may be required to pay up in full the appropriate number of shares of the relevant class for allotment and distribution to and amongst the holders of the elected shares on such basis.

(2) (a) The shares allotted pursuant to the provisions of paragraph (1) of this Article shall rank *pari passu* in all respects with shares of the same class (if any) then in issue save only as regards participation in the relevant dividend or in any other distributions, bonuses or rights paid, made,

declared or announced prior to or contemporaneously with the payment or declaration of the relevant dividend unless, contemporaneously with the announcement by the Board of their proposal to apply the provisions of sub-paragraph (a) or (b) of paragraph (2) of this Article in relation to the relevant dividend or contemporaneously with their announcement of the distribution, bonus or rights in question, the Board shall specify that the shares to be allotted pursuant to the provisions of paragraph (1) of this Article shall rank for participation in such distribution, bonus or rights.

- (b) The Board may do all acts and things considered necessary or expedient to give effect to any capitalisation pursuant to the provisions of paragraph (1) of this Article, with full power to the Board to make such provisions as it thinks fit in the case of shares becoming distributable in fractions (including provisions whereby, in whole or in part, fractional entitlements are aggregated and sold and the net proceeds distributed to those entitled, or are disregarded or rounded up or down or whereby the benefit of fractional entitlements accrues to the Company rather than to the Members concerned). The Board may authorise any person to enter into on behalf of all Members interested, an agreement with the Company providing for such capitalisation and matters incidental thereto and any agreement made pursuant to such authority shall be effective and binding on all concerned.
- (3) The Company may upon the recommendation of the Board by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the provisions of paragraph (1) of this Article a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.
- (4) The Board may on any occasion determine that rights of election and the allotment of shares under paragraph (1) of this Article shall not be made available or made to any shareholders with registered addresses in any territory where, in the absence of a registration statement or other special formalities, the circulation of an offer of such rights of election or the allotment of shares would or might, in the opinion of the Board, be unlawful or impracticable, and in such event the provisions aforesaid shall be read and construed subject to such determination. Members affected as a result of the foregoing sentence shall not be or be deemed to be a separate class of Members for any purpose whatsoever.
- (5) Any resolution declaring a dividend on shares of any class, whether a resolution of the Company in general meeting or a resolution of the Board, may specify that the same shall be payable or distributable to the persons registered as the holders of such shares at the close of business on a particular date, notwithstanding that it may be a date prior to that on which the resolution is passed, and thereupon the dividend shall be payable or distributable to them

in accordance with their respective holdings so registered, but without prejudice to the rights inter se in respect of such dividend of transferors and transferees of any such shares. The provisions of this Article shall mutatis mutandis apply to bonuses, capitalisation issues, distributions of realised capital profits or offers or grants made by the Company to the Members.

RESERVES

146. (1) The Board shall establish an account to be called the share premium account and shall carry to the credit of such account from time to time a sum equal to the amount or value of the premium paid on the issue of any share in the Company. The Company may apply the share premium account in any manner permitted by the Law. The Company shall at all times comply with the provisions of the Law in relation to the share premium account.
- (2) Before recommending any dividend, the Board may set aside out of the profits of the Company such sums as it determines as reserves which shall, at the discretion of the Board, be applicable for any purpose to which the profits of the Company may be properly applied and pending such application may, also at such discretion, either be employed in the business of the Company or be invested in such investments as the Board may from time to time think fit and so that it shall not be necessary to keep any investments constituting the reserve or reserves separate or distinct from any other investments of the Company. The Board may also without placing the same to reserve carry forward any profits which it may think prudent not to distribute.

CAPITALISATION

147. The Company may, upon the recommendation of the Board, at any time and from time to time pass an ordinary resolution to the effect that it is desirable to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and capital redemption reserve and the profit and loss account) whether or not the same is available for distribution and accordingly that such amount be set free for distribution among the Members or any class of Members who would be entitled thereto if it were distributed by way of dividend and in the same proportions, on the footing that the same is not paid in cash but is applied either in or towards paying up the amounts for the time being unpaid on any shares in the Company held by such Members respectively or in paying up in full unissued shares, debentures or other obligations of the Company, to be allotted and distributed credited as fully paid up among such Members, or partly in one way and partly in the other, and the Board shall give effect to such resolution provided that, for the purposes of this Article, a share premium account and any capital redemption reserve or fund representing unrealised profits, may be applied only in paying up in full unissued shares of the Company to be allotted to such Members credited as fully paid.

148. The Board may settle, as it considers appropriate, any difficulty arising in regard to any distribution under the last preceding Article and in particular may issue certificates in respect of fractions of shares or authorise any person to sell and transfer any fractions or may resolve that the distribution should be as nearly as may be practicable in the correct proportion but not exactly so or may ignore fractions altogether, and may determine that cash payments shall be made to any Members in order to adjust the rights of all parties, as may seem expedient to the Board. The Board may appoint any person to sign on behalf of the persons entitled to participate in the distribution any contract necessary or desirable for giving effect thereto and such appointment shall be effective and binding upon the Members.

SUBSCRIPTION RIGHTS RESERVE

149. The following provisions shall have effect to the extent that they are not prohibited by and are in compliance with the Law:

- (1) If, so long as any of the rights attached to any warrants issued by the Company to subscribe for shares of the Company shall remain exercisable, the Company does any act or engages in any transaction which, as a result of any adjustments to the subscription price in accordance with the provisions of the conditions of the warrants, would reduce the subscription price to below the par value of a share, then the following provisions shall apply:
 - (a) as from the date of such act or transaction the Company shall establish and thereafter (subject as provided in this Article) maintain in accordance with the provisions of this Article a reserve (the "Subscription Rights Reserve") the amount of which shall at no time be less than the sum which for the time being would be required to be capitalised and applied in paying up in full the nominal amount of the additional shares required to be issued and allotted credited as fully paid pursuant to sub-paragraph (c) below on the exercise in full of all the subscription rights outstanding and shall apply the Subscription Rights Reserve in paying up such additional shares in full as and when the same are allotted;
 - (b) the Subscription Rights Reserve shall not be used for any purpose other than that specified above unless all other reserves of the Company (other than share premium account) have been extinguished and will then only be used to make good losses of the Company if and so far as is required by law;
 - (c) upon the exercise of all or any of the subscription rights represented by any warrant, the relevant subscription rights shall be exercisable in respect of a nominal amount of shares equal to the amount in cash which the holder of such warrant is required to pay on exercise of the subscription rights represented thereby (or, as the case may be the relevant portion thereof in the event of a partial exercise of the subscription rights) and, in addition, there shall be allotted in respect of such subscription rights to the exercising warrant holder, credited as fully

paid, such additional nominal amount of shares as is equal to the difference between:

- (i) the said amount in cash which the holder of such warrant is required to pay on exercise of the subscription rights represented thereby (or, as the case may be, the relevant portion thereof in the event of a partial exercise of the subscription rights); and
 - (ii) the nominal amount of shares in respect of which such subscription rights would have been exercisable having regard to the provisions of the conditions of the warrants, had it been possible for such subscription rights to represent the right to subscribe for shares at less than par and immediately upon such exercise so much of the sum standing to the credit of the Subscription Rights Reserve as is required to pay up in full such additional nominal amount of shares shall be capitalised and applied in paying up in full such additional nominal amount of shares which shall forthwith be allotted credited as fully paid to the exercising warrant holders; and
- (d) if, upon the exercise of the subscription rights represented by any warrant, the amount standing to the credit of the Subscription Rights Reserve is not sufficient to pay up in full such additional nominal amount of shares equal to such difference as aforesaid to which the exercising warrant holder is entitled, the Board shall apply any profits or reserves then or thereafter becoming available (including, to the extent permitted by law, share premium account) for such purpose until such additional nominal amount of shares is paid up and allotted as aforesaid and until then no dividend or other distribution shall be paid or made on the fully paid shares of the Company then in issue. Pending such payment and allotment, the exercising warrant holder shall be issued by the Company with a certificate evidencing his right to the allotment of such additional nominal amount of shares. The rights represented by any such certificate shall be in registered form and shall be transferable in whole or in part in units of one share in the like manner as the shares for the time being are transferable, and the Company shall make such arrangements in relation to the maintenance of a register therefor and other matters in relation thereto as the Board may think fit and adequate particulars thereof shall be made known to each relevant exercising warrant holder upon the issue of such certificate.
- (2) Shares allotted pursuant to the provisions of this Article shall rank *pari passu* in all respects with the other shares allotted on the relevant exercise of the subscription rights represented by the warrant concerned. Notwithstanding anything contained in paragraph (1) of this Article, no fraction of any share shall be allotted on exercise of the subscription rights.

- (3) The provision of this Article as to the establishment and maintenance of the Subscription Rights Reserve shall not be altered or added to in any way which would vary or abrogate, or which would have the effect of varying or abrogating the provisions for the benefit of any warrant holder or class of warrant holders under this Article without the sanction of a special resolution of such warrant holders or class of warrant holders.
- (4) A certificate or report by the Auditor for the time being of the Company as to whether or not the Subscription Rights Reserve is required to be established and maintained and if so the amount thereof so required to be established and maintained, as to the purposes for which the Subscription Rights Reserve has been used, as to the extent to which it has been used to make good losses of the Company, as to the additional nominal amount of shares required to be allotted to exercising warrant holders credited as fully paid, and as to any other matter concerning the Subscription Rights Reserve shall (in the absence of manifest error) be conclusive and binding upon the Company and all warrant holders and shareholders.

ACCOUNTING RECORDS

150. The Board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.
151. The accounting records shall be kept at the Office or, at such other place or places as the Board decides and shall always be open to inspection by the Directors. No Member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the Board or the Company in general meeting.
152. Subject to Article 153, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the Auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and laid before the Company at the annual general meeting held in accordance with Article 56 provided that this Article shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures.
153. Subject to due compliance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, and to obtaining all necessary consents, if any, required thereunder, the requirements of Article 152 shall be deemed satisfied in relation to any person by sending to the

person in any manner not prohibited by the Statutes, a summary financial statement derived from the Company's annual accounts and the directors' report which shall be in the form and containing the information required by applicable laws and regulations, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

154. The requirement to send to a person referred to in Article 152 the documents referred to in that article or a summary financial report in accordance with Article 153 shall be deemed satisfied where, in accordance with all applicable Statutes, rules and regulations, including, without limitation, the rules of the Designated Stock Exchange, the Company publishes copies of the documents referred to in Article 152 and, if applicable, a summary financial report complying with Article 153, on the Company's computer network or in any other permitted manner (including by sending any form of electronic communication), and that person has agreed or is deemed to have agreed to treat the publication or receipt of such documents in such manner as discharging the Company's obligation to send to him a copy of such documents.

AUDIT

155. (1) At the annual general meeting or at a subsequent extraordinary general meeting in each year, the Members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Such auditor may be a Member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company.
- (2) The Members may, at any general meeting convened and held in accordance with these Articles, by special resolution remove the Auditor at any time before the expiration of his term of office and shall by ordinary resolution at that meeting appoint another Auditor in his stead for the remainder of his term.
156. Subject to the Law the accounts of the Company shall be audited at least once in every year.
157. The remuneration of the Auditor shall be fixed by the Company in general meeting or in such manner as the Members may determine.
158. If the office of auditor becomes vacant by the resignation or death of the Auditor, or by his becoming incapable of acting by reason of illness or other disability at a time when his services are required, or by his removal in accordance with the Articles, the Directors shall fill the vacancy and fix the remuneration of the Auditor so appointed.

159. The Auditor shall at all reasonable times have access to all books kept by the Company and to all accounts and vouchers relating thereto; and he may call on the Directors or officers of the Company for any information in their possession relating to the books or affairs of the Company.
160. The statement of income and expenditure and the balance sheet provided for by these Articles shall be examined by the Auditor and compared by him with the books, accounts and vouchers relating thereto; and he shall make a written report thereon stating whether such statement and balance sheet are drawn up so as to present fairly the financial position of the Company and the results of its operations for the period under review and, in case information shall have been called for from Directors or officers of the Company, whether the same has been furnished and has been satisfactory. The financial statements of the Company shall be audited by the Auditor in accordance with generally accepted auditing standards. The Auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the Auditor shall be submitted to the Members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the Auditor should disclose this act and name such country or jurisdiction.

NOTICES

161. Any Notice or document (including any “corporate communication” within the meaning ascribed thereto under the rules of the Designated Stock Exchange), whether or not, to be given or issued under these Articles from the Company to a Member shall be in writing or by cable, telex or facsimile transmission message or other form of electronic transmission or communication and any such Notice and document may be served or delivered by the Company on or to any Member either personally or by sending it through the post in a prepaid envelope addressed to such Member at his registered address as appearing in the Register or at any other address supplied by him to the Company for the purpose or, as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of Notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the Notice being duly received by the Member or may also be served by advertisement in appropriate newspapers in accordance with the requirements of the Designated Stock Exchange or, to the extent permitted by the applicable laws, by placing it on the Company’s website and giving to the Member a notice stating that the notice or other document is available there (a “notice of availability”). The notice of availability may be given to the Member by any of the means set out above. In the case of joint holders of a share all notices shall be given to that one of the joint holders whose name stands first in the Register and notice so given shall be deemed a sufficient service on or delivery to all the joint holders.

162. Any Notice or other document:

- (a) if served or delivered by post, shall where appropriate be sent by airmail and shall be deemed to have been served or delivered on the day following that on which the envelope containing the same, properly prepaid and addressed, is put into the post; in proving such service or delivery it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly addressed and put into the post and a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board that the envelope or wrapper containing the notice or other document was so addressed and put into the post shall be conclusive evidence thereof;
 - (b) if sent by electronic communication, shall be deemed to be given on the day on which it is transmitted from the server of the Company or its agent. A notice placed on the Company's website is deemed given by the Company to a Member on the day following that on which a notice of availability is deemed served on the Member;
 - (c) if served or delivered in any other manner contemplated by these Articles, shall be deemed to have been served or delivered at the time of personal service or delivery or, as the case may be, at the time of the relevant despatch or transmission; and in proving such service or delivery a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board as to the act and time of such service, delivery, despatch or transmission shall be conclusive evidence thereof; and
 - (d) may be given to a Member either in the English language or the Chinese language, subject to due compliance with all applicable Statutes, rules and regulations.
163. (1) Any Notice or other document delivered or sent by post to or left at the registered address of any Member in pursuance of these Articles shall, notwithstanding that such Member is then dead or bankrupt or that any other event has occurred, and whether or not the Company has notice of the death or bankruptcy or other event, be deemed to have been duly served or delivered in respect of any share registered in the name of such Member as sole or joint holder unless his name shall, at the time of the service or delivery of the notice or document, have been removed from the Register as the holder of the share, and such service or delivery shall for all purposes be deemed a sufficient service or delivery of such Notice or document on all persons interested (whether jointly with or as claiming through or under him) in the share.

- (2) A notice may be given by the Company to the person entitled to a share in consequence of the death, mental disorder or bankruptcy of a Member by sending it through the post in a prepaid letter, envelope or wrapper addressed to him by name, or by the title of representative of the deceased, or trustee of the bankrupt, or by any like description, at the address, if any, supplied for the purpose by the person claiming to be so entitled, or (until such an address has been so supplied) by giving the notice in any manner in which the same might have been given if the death, mental disorder or bankruptcy had not occurred.
- (3) Any person who by operation of law, transfer or other means whatsoever shall become entitled to any share shall be bound by every notice in respect of such share which prior to his name and address being entered on the Register shall have been duly given to the person from whom he derives his title to such share.

SIGNATURES

164. For the purposes of these Articles, a cable or telex or facsimile or electronic transmission message purporting to come from a holder of shares or, as the case may be, a Director or alternate Director, or, in the case of a corporation which is a holder of shares from a director or the secretary thereof or a duly appointed attorney or duly authorised representative thereof for it and on its behalf, shall in the absence of express evidence to the contrary available to the person relying thereon at the relevant time be deemed to be a document or instrument in writing signed by such holder or Director or alternate Director in the terms in which it is received.

WINDING UP

165. (1) The Board shall have power in the name and on behalf of the Company to present a petition to the court for the Company to be wound up upon a special resolution of the Members and subject to the rights, privileges or restrictions of any class or classes of shares.
- (2) A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution of the Members and shall be subject to the rights, privileges or restrictions of any class or classes of shares.
166. (1) Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) (if the Company shall be wound up and the assets available for distribution amongst the Members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such Members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available

for distribution amongst the Members as such shall be insufficient to repay the whole of the paid-up capital such assets shall be distributed so that, a nearly as may be, the losses shall be borne by the Members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

- (2) If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Law, divide among the Members in specie or kind the whole or any part of the assets of the Company and whether or not the assets shall consist of properties of one kind or shall consist of properties to be divided as aforesaid of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of the Members as the liquidator with the like authority shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.
- (3) In the event of winding-up of the Company in Hong Kong, every Member of the Company who is not for the time being in Hong Kong shall be bound, within 14 days after the passing of an effective resolution to wind up the Company voluntarily, or the making of an order for the winding-up of the Company, to serve notice in writing on the Company appointing some person resident in Hong Kong and stating that person's full name, address and occupation upon whom all summonses, notices, process, orders and judgements in relation to or under the winding-up of the Company may be served, and in default of such nomination the liquidator of the Company shall be at liberty on behalf of such Member to appoint some such person, and service upon any such appointee, whether appointed by the Member or the liquidator, shall be deemed to be good personal service on such Member for all purposes, and, where the liquidator makes any such appointment, he shall with all convenient speed give notice thereof to such Member by advertisement as he shall deem appropriate or by a registered letter sent through the post and addressed to such Member at his address as appearing in the register, and such notice shall be deemed to be service on the day following that on which the advertisement first appears or the letter is posted.

INDEMNITY

167. (1) The Directors, Secretary and other officers and every Auditor for the time being of the Company and the liquidator or trustees (if any) for the time being acting in relation to any of the affairs of the Company and everyone of them, and everyone of their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; and none of them shall be answerable for the acts, receipts, neglects or defaults of the other or others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto; PROVIDED THAT this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.
- (2) Each Member agrees to waive any claim or right of action he might have, whether individually or by or in the right of the Company, against any Director on account of any action taken by such Director, or the failure of such Director to take any action in the performance of his duties with or for the Company; PROVIDED THAT such waiver shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director.

**AMENDMENT TO MEMORANDUM AND ARTICLES OF ASSOCIATION AND
NAME OF COMPANY**

168. Subject to the rights, privileges or restrictions of any class or classes of shares, no Article shall be rescinded, altered or amended and no new Article shall be made until the same has been approved by a special resolution of the Members. A special resolution shall be required to alter the provisions of the memorandum of association or to change the name of the Company.

INFORMATION

169. No Member shall be entitled to require discovery of or any information respecting any detail of the Company's trading or any matter which is or may be in the nature of a trade secret or secret process which may relate to the conduct of the business of the Company and which in the opinion of the Directors it will be inexpedient in the interests of the members of the Company to communicate to the public.

Unless the context requires otherwise, the capitalised terms used herein shall have the same meanings as defined in the shareholders' circular dated 2 December 2005 of Chinasoft International Limited (the "Company"), of which this notice of extraordinary general meeting forms part:–



中 软 国 际

CHINASOFT INTERNATIONAL LIMITED

中 软 國 際 有 限 公 司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8216)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "EGM") of Chinasoft International Limited (the "Company") will be held at 27th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong at 3:00 p.m. on Wednesday, 28 December 2005 for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendment, as ordinary and special resolutions of the Company:–

ORDINARY RESOLUTION

- (1) **"THAT:**–
- (a) upon the adoption of the Re-stated Memorandum and Articles by the Company, the authorised share capital of the Company be and is hereby increased from HK\$75,000,000 divided into 1,500,000,000 Ordinary Shares to HK\$106,250,000 divided into 1,500,000,000 Ordinary Shares and 625,000,000 redeemable convertible preferred shares (the "**Series A Preferred Shares**"), with the respective rights and privileges, and subject to the restrictions, set forth in the Restated Memorandum and Articles; and
 - (b) the Directors be and are hereby authorised to do all such acts and things as they consider necessary or expedient to give effect to the issue of the Series A Preferred Shares on the terms set out in Resolution (3) below and the foregoing arrangements";

SPECIAL RESOLUTIONS

- (2) **"THAT,** the adoption of the Re-stated Memorandum and Articles to replace, in their respective entirety, the Memorandum and the Articles with effect from the close of this meeting;
- (3) **"THAT,** subject to the passing of Resolutions (1) and (2): –
- (a) the issue by the Company of the Series A Preferred Shares pursuant to the terms of the Subscription Agreement, the Investors' Rights Agreement and the

* *For identification purpose only*

APPENDIX 3 NOTICE OF EXTRAORDINARY GENERAL MEETING

relevant provision in the Re-stated Memorandum and Articles and, in particular, the grant of anti-dilution rights to the holders of Series A Preferred Shares stated in the Re-stated Memorandum and Articles be and are hereby approved; and

- (b) the Directors be and are hereby authorised to do all such acts and things as they consider necessary or expedient to give effect to the Subscription Agreement, the Investors' Rights Agreement and all such other agreements and documents that are required to be executed for the purpose of issuing the Series A Preferred Shares”;
- (4) “**THAT**, subject to the passing of Resolutions (1), (2) and (3): –
- (a) the entering into the Commercial Agreement which will constitute continuing connected transactions of the Company be and is hereby approved, together with the relevant annual caps of the amount of transactions to be entered into by members of the Group thereunder; and
 - (b) the Directors be and are hereby authorised to do all such acts and things as they consider necessary or expedient to give effect to the Commercial Agreement in full compliance with its terms and the applicable requirements under the GEM Listing Rules”.

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

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

Principal Place of Business in Hong Kong:–
Units 4607-08, 46th Floor,
COSCO Tower,
No. 183 Queen's Road Central,
Hong Kong

Hong Kong, 2 December 2005

APPENDIX 3 NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:–

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