中软国际

ChinaSoft International Limited
中軟國際有限公司*

2011 ANNUAL REPORT

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

中軟國際

* for identification purpose only

Contents

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Chairman of the Board's Report

Dear shareholders,

Year 2011 marks the opening year of the Company's development for the next decade. The Company's service revenue amounted to RMB1.96 billion, representing an increase of 42.6% as compared to that of the previous year. Segmental result reached RMB219 million, representing a year growth of 31.3%, with significant growth recorded at all business lines as the total number of employees approaching 15,000 people.

In 2011, though confronted with challenges from rigorous economic situation and fierce market competition, all our business lines, however, presented strong performance in business under the efforts made by our ten thousand strong staff with aspiration, courage and wisdom. As compared with those of the previous year, the service revenue of the government and manufacturing business line increased by 59% to RMB580 million; the service revenue of the banking, financial services and insurance business line increased by 28.9% to RMB350 million; the service revenue of the IT outsourcing business line increased by 40.5% to RMB960 million; while the service revenue of the training business line increased by 27.4% to RMB69 million.

Year 2011 is a year of reform for the Company. As you know, starting from our listing on 2003 and up to now, the Company has maintained a CAGR of 55% in service revenue and realised basically the goal of corporate scale development. The Company is about to enter the new phase of development that would be rapid and healthy, great and strong, i.e., a new phase of development by strides. To stride, we have first to have the Company's management surmounted themselves, which requires a baptism in thought, a reform in organisation, a reinforcement in system, thereby laying a solid foundation for everlasting corporate development. The third "Strategic Days" activity held by the Company at Qingling, Xian has finalised the strategic deployment to adjust organisation structure, integrate business resources, establish excellence system and prepare and build professional services, outsourcing services and emerging services, our three major business groups, that the successful operation of this POE structure will signify the Company's entering the "new phase of development by strides" and help realise the Company's objective to become a top 50 global software and information services enterprise in year 2015.

During the reporting period, the Company introduced Legend's Hony Capital as strategic investor, such that both parties entered into a strategic cooperation partnership. By grafting the brand name, industry recognition of Hony Capital and its resources on the capital market, the Company will act as a platform enterprise who will conduct integration of the information service industry. The introduction of Hony Capital's as our largest significant shareholder would be the Company's "magic cudgel", which will support the management to run the business without distractions, support the Company to engage in acquisition and merger at home and abroad, and become a powerful backing to fuel the market deployment of the Company. Meanwhile, enterprises associated with Legend and Hony Capital are themselves word-class players, which in return are the best targets for the Company in exploring its cornerstone customers.

During the reporting period, the Company has deepened its strategic cooperation with Microsoft Corporation that Microsoft Corporation has converted all preferential shares held by it to ordinary shares, signifying its confidence in the development of Chinasoft International as well as its intention to further this cooperation.

Chairman of the Board's Report

It goes without saying that our operation in 2011 has faced immense pressure, particularly the pressure posted by rising labor costs. Judging from the position in which our service value chain stands, the scale service would be indeed confronted with the continued pressure of rising labor costs on profit of operation. The Company considers it essential to shift our service delivery to third tier cities in a quality and low cost way. During the reporting period, acting on the strategy of "building R&D and delivery bases in third tier cities", the Company settled in Gaoxin District, Xian, where a ten-thousand people development and delivery base will be built at Soft New City there. The Company will utilise the strength of human resources, cost and geological hub of Xian to build "one park comprising three bases", namely Chinasoft International Science and Technology Park comprising R&D base centered on new technologies like cloud computing, middleware platform, mobile internet and internet of things; delivery base centered on delivery services like ITO and BPO for provision of strategic outsourcing services, strategic customer offshore R&D center, information center, shared service center; and training base centered on provision of customised training, project training, certification training and corporate staff training. This structural deployment will back the Company in a very long run that may offset pressure of rising costs and safeguard continued and healthy development of our business.

Looking ahead in 2012, the Company embraces a new historical opportunity to establish a joint venture with Huawei. Subsequent to the reporting period, we have just announced the entering into an equity participation agreement with Huawei to form a software IT outsourcing flagship, and it has been our objective to become a core strategic cooperation partner of Huawei. All the time, it has been the long-cherished wish of me and the Company's management to establish strategic cooperation partnership relationship with such a leader enterprise as Huawei, to learn from Huawei, a model domestic enterprise, and to emulate Huawei which by itself accomplishes the whole software service industry. Thanks to the major shareholders for their heartfelt support! We will start from being an outstanding supplier of Huawei by constructing an excellent operation system featuring strategic planning, quality management, project management, customer satisfaction etc, such that our organisation and flow, quality system and human resources system are aligned strictly with those of Huawei, in order to become its most reliable strategic cooperation partner in respect of the outsourcing services. Further, we will provide outsourcing services to customers of Huawei until cross sale of self proprietary intellectual property right industry application solutions are done with Huawei. We anticipate the opportunity to form a value chain with Huawei so as to ascertain the global market configuration and to serve customers of Huawei across the globe. All big customers of Huawei are world class, and our way to become a word class service enterprise is to serve world class enterprises. Thus it is believed that the successful operation of the joint venture is of significance and upcoming in a short run.

Year 2012 will be a year full of challenges. We shall carry out our corporate philosophy advocating "to create, to share and to grow with China", steady our correct direction, execute our deployment resolutely and persist in our team spirit, with an aim to realise the Company's three year development planning for 2010-2012.

We would like to call for your continuous support. Thanks for your unceasing support too!

Yours sincerely,

Chen Yuhong
Chairman of the Board, CEO

Business Overview

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

Business Approach

The industries that the Group's business mainly covers include:

- Government and Enterprises
- Manufacturing and Circulation
- Financial Services and Banking
- Insurance and Securities
- Telecommunications
- High Technology
- Public Service
- Training

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

- Professional Services
    - Strategy and Business Consulting, IT Consulting
    - Vertical Application Software and Solution Development, Integration and Maintenance

- Outsourcing Services
    - Product Engineering
    - Application Development and Maintenance
    - Enterprise Application Service
    - Business, Engineering and Knowledge Process Outsourcing (BPO, EPO and KPO)

Business Overview

Vertical Lines

Government and Enterprises

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

During the reporting period, the Group was able to further consolidate its market position in the industry's information management area by winning tenders for a variety of large software development and solutions projects in this industry. In the area of auditing, the Group maintains its leading position as a manufacturer in the auditing industry. During the reporting period, the Golden Auditing Project had been reaching its peak, and the Group's new businesses, such as "private cloud" in auditing and BPO service, had established their preferable market condition, and officially launched society network auditing system (basic version), audit management system (1+N version), etc.; the Group had been awarded the tender from the Ministry of Finance for the transaction managing system project and Fiscal Revenue and Expenditure Statistical Analysis System Project and had successfully gained assess to the core financial business system; awarded the tender from the Ministry of Environment Protection, for emission reduction support platform and system integration project, National Environmental Information and Statistical Capacity Building Project, as well as the underground water environmental base condition inspection information system; awarded the tender of the "Information Sharing and Service System" project by the Chinese Academy of Agricultural Sciences, another significant breakthrough in agricultural research following the Golden Agriculture Project. Another significant achievement of the Group in the intensive meteorology industry is the tender awarded for the early warning system for sandstorms and the early warning system for low temperature and cold damage of the Nation Meteorological Center of China Meteorological Administration. It had also awarded the tender for the "Upgrade of the Network of Chinese Reporters" by the General Administration of Press and Publication. R1 ESB products had successfully awarded the tender for basic software procurement contracts by the Ministry of Environment Protection.

In the area of large enterprises, the Group mainly focuses on business expansion by signing contracts with China South Industries Group Corporation regarding an information system for comprehensive risk implementation and winning the tender of the collective project of China National Gold Group Gold Jewellery Co., Ltd. During the reporting period, leveraging on the advantages of "IT+Enquiry ", the Group won the tender of the "Cooperative Office System Typical Design Project of China Southern Power Grid Co., Ltd.", making a remarkable breakthrough for Chinasoft International in the area of electrical informationalisation. The Group had been awarded the tender of the project of "Jiulong's Electricity, Automobile Charging and Public Transportation Service Platform", which further solidify its position in the power and electricity industry. It had been also awarded the tender of the IT Scheme Project of Taiyuan Institute of China Coal Science and Industry Group.

Manufacturing and Circulation

After years of efforts, the Group's manufacturing business covers tobacco, machinery, automobile, steel, pharmaceutical, printing, etc. As a strategic partner in tobacco industry information services, the Group is in a leading position among many IT providers. The Group provides its customers in the manufacturing industry with application software and solutions development, integration, and operation and maintenance services such as ERP, CRM, Manufacturing Execution Systems (MES), Logistics Execution Systems (LES), Safety Production Management, Enterprise Application Integration, Warehouse Management System, and Goods Tracking and Tracing. The Group's main clients include China National Tobacco Corporation, SinoSteel, Pfizer Pharmaceuticals Limited, China Banknote Printing and Minting Corporation and Harbin Electric Machinery Company Limited.

During the reporting period, it had been awarded the tender of various MES projects in the tobacco industry, which revealed a monopolised position of MES orientation in the industry. It continued to push for the localised operation services and expand coverage of operation and maintenance market at the provincial level. Various MES projects were smoothly implemented in the industry. Internal control and management systems were developed and implemented within some provinces, to supplement and improve the operation and supervision in the tobacco industry. Breakthroughs were made in MES projects in non-tobacco industries, and the banknote printing and minting industry was initially shaped up, winning the tender of "Research and Development Program of Database Sharing Platform for China Banknote Printing and Minting Corporation"; in the area of medicine, the Group won the tender of Pfizer's FACE System Project; and rewarded the tender of Implementation Information System Project for Harbin Electric Machinery's Production, successfully entering into the major technology and equipment industry.

Financial Services and Banking

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

During the reporting period, the deficiency-free startup of the new generation of Shanghai Bank credit card system deficiency and the successful start-up of the card system of Ping An Bank received high appreciation from the customers. The Group won the tender of Credit Card System Development and Operation and Maintenance Project of China Everbright Bank, which further consolidated leading position of Chinasoft International in credit card's high-end service market. Certain scope of outsourcing revenues were generated from HSBC, Ping An and Unionpay, which can be seen as indicators of the rise of end-to-end service in the financial industry. The Group also signed the contract of "New Hefei Pass" financial IC Card Project in relation to the initial issue of low value cards that meet the PBOC2.0 standard of the Central Bank in areas where smart cards applied, which was the first time for financial IC redevelopment projects being introduced to the industry.

Business Overview

Insurance and Securities

The Group dedicated to the IT service in financial industry over the years. In general, with the experience in the payment and clearing system, enterprise management and risk control, the R&D, implementation and application on business intelligence software and in light of the market demand for management informationalisation in the current insurance and securities industry, it launched management solutions for the insurance and securities industry.

During the reporting period, the Group had passed the completion checking carried out by China Pacific Insurance Group for the rating system for life insurance institutions and won the tender for the Continual Improvement Project for Life Insurance IDS System and Core Operation Platform Project for Life Insurance Maintenance of China Pacific Insurance Group, marked the further expansion of the Group in the business of China Pacific Insurance It successfully signed the contract for the Great National Database Project for China Pacific Life Insurance. The Group formally launched its products with intelligent property rights, such as TOP FXGL (software for risk management and information)/TOP GLICBS (software for core businesses of life insurance and group insurance)/TOP IVMS (software for insurance policy management). The Group signed the 2011 Outsourcing Framework Agreement with the enterprises under Ping An Insurance (Group) Company of China, Ltd., including Ping An Technology (Shengzhen) Co., Ltd., Shenzhen Ping An Bank Co., Ltd. and Ping An Securities Co., Ltd., to conduct a collaboration between outsourcing and human resources with a new pattern.

Telecommunications

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

During the reporting period, the Group maintained a strategic partnership with a world-leading Chinese telecom equipment provider and became the largest supplier of its research institute in Xi'an; the Group made outstanding results in the first half of the year among its other outsourcing suppliers in terms of performance, with three of five of the product lines ranked the first. The Group obtained satisfactory recognition in various regions and from research institutes in performance appraisals during the second half of the year. The Group also cooperated with a world-known telecom equipment provider and provided RCS (Rich Communication Suite) to an overseas telecom operator, in order to commence the expansion of the Group's telecom products in overseas markets. The Group signed the "Reading Trend" Platform Project, which was the key project under the "Twelve Five-Year Plan" in relation to the press and publishing industry in Fujian, with Fujian Communication and Information Agency; both the Head of the Ministry of the Industry and the State Administration of Radio, Film, and Television did paid close attention to the readers of Fabulous Newspaper (睛彩報紙) which was developed by China Broadcasting Corporation while new functions like voice newspaper were highly appreciated by readers.

Business Overview

High Technology

The Group provides its MNC customers in the hi-tech industry with comprehensive and personal services, and its Centers of Excellence (COE) all over the world have realised flow-line standardised delivery. The Group has established comprehensive strategic partnerships with its clients in outsourcing services, and promotion and training of solutions, securing sustained and steady growth of business. As shown in IDC market research, the Group was ranked among the top four for the overall market of off-shore outsourcing in China, among the top two in the market segments in Europe and America, and was awarded "Top 100 Outsourcing Service Providers in the World" for four consecutive years by IAOP (International Association of Outsourcing Professionals). The Group provides its customers in the hi-tech industry with services including product engineering, application development and maintenance (ADM), enterprise application services (EAS), and BPO and KPO services. The Group main customers are some of the world's fortune 500 hi-tech companies such as Microsoft, IBM, NEC, Hitachi, and Panasonic and so on. The Group serves as the first "Global Premier Vendor" of Microsoft Corporation in China.

During the reporting period, the Group is the largest supplier of Microsoft in China with the most rapid growth and the first Chinese supplier entering top10 among over 3000 suppliers of Microsoft. It signed the Development Test Agreement with Microsoft Corporation GFS (Global Functional Service Centre), which was the first cooperation between the Group and Microsoft GFS. It was the only one who was awarded the outstanding supplier of the year among all software suppliers of TD Tech. For particular clients who were awarded Top 100 Strategic Clients in the World, it implemented the deployment of software operation, maintenance and management business driven by software development outsourcing business and successfully signed an operation and maintenance service contract for Oracle ERP between China and England for a term of three years. It successfully expanded the Managed Service business by completing the first managed service for basic structure—construction of information center for certain clients, and entered smoothly into the second phrase of negotiation. It successfully expanded the outsourcing business of certain well-known ERP software manufacturers in Mainland China and achieved outstanding results with the second rank among the nine cooperative partners and a total of nineteen projects. It successfully developed the outsourcing projects in Jinan District by signing a cooperative agreement with Shandong Taixin(Jinan). It signed another manpower outsourcing contract with Xi'an Kingdee following the previous cooperation; and successfully signed a contract for the financial process outsourcing business of particular enterprises who were awarded Top 500 Enterprises in the World, achieving breakthroughs in high-level business process outsourcing in the financial area.

Public Service

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

Business Overview

During the reporting period, the Group had been awarded the tender for the railway traffic payroll system in Wuxi, Ningbo, Shanghai (Line No. 11 and Line No. 13), Tianjin (Line No. 1). The ACC system of Chongqing Rail Transit and the "Beijing Suburban Railway Line S2 Smart Card Project" officially commenced operation. Smart cards were introduced to the railway system for the first time after applying in more than 30 cities in the Mainland. Qin Dao Card ETC project, the first ETC project of the Group, passed the trialoperation, which was a successful attempt for public service providers to expand new business and explore in new domains. It signed a contract for the Convenience Card Platform Construction Project with a domestic notable operator, which was another involvement in the mobile payment platform market after the Shanghai "mobile-wallet" project. It also obtained the Central Bank collaboration supporting provider payment licenses, which enable it to participate in payment business and occupy its commanding height in the industry. Besides, it participated in turning Shanghai into a Smart City and created the first public service platform for electronic billing in the country. It was chosen to be the S1 service provider of Shanghai Mobile, which further strengthened the strategic cooperation with Shanghai Mobile.

Training

The Group's Excellence Training Center (ETC) is a practical training base of computer technology for college students, as certified by the Ministry of Education of China, and it is one of the industry's leading brands for mid- to high-end IT training. Through cooperation with colleges and universities, practical training based upon real positions and projects are provided for college students with majors in computer sciences or other related areas. Practical training courses for these prospective employees adopt the 5R (Real Working Environment, Real Project Managers, Real Training Projects, Real Work Pressure, Real Job Opportunities) curriculum as the platform, including practical training in technical projects and professional quality training, striving to turn the trainees into practical IT talents through tests and assessments in the shortest possible time. So far, the Group has established training centers in Beijing, Tianjin, Dalian, Changsha, Wuxi, Chongqing, Xiamen, and Nanjing.

As the human resources supply platform, based on many years experiences of providing customised training to employees for large enterprises, ETC's business model has become increasingly mature. With its excellent partnerships with colleges and universities, a huge number of student resources, and the recruiting channels that cover the whole country, the Group is able to quickly customise a human resources pool according to the needs of the customer. Meanwhile, in order to quickly respond to and meet the Group's clients' requirements for customised training, ETC has achieved the capability of delivery upon confirmed orders by employers through the construction of menu-style standardised customised curriculum system consisting of the business characteristic module, the practical virtualisation module, and the vocational skills and quality module.

During the reporting period, the Group participated in the "Campaign of Cultivating Excellent Engineers" of the Ministry of Education of the PRC that had made milestone achievements. The Group also developed deep-level cooperation with 41 colleges (accumulative total of 59), of which 27 institues/professional colleges were jointly built (accumulative total of 36). This helped supply the Group with junior technicians for business scale of all kinds on an ongoing basis. For example, in 2011, hundreds of personnel were trained by ETC for certain outsourcing business department; the Group also participated in the "Excellent Engineer Campaign" of the Ministry of Education, developed "practical education center" solution; proactively developed "the Internet of things laboratory", "mobile internet laboratory", and promoted to the high schools of the deep cooperation. The Group undertook the profession change and technique enhancement training classes for unemployed university graduates in Liaoning Province and passed the interim examination carried out by Liaoning Povincial Department of Human Resources and Social Security. It participated in the construction of T-Zone Industrial Park of China Nanjing Software Valley and jointly built up a talent service platform and talent supply system in the software industry.

OUR SERVICES AND SOLUTIONS

The Group provides end-to-end services from IT consulting and technology services to outsourcing services, such a business layout will be the guarantee to the sustained and steady growth of the Group's business.

Consulting and Technology Services

Consulting services lie at the top end of the business value chain of the Group, and over the years the Group has always been dedicated to the incorporation of consulting methodology with the information technology practices of China's enterprises. Based on the consulting-driven business model, as China's leading enterprise in the solutions field, the Group focuses on providing integrated information technology services of the industry. The Group's consulting and technology services usually take a contract-based fixed-pricing model.

1. Strategy and Business Consulting, IT Consulting

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

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

Business Overview

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

The Group provides customers in a variety of industries with End-To-End process services that include industry application softwares and solutions. In the rapidly developing market in China, industry and corporate customers not only need technology solutions that address certain types of business problems, but also have a lot of requirements for integration with other business applications. The Group uses R1 to penetrate through the entire project cycle of "Planning – General Design – Development – Overall Integration – Operation and Maintenance," in which the integration methodology of the Group has been incorporated, including:

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

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

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

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

After years of hard work and the successful practice of a large number of projects, the Group's already has great industry service capability, customer service capability, regional service capability and large project service capability. Relying upon the R1, the Group's focuses on the process control in the development and business management, while adhering to standard requirements of quality control systems ISO9001, ISO20000, ISO27001 and CMMI, fully ensuring the service quality and delivery time.

The main solutions and products that the Group provide include:

Category	Solutions and Products
Government Industry Solutions	Auditing and Supervision Management
	Social Insurance and Welfare Management
	State-owned Assets Management
	Food and Drug Administration Management
	Meteorology and Scourge Warning
	Execution Permission Management
	Government Decision Support System
	Online Applications and Approvals
	Office Automation
	Citizen Portal
Manufacturing and Distribution Industry Solutions	Enterprise Resource Planning(ERP)
	Customer Relationship Management(CRM)
	Manufacturing Execution System(MES)
	Logistics Execution System(LES)
	Safety Production Management
	Warehouse Management System(WMS)
	Enterprise Application Integration(EAI)
	Goods Tracking and Tracing

Business Overview

Category	Solutions and Products
Financial Industry Solutions (Banks, Insurance Companies)	Payment and Clearing System
	Collection System for Credit Consumption Invoice
	Credit Management System
	Bank Card System
	Credit Card Management System
	Risk Control System
	E-Marketing
	Supply Chain Finance
	Insurance Business System
	Insurance E-Commerce System
	Insurance Exhibition Industry Support System
	Reinsurance Business System
	Image Management System
	Insurance Sales Management System
	Insurance Task Quality Analysis & Monitoring System
	Insurance Audit System
Transportation Industry Solutions	Smart Card
	Automatic Fare Collection (AFC) System
	AFC Clearing Center(ACC)
	Intelligent Transportation
	Airport Operating Management System

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

Business Overview

Outsourcing Services

The Group always commits to providing global customers with complete, flexible, and scalable high quality IT outsourcing services. With experienced management and technology specialists as well as a variety of delivery models, the Group is able to adapt to the changing business and technologies. At the same time, with the assistance of strong telent providing ability at Excellence Training Centers (ETCs), the Group can integrate the needs for talent supply across customers of various industries, so as to provide customers with high-quality, low cost outsourcing services. The Group's outsourcing services usually take the pricing model based on time and materials cost.

1. Product Engineering

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

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

2. Application Development and Maintenance

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

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

3. Enterprise Application Service

The Group provides its enterprise application services based on consultation. While remaining standard functions of system application unchanged, the Group takes into consideration differences in needs for personalisation of enterprises, catch on managerial needs, propose an application service solution meeting their needs, and enhance management quality of enterprises to realise goals of supporting business of enterprises.

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

4. BPO, EPO and KPO

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

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

COMPETITION AND CORE STRENGTH

1. Highly Competitive Industry Experience

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

2. End-to-end Service Model

The foundation for the Group's continued and steady business growth was laid with the end-to-end business layout that has integrated consulting, technology services, outsourcing and training into one system. The Group offers customers consulting services combined with its industry experience, seek to have breakthroughs driven by consulting, help customers truly solve their problems through technology services, and provide outsourcing services according to customer needs. Cross-selling of different services to the same customer improves customer loyalty.

3. Ability of Global Delivery

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

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

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

Business Overview

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

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

As of 31 December 2011, the Group had 14,496 employees, mainly distributed in regions such as China, Hong Kong, Japan, the United States, and the United Kingdom. Among which, project managers, senior technicians and consultants accounted for one tenth of the total number of technicians who had outstanding IT skills, extensive management experience, deep industry knowledge, and most of them had worked in the Group for more than five years, fully identifying themselves with its corporate culture. Meanwhile, in order to maintain the stability of the Group's core staff, the Group has developed clear mechanism of talent promotion, incentive and training.

The Group collaborates with 400 universities and educational institutions, its ETCs established in Beijing, Tianjin, Dalian, Changsha, Wuxi, Chongqing, Xiamen, Nanjing, and Xi' an developed practical training courses customised to the specifics of the Group's business department. The business department can participate in course design, process tracking and evaluation, select high-quality students from the large training resource pool to ensure a steady stream of practical talent supply.

6. A Win-Win strategic cooperation

The Group established a comprehensive cooperationon various aspects, such as investment and business, with a number of world-class strategic partners, which allowed them to share client's data and finally achieve a win-win situation. In the middle of 2011, Legend Hony became a substantial shareholder of the Group. As a major information technology supplier of Legend Hony and its invested enterprises, the Group will become the core enterprise and act as an integrated platform for Legend Hony to make investments in the information technology area in the future; in the same year, the Group and Huawei entered into a strategic cooperation agreement, pursuant that both parties would establish a joint venture company in 2012, aiming at building a business process and IT outsourcing service company that will get a foothold in the PRC and serve the globe.

BUSINESS STRATEGIES

The Group's goals are to maximise shareholder value, and constantly consolidate and enhance its leading position as a provider of consulting and technology services, and outsourcing services. To achieve these goals, the Group implements the following core strategies:

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

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

Provide software services for the world through the increase in market shares in telecom industry. According to IDC's "China Telecom IT Solution 2011-2015 Forecast and Analysis" the compound annual growth rate of telecom industry IT solutions will increase at 12.3% during 2010-2015, and by 2015 will reach a scale of more than RMB21.58 billion. Meanwhile, with the rapid development of mobile applications and telecom carriers continuing to increase network bandwidth, telecom value-added services and mobile internet market have brought huge business opportunities. As an IT services provider of China's major telecommunication operators, telecommunication equipment manufacturers and internet companies, the Group focuses on developing telecom value-added services and mobile internet business, in order to obtain the scale growth of revenue in this area. Meanwhile, the Group continues to expand the software outsourcing and solutions business globally in the industry by cooperating with major enterprises that engage in the telecom field.

Seek for strategic acquisitions, joint ventures, alliances to improve business deployment and enhance competitiveness. The Group believes that selective strategic acquisitions can help us expand its business coverage amid the rapid growth in the demand for IT in the PRC and all over the world to improve its business deployment, enhance its competitiveness and capture opportunities arising in the market.

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

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

Enhance the Group's operation. The implementation of ERP (enterprise resources planning) systems will improve the Group's human resources, finance, sales and procurement processes, increase efficiency, improve the Group's operations and management, and save administrative costs.

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

HISTORY OF BUSINESS DEVELOPMENT

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

Business Overview

In 2003, the Group had its IPO with the GEM (Growth Enterprise Market) of the Hong Kong Stock Exchange. Supported by the capital platform, the Group adopted a new development model of organic growth together with growth through mergers and acquisitions, leading to rapid growth in both performance and size. The Group's service industries expanded from government to government-led large-scale manufacturing, and the Group gradually underwent transformation from a traditional distributor and integrator of hardware and software to a solutions provider. At the same time, it adhered to independent research and development, upgraded R1 to V3.0 based on the SOA architecture, and successfully promoted it to multiple vertical industries.

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

In 2007, the Group completed the acquisition and integration of Hinge Global Resources, thus extended its service industries to financial, transportation and other important areas and adding specialised BPO services. With uits comprehensively developed technique advantages and industry position, the Group became a top SOA partner of International Business Machines Corporation (IBM), and together to build the the Group's SOA Innovation Center. The Group's Excellence Training Centers (ETCs) set up practical training bases, in Beijing, Changsha, Dalian, Wuxi, Chongqing, Xiamen, Tianjin, and Nanjing, each with an area of 1000-5000 M2, with the annual training capacity reaching over 10,000 people. In 2008, the Group successfully switched its listing from the GEM to the Hong Kong Stock Exchange Main Board (stock code: HKSE.354).

In 2010, Han Consulting joined us, significantly strengthening the Group's front-end consulting capabilities. So far, the Group has initially completed its end-to-end layout under which IT consulting, technology services, outsourcing services, and training have been unified. In the same year, the Group entered the telecom and mobile internet industries through acquisition of MMIM Technologies, Inc. This emerging market will become a key engine for the strategic transformation of its business.

In 2011, the Group introduced Hony Capital as a strategic investorand formed a strategic partnership. the Group will carry out integration in the information service business as an enterprise that is used as a platform. This made the Group being a world-class leading enterprise with a rapid growth in the information technology services area. In the same year, the Ten-Thousand-Staff Base of the Group is located at Software New City in Xi'an High-Tech Zone. The Group will continue to build up a platform for the enterprise and strive for being the industrial integrator in the information technology and software services area in China in the future. As of 2011, the Group employed almost 15,000 people, with business extended to Central America, South America, UK, India, Africa, Southeast Asia and the Middle East. The Group also set up branch companies or offices in more than 20 cities in the world, including mainland China, Hong Kong, the United States, Japan, and Europe, forming a global delivery capacity.

KEY OPERATING DATA

Excluding the loss arising from changes in fair value of redeemable convertible preferred shares which are considered to be derivative financial instruments (2011: RMB37,287,000; 2010: RMB145,197,000), the gain arising from changes in fair value of contingent consideration payable on acquisition of business (2011: RMB71,718,000; 2010: nil), impairment loss in respect of goodwill (2011: RMB68,982,000; 2010: nil) and loss on deemed disposal of associates (2011: RMB105,000; 2010: nil), the key data of the consolidated statement of comprehensive income of the Group are set out as follows:

	2011 RMB'000	2010 RMB'000	Year-on-year increase %
Revenue	**2,243,754**	1,601,211	40.1%
Service Revenue*	**1,959,885**	1,374,424	42.6%
Cost of sales	**(1,514,263)**	(1,088,007)	39.2%
Gross profit	**729,491**	513,204	42.1%
Other income, gains and losses	**46,036**	35,264	30.5%
Selling and distribution costs	**(148,706)**	(94,203)	57.9%
Administrative expenses	**(309,278)**	(241,444)	28.1%
Research and development cost expensed	**(45,989)**	(39,086)	17.7%
Allowance for doubtful debts	**(17,417)**	(8,276)	110.4%
Amortisation of intangible assets and prepaid lease payments	**(47,514)**	(29,889)	59.0%
Finance costs	**(23,898)**	(8,102)	195.0%
Share of results of associates	**2,618**	2,650	(1.2%)
Profit before taxation	**185,343**	130,118	42.4%
Taxation	**(29,611)**	(14,657)	102.0%
Profit for the year***	**155,732**	115,461	34.9%
+Taxation	**29,611**	14,657	102.0%
+Finance costs	**23,898**	8,102	195.0%
+Depreciation of property, plant and equipment	**39,047**	35,377	10.4%
+Amortisation of intangible assets and prepaid lease payments	**47,514**	29,889	59.0%
– Share of results of associates	**2,618**	2,650	(1.2%)
EBITDA**	**293,184**	200,836	46.0%
+Share option expenses	**24,861**	27,669	(10.1%)
– Net foreign exchange gain	**12,082**	3,094	290.5%
+Provision for doubtful debts	**17,417**	8,276	110.4%
Business contribution profit**	**323,380**	233,687	38.4%

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

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

Note***: Profit for the year means the net profit excluding the loss arising from changes in fair value of redeemable convertible preferred shares, impairment loss recognised in respect of goodwill, gain arising from changes in fair value of contingent consideration payable on acquisition of a business and loss on deemed disposal of associates.

GENERAL OVERVIEW

The growth in key operating data of the Group for 2011 is set out as follows:

	2011 RMB'000	2010 RMB'000	Growth rate
Revenue	**2,243,754**	1,601,211	40.1%
Service Revenue	**1,959,885**	1,374,424	42.6%
EBITDA	**293,184**	200,836	46.0%
Business contribution profit	**323,380**	233,687	38.4%

In 2011, segmental results of the Group increased by 31.3% (extracted from note 5 of the consolidate financial statements) on the whole as compared with that of the previous year and the growth in revenue, service revenue and results by business line is set out as follows:

	Segment Revenue			Segment Service revenue			Segment Results		
	2011 RMB'000	2010 RMB'000	Growth rate	**2011 RMB'000**	2010 RMB'000	Growth rate	**2011 RMB'000**	2010 RMB'000	Growth rate
Government and manufacturing	**726,905**	471,820	54.1%	**579,534**	364,431	59.0%	**54,586**	36,997	47.5%
BFSI	**488,052**	392,059	24.5%	**351,554**	272,661	28.9%	**43,615**	36,168	20.6%
IT outsourcing	**959,458**	682,917	40.5%	**959,458**	682,917	40.5%	**110,609**	85,596	29.2%
Training	**69,339**	54,415	27.4%	**69,339**	54,415	27.4%	**9,779**	7,778	25.7%
Total	**2,243,754**	1,601,211	40.1%	**1,959,885**	1,374,424	42.6%	**218,589**	166,539	31.3%

Note: "Segmental results" refer to the profit earned/loss incurred prior to distribution of impairment loss recognised on goodwill, corporate expenses, share-based payment and loss arising from fair value change of redeemable convertible preferred shares, effective interests of convertible loan notes, and other income, gains and losses recorded at the Group level. (Extracted from note 5 to the consolidated financial statements)

One may see that there was a relatively substantial growth in revenue, service revenue and results of the Group's business lines as compared with that of the previous year. The growth rate was mainly contributed by the government and manufacturing business lines.

The Group's major business growth drivers in 2011 were as follows:

All of the Group's main business sectors achieved strong results and simultaneous rapid growth, of which:

1. The segment of solutions for government and manufacturing achieved a year-on-year increase of 54.1% and 59.0% in service revenue from service respectively.

   During the reporting period, it won tenders for a number of industry based large scale software development and solution projects, further consolidating its market position in the infomatisation field in this industry. Among them, the audit industry remained its leading customer base. The Golden Auditing Project has been reaching its peak, and its new businesses, such as "private cloud" in auditing and BPO service, have established their preferable market condition with the formal launch of products such as Networking Audit System (basic Version), Audit Management System ("1 comprising N" Version); it was awarded the tender from the Ministry of Finance for the procurement transaction managing system project and the financial revenue and expense statistical analyze system project and succeeded in entering the financial core business system; awarded the tender from the Ministry of Environment Protection for the emission reduction application support platform and system integration project, environmental information and statistics ability construction project as well as the 2011 national underground water environmental base condition inspection information system; awarded successfully the tender from Chinese Academy of Agricultural Sciences for the "Information Sharing and Service System" Project, representing a remarkable breakthrough in the agricultural field after the Golden Agriculture Project; awarded the tender from the News and Publication General Office for the "Upgrade and Improvement for the Chinese Reporters Website" Project; its R1 and ESB products were enlisted by the Ministry of Environmental Protection in its foundation software procurement contracts.

   In respect of large enterprises, the Group endeavored to business expansion and has secured orders for the comprehensive risk management information system from China South Industries Group Corporation and for the overall integration project from China National Gold Group Gold Jewellery Co., Ltd. During the reporting period, with its strength in "IT and Consultation", it was awarded the tender from China Southern Power Grid Co., Ltd. for coordinated office system classic design project, representing a directional breakthrough in the field of electricity informatisation by Chinasoft; awarded the tender from Jiulong Electric Power for the project of "Public Operating Service Platform for Vehicle Power-charging", which further ascertains its position in the energy and power industries; awarded the tender from Tai Yuan Institute of China Coal Technology and Engineering Group for the IT planning project.

   In respect of manufacture and circulation industries, it was awarded tenders for a number of MES projects in the tobacco industry as a dominating position taking shape in the MES field in the industry; continued promotion of provincial localised operation services has enlarged the coverage of the provincial operating market; a number of MES projects in the tobacco industry were implemented smoothly; it has also complemented and perfected the monitor business line for the tobacco industry and developed and implemented some provincial internal-control management related systems; MES projects in non-tobacco industries have achieved breakthrough in the banknote printing and mining industries preliminarily and was awarded the tender from China Banknote Printing and Mining for the "Data Sharing Platform R&D project; in the field of medicine, it was awarded the tender from Pfizer for FACE System Project; awarded the tender from Harbin Electric Machinery for the project of "Production Management Information System" and succeeded in entering in the heavy technology equipment industry.

2. The segment of solutions for banking, financial services and insurance business line achieved a year on year increase of 24.5% and 28.9% in revenue and revenue form service respectively.

During the reporting period, the deficiency-free startup of the new generation of Shanghai Bank credit card system deficiency and the successful start-up of the card system of Ping An Bank received high appreciation from customers; it was awarded the tender from China Everbright Bank for the project of credit card system development and operation maintenance, which further ascertains the leading position in credit card high-end service market of Chinasoft; certain extend of outsourcing revenues were generated from HSBC, Ping An and Unionpay, which can be seen as indicators of the rise of end-to-end service in the financial industry. It has secured the project of "New Hefei Pass" Financial IC Card and issued the first small-amount store-value card that conforms to PBOC2.0 Standard of the central bank in the field of city smart card, which marked also the first industry application of the financial IC improvement project.

During the reporting period, it was awarded tenders for railway toll and ticketing systems of Wuxi, Ningpo, Shanghai (Route 11 and 13), Tianjin (Route 1), and saw official startups of Chongqing MTR ACC System and the "Smart Card Project for Beijing Suburban Railway Route S2". The city smart card was first applied in railway system after accumulating experience in some 30 cities in the PRC; the Qingdao Pass ETC Project has successfully passed its trial run, which marks the Group's first ETC project as well as a good try in extending new business domain by the public service trunk programs. it signed a contract in relation to a platform construction project with a well-known convenience card operator, which was another involvement in the mobile payment platform market after the Shanghai "mobile wallet" project; obtained the central bank collaboration third party payment licenses with the Easy Pay, which enables it to participate directly in the payment business and capture the advantageous timing in the sector. Its involvement in the smart city construction of Shanghai has forged the first e-bill payment public service platform nationwide; its enlisting as a SI service provider for Shanghai Mobile has further reinforced its strategic cooperation with Shanghai Mobile.

During the reporting period, the life insurance institutional rating system was well received after examination by China Pacific Insurance (Group) Co., Ltd as it was awarded tenders from China Pacific Insurance (Group) Co., Ltd. for projects like continued improvement of life insurance IDS System, life insurance and all risks core operation platform, signifying further expansion of the Group's business with China Pacific Insurance; successfully secured the project of national data centralisation from China Pacific Insurance; its proprietary intellectual right products, namely TOP FXGL Risk Management Information Software/TOP GLICBS Life Insurance Group Insurance core Operation Software/ TOP IVMS Insurance Policy Management Software, were officially launched; signed 2011 outsourcing framework agreements with enterprises comprising Ping An Insurance (Group) Company of China Ltd., namely Ping An Technology (Shenzhen) Co., Ltd., Shenzhen Pin An Bank Co., Ltd., Ping An Securities Co., Ltd., engaging in human resource outsourcing cooperation in a brand-new model.

3. The segment of IT outsourcing achieved a year-on-year increase of 40.5% in revenue and revenue form service.

   During the reporting period, the Group maintained its strategic partnership with a world-leading Chinese telecom equipment provider, and became the largest top supplier for its research institute in Xian and achieved outstanding results in its supplier effectiveness ranking, such that three out of five product lines it was ranked first, and continued to attain high appraisals in all effectiveness ranking for all domains and all research institutes in the second half of the year. It cooperated with a renowned international telecom equipment supplier in providing RCS (Rich Communication Suite) services to an overseas telecom operator, which so far signifies the first expansion into overseas market of Chinasoft's telecom products.

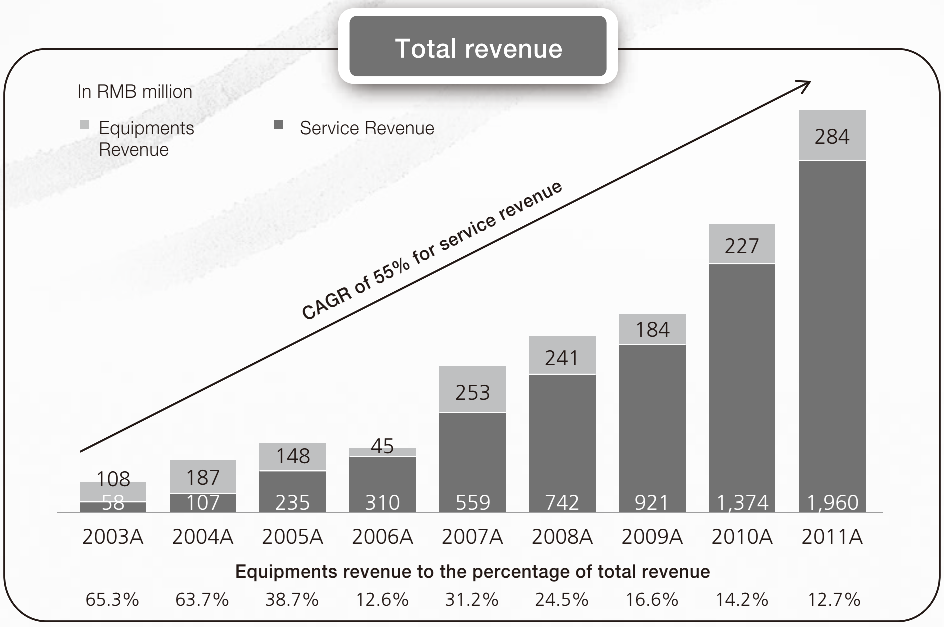
   During the reporting period, the Group became the fastest growing supplier of Microsoft, the largest supplier of MSIT in China as well as the first to be rated top 10 out of 3,000 suppliers of Microsoft in China; signed a development and test agreement with GFS of Microsoft, which is the first cooperation between Chinasoft and GFS of Microsoft; it was also the first to be awarded the "Outstanding Supplier for the Year" among all software suppliers of TD Tech Ltd.; achieved from a strategic customer, which is a world top 100 enterprise, that the software development of outsourcing business had become the driver of the software maintenance and operation business, and the Group successfully signed the Oracle ERP operation and maintenance service contract in China and Britain for a term of 3 years. It has successfully developed the Managed Service business, completed the first foundation structure management services, data center construction for a customer and entered the phase two project negotiation stage; successfully secured the outsourcing business of a domestically renowned ERP software producer with brilliant results, ranking second in 19 projects among 9 cooperation partners; signed a cooperation agreement with Shandong Taixin (Jinan) and secured successfully outsourcing projects in Jinan district; signed another human resources outsourcing contract with Xian Kingdee after an early stage cooperation in the form of human resources outsourcing; secured successfully the financial procedure outsourcing business of a top 500 enterprise, a breakthrough in the outsourcing of mid to high end business process in the financial field.

4. The segment of training achieved a year-on-year increase of 27.4% in revenue and service revenue.

   During the period, it participated in the "Education and Cultivation Program for Excellent Engineers" hosted by the Ministry of Education of China and yielded phasing fruits. 41 new institutions/schools were signed for in-depth cooperation (totaled 59), 27 of which were co-established schools/specialties (totaled 36); the schools concerned continuously supplied junior technicians for the standardisation of all lines of business of the Group. For instance, in 2011, some 300 personnel were trained with the help of ETC for certain outsourcing business departments; it also participated in "excellent engineer campaign" held by the Ministry of Education, developed "practical education center" solution; proactively developed "the Internet of things laboratory", "mobile internet laboratory", and promoted to the high schools under the in-depth cooperation; participated in construction of T-Zone Industry Part of China Nanjing Software Valley in concerted effort to forge software the industry talent servicing platform and the talent supply system; held IT recruiting seminars in Beijing, Tianjin and Dalian in collaboration with a number of enterprises with an aim to proactively create job opportunities for students.

Management Discussion and Analysis

Since the listing on the Growth Enterprise Market in 2003, the Group's revenue and service revenue have maintained rapid growth, recording a CAGR of 38% and 55% over the period from 2003 to 2011 respectively. The details are set out as follows:



Customer

The Group's customers include large enterprises situated in Greater China, Europe, the US and Japan. It had a relatively big market share in the fast-growing China market, particularly in the mainstream industries such as the government and manufacturing industry, finance and banking industries, telecom industry and high-tech industry. In 2011, service revenue from the top five customers accounted for 38.4% of the Group's total service revenue while those from the top ten customers accounted for 43.7%. With the Group's continuous development of new customers and intensive tapping of existing customers in the vertical industries, it is expected that the proportion of service revenue from the top ten customers in the Group's total service revenue will further decline.

In 2011, the number of active customers was 855, of which 320 are new customers. In 2011, each of 58 major customers of the Group generate service revenue of more than RMB6 million respectively.

Market

The Group operated its businesses mainly in Greater China. In 2011, the Group continued to set Greater China market as an important sector for development. China's strong economic growth and the immense market potentials embedded in Greater China led to long-term growth opportunities for the Group. At the same time, several of the Group's large multinational corporate customers also expressed to set China as the most crucial part of their global layout, which was a clear indication of their confidence in the Chinese economy and the rare development opportunities for the Group's businesses.

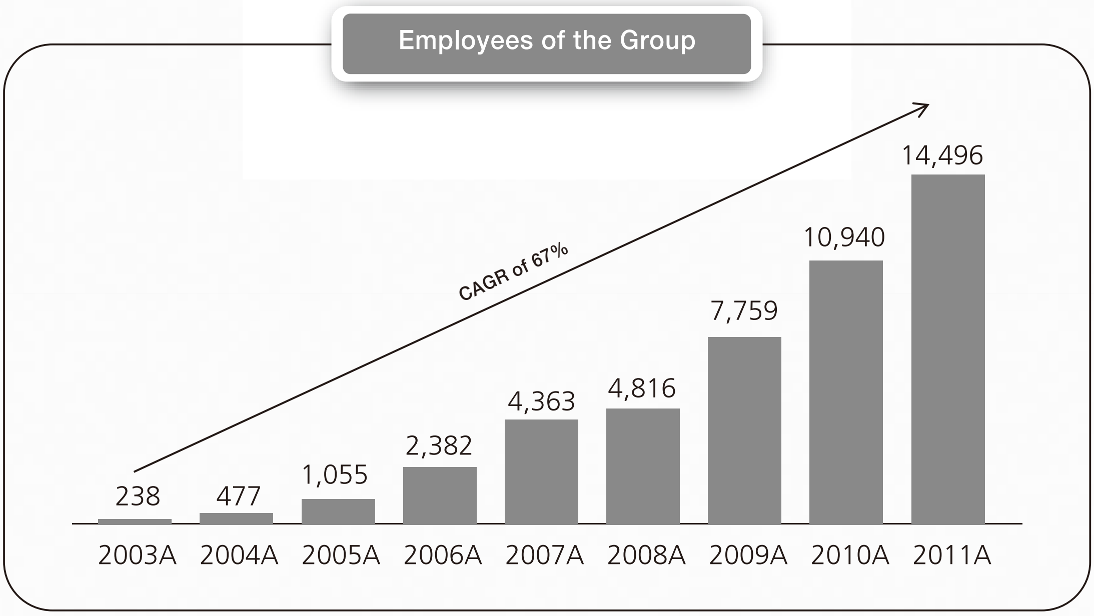
Human Resources

As of the end of 2011, the Group had altogether 14,496 employees, representing an increase of 32.5% over 10,940 employees as of the end of 2010, of which 12,377 employees were technicians accounting for 85% of the Group's total number of employees and 1,217 employees were project managers and key consulting staff accounting for 9.8% of the Group's total number of technical employees.

The average turnover rate of the Group through 2011 was 14.3%, which was lower than the sector average level. Despite that the costs of human resources have increased continuously in recent years, the Group was still able to increase earnings capability constantly through the continuous increase in the scale of business income and a series of cost and performance management measures (including reasonable human resources allocation structure for stabilising overall cost levels, continuous input of resources into research and development for increasing the re-use of technology and optimisation of incentive policy for improving production efficiency among employees).

The Group cooperated with over 400 colleges and education institutions in setting up training centers in Beijing, Tianjin, Dalian, Changsha, Wuxi, Chongqing, Xiamen, Nanjing and Chengdu to customise development training programmes for the business divisions of the Group. Each business division could participate in the course design, process tracking and evaluation to select quality students from a huge resource pool, hence ensuring constant supply of practical personnel.

Since the listing on the Growth Enterprise Market in 2003, the size of the Group's personnel has maintained rapid growth, recording a CAGR of 67% over the period from 2003 to 2011. The details are set out as follows:



Management Discussion and Analysis

Earnings Capability

In 2011, the Group's EBITDA was RMB293.184 million (2010: RMB200.836 million), representing a growth of 46.0% over the same period of previous year. EBITDA ratio was 13.1% in 2011 (2010: EBITDA ratio was 12.5%), representing a year-on-year increase of 0.6% (EBITDA ratio was 15.0% if measured on the basis of service revenue (2010: EBITDA ratio was 14.6%), representing an increase of 0.4% over the same period of the previous year). Details from the profit for the year to EBITDA adjustments are set out as follows:

	2011 RMB'000	2010 RMB'000	Growth rate
Profit (Loss) for the year	**121,076**	**(29,736)**	**N/A**
+Taxation	29,611	14,657	102.0%
+Finance costs	23,898	8,102	195.0%
+Depreciation of property, plant and equipment	39,047	35,377	10.4%
+Amortisation of intangible assets and prepaid lease payments	47,514	29,889	59.0%
+Loss arising from changes in fair value of redeemable convertible preferred shares	37,287	145,197	(74.3%)
+Loss on deemed disposal of associates	105	–	N/A
– Gain arising from changes in fair value of contingent consideration payable on acquisition of a business	71,718	–	N/A
+Impairment loss recognised in respect of goodwill	68,982	–	N/A
– Share of results of associates	2,618	2,650	(1.2%)
EBITDA	**293,184**	**200,836**	**46.0%**

In order to assist its vast shareholders and investors in comparing the Group with different business trends during the reporting period and in understanding the Group's continuous business achievements clearer and to facilitate the comparison of the Group's business achievements with other similar companies, it has excluded impacts on the profit and loss of non-business and non-cash nature in the EBITDA (for example: share option expenses, net foreign exchange gain and allowance for doubtful debts) in its calculation of the business contribution profit for 2011. Details from EBITDA to business contribution profit are set out as follows:

	2011 RMB'000	2010 RMB'000	Growth rate
EBITDA	**293,184**	**200,836**	**46.0%**
+Share option expenses	24,861	27,669	(10.1%)
– Net foreign exchange gain	12,082	3,094	290.5%
+Allowance for doubtful debts	17,417	8,276	110.4%
Business contribution profit	**323,380**	**233,687**	**38.4%**

In 2011, the Group's business contribution profit was RMB323.380 million (2010: RMB233.687 million), representing a year-on-year growth of 38.4%. The ratio of business contribution profit was 14.4% (2010: the ratio of business contribution profit was 14.6%), representing a decrease of 0.2% over the same period of the previous year (the ratio of business contribution profit was 16.5% (2010: the ratio of business contribution profit was 17.0%) if measured on the basis of service revenue, representing a decrease of 0.5% over the same period of the previous year).

OPERATING RESULTS

The following chart sets out the Group's consolidated statement of comprehensive income for 2011 and 2010:

	2011 RMB'000	Percentage of revenue	Percentage of service revenue	2010 RMB'000	Percentage of revenue	Percentage of service revenue
Revenue	2,243,754		–	1,601,211		
Service Revenue	1,959,885		–	1,374,424		
Cost of sales	(1,514,263)	(67.5%)		(1,088,007)	(67.9%)	
Gross profit	729,491	32.5%	37.2%	513,204	32.1%	37.3%
Other income, gains and losses	46,036	2.1%	2.3%	35,264	2.2%	2.6%
Selling and distribution costs	(148,706)	(6.6%)	(7.6%)	(94,203)	(5.9%)	(6.9%)
Administrative expenses	(309,278)	(13.8%)	(15.8%)	(241,444)	(15.1%)	(17.6%)
Research and development cost expensed	(45,989)	(2.0%)	(2.3%)	(39,086)	(2.4%)	(2.8%)
Allowance for doubtful debts	(17,417)	(0.8%)	(0.9%)	(8,276)	(0.5%)	(0.6%)
Amortisation of intangible assets and prepaid lease payments	(47,514)	(2.1%)	(2.4%)	(29,889)	(1.9%)	(2.2%)
Gain arising from changes in fair value of contingent consideration payable on acquisition of a business	71,718	(3.2%)	(3.7%)	0	0.0%	0.0%
Impairment loss recognised in respect of goodwill	(68,982)	(3.1%)	(3.5%)	0	0.0%	0.0%
Finance costs	(23,898)	(1.1%)	(1.2%)	(8,102)	(0.5%)	(0.6%)
Share of results of associates	2,618	0.1%	0.1%	2,650	0.2%	0.2%
Loss on deemed disposal of associates	(105)	(0.005%)	(0.005%)	0	0.0%	0.0%
Loss arising from changes in fair value of redeemable convertible preferred shares	(37,287)	(1.7%)	(1.9%)	(145,197)	(9.1%)	(10.6%)
Profit (loss) before taxation	150,687	6.7%	7.7%	(15,079)	(0.9%)	(1.1%)
Taxation	(29,611)	(1.3%)	(1.5%)	(14,657)	(0.9%)	(1.1%)
Profit (loss) for the year	121,076	5.4%	6.2%	(29,736)	(1.9%)	(2.2%)

Management Discussion and Analysis

Comparison of the results of 2011 and 2010:

Revenue

In 2011, revenue of the Group amounted to RMB2,243.754 million (2010: RMB1,601.211 million), representing a growth of 40.1% compared to that of the previous year. Of which, service revenue was RMB1,959.885 million (2010 RMB1,374.424 million), representing a year-on-year growth of 42.6%, which was attributed to the constantly expanding customer base and the continuous and diversified development of the Group's main businesses.

In 2011, the Group's revenue and service revenue by contract model are set out as follows:

	Revenue RMB'000	Weight	Service Revenue RMB'000	Weight
Fixed price	1,284,296	57.2%	1,000,427	51.0%
Time and materials	887,783	39.6%	887,783	45.3%
Quantity-based	71,675	3.2%	71,675	3.7%
Total	**2,243,754**	**100%**	**1,959,885**	**100%**

Revenue from the Group's four major business lines, namely government and manufacturing, BFSI, IT outsourcing and training in 2011, accounted for 32.4%, 21.8%, 42.8% and 3.0% of the Group's total revenue respectively (2010: approximately 29.5%, 24.5%, 42.7% and 3.3% respectively). The growth in revenue of each business line is set out as follows:

	2011 RMB'000	Weight	2010 RMB'000	Weight	Growth rate
G&M	726,905	32.4%	471,820	29.5%	54.1%
BFSI	488,052	21.8%	392,059	24.5%	24.5%
IT outsourcing	959,458	42.8%	682,917	42.7%	40.5%
Training	69,339	3.0%	54,415	3.3%	27.4%
Total revenue	2,243,754	100%	1,601,211	100%	40.1%

Service Revenue for each major business line in 2011 accounted for 29.6%, 17.9%, 49.0% and 3.5% of the Group's total service revenue respectively (2010: approximately 26.5%, 19.8%, 49.7% and 4.0% respectively). The growth in service revenue for each business line is set out as follows:

	2011 RMB'000	Weight	2010 RMB'000	Weight	Growth rate
G&M	579,534	29.6%	364,431	26.5%	59.0%
BFSI	351,554	17.9%	272,661	19.8%	28.9%
IT outsourcing	959,458	49.0%	682,917	49.7%	40.5%
Training	69,339	3.5%	54,415	4.0%	27.4%
Total service revenue	1,959,885	100%	1,374,424	100%	42.6%

COST OF MAIN BUSINESSES

In 2011, cost of the Group's main businesses accounted for 67.5% of the revenue (2010: 67.9%), representing a decrease of 0.4% as compared with the same period of the previous year. Cost of main businesses of the Group amounted to RMB1,514.263 million (2010: RMB1,088.007 million), representing an increase of 39.2% year on year.

GROSS PROFIT

In 2011, the Group's gross profit was approximately RMB729.491 million (2010: RMB513.204 million), representing an increase of 42.1% over 2010. In 2011, The Group's gross profit margin was 32.5% (2010: 32.1%), representing an increase of 0.4% as compared with the same period of the previous year. The gross profit margin for service revenue was 37.2% in 2011 (2010: 37.3%), a slight decrease of 0.1% year on year.

In the light of the continued rise in labor cost in recent years, the Group will adopt the following measures to alleviate pressure posted by the rising labor cost:

First, it will continue to strengthen business management, optimise business structure and increase the weight of businesses with high gross profit margin in revenue, so as to improve overall gross profit margin;

Second, it will increase the extent of re-use of technology through continuous R&D input to lower direct cost ratio;

Third, it will set up submission centers in "third-tier cities" to reduce the overall labor costs;

Fourth, it will continue to cultivate and build exclusive personnel and project management teams by continuously enhancing the incentive policy, so as to alleviate pressure posted by the rising labor costs on the Group.

OTHER INCOME, GAINS AND LOSSES

In 2011, other income amounted to RMB46.036 million (2010: RMB35.264 million), representing an increase of 30.5% over the same period of the previous year.

OPERATING EXPENSES

In 2011, selling and distribution costs amounted to RMB148.706 million (2010: RMB94.203 million), representing a growth of 57.9% as compared to 2010 and the proportion of selling and distribution costs in revenue was 6.6% as compared to 5.9% in 2010, representing an increase of 0.7% over the same period of the previous year, which was due to the Group's efforts to introduce the solutions for business and market expansion.

In 2011, administrative expenses amounted to RMB309.278 million in 2011 (2010: RMB241.444 million), representing a year-on-year growth of 28.1%. In 2011, the proportion of administrative expenses in revenue was 13.8%, a decrease of 1.3% compared with 15.1% for 2010. The decrease of the proportion was due to the Group's strengthening in construction to unite the administration platform and saving resources.

In 2011, research and development cost expensed were RMB45.989 million (2010: RMB39.086 million), representing a growth of 17.7% over 2010, and the proportion of research and development costs and expenses in revenue was 2.0%, which was 2.4% in 2010.

EBITDA AND BUSINESS CONTRIBUTION PROFIT

In 2011, the Group recorded an EBITDA of approximately RMB293.184 million (2010: RMB200.836 million), representing an increase of 46.0% over the same period of the previous year. In 2011, EBITDA to revenue was approximately 13.1% (2010: 12.5%), representing a growth of 0.6% over the same period of the previous year. EBITDA to service revenue was approximately 15.0% (2010: 14.6%), representing an increase of 0.4% over the same period of the previous year.

In 2011, business contribution profit amounted to RMB323.380 million (2010: RMB233.687 million), representing an increase of 38.4% over the past year. In 2011, the business contribution profit margin dropped by 0.2% over the same period of 2011 to 14.4% (2010: 14.6%). Business contribution profit margin based on service revenue was 16.5% (2010: 17.0%), representing a decrease of 0.5% over the same period of 2010.

FINANCE COSTS AND INCOME TAX

In 2011, finance costs accounted for 1.1% of the revenue, representing an increase of 0.6% compared with 0.5% in the corresponding period of 2010. Finance costs of the year amounted to RMB23.898 million (2010: RMB8.102 million), representing an increase of 195.0% over 2010, which was due to the increase of interests on convertible bonds and interest rates of borrowings denominated in RMB. As the convertible bonds were issued on 29 November 2010, interest on convertible bonds of RMB12.666 million was debited to the profit and loss in 2011, representing a substantial increase as compared with the interest on convertible bonds of RMB1.631 million in 2010. In 2011, due to the increase in interest rates of borrowings denominated in RMB, other interests amounted to RMB11.232 million, representing an increase of 73.6% as compared with the interest of RMB6.471 million in 2010.

In 2011, income taxes accounted for 1.3% of the revenue, representing an increase of 0.4% compared with 0.9% in the corresponding period of 2010. Income taxes of the year amounted to RMB29.611 million (2010: RMB14.657 million), representing an increase of 102.0% over 2010, which was mainly due to the taxation rate for certain companies under the Group was increased after the change in the expiry of preferential tax policy.

OTHER NON-CASH EXPENSES

In 2011, depreciation of property, plant and equipment to revenue was 1.7%, a decrease of 0.5% as compared with 2.2% in the same period of 2010. Depreciation of property, plant and equipment amounted to RMB39.047 million (2010: RMB35.377 million), representing a increase of 10.4% over 2010.

In 2011, amortisation of intangible assets and prepaid lease payments to revenue was 2.1%, a increase of 0.2% as compared with 1.9% in the same period of 2010. Amortisation of intangible assets amounted to RMB47.514 million (2010: RMB29.889 million), representing an increase of 59.0% over 2010, primarily due to the increase in amortisation of intangible assets of mobile internet business arising from the new acquisition.

In 2011, share option expenses to revenue was 1.1%, a decrease of 0.6% as compared with 1.7% in the same period of 2010. Share option expenses amounted to RMB24.861 million (2010: RMB27.669 million), representing a decrease of 10.1% over 2010.

In 2011, allowance for doubtful debt to revenue was 0.8%, a increase of 0.3% as compared to 0.5% over the same period of 2010. Allowance of doubtful debt amounted to RMB17.417 million (2010: RMB8.276 million), representing an increase of 110.4% over the same period of 2010, which was due to the increase in provision of doubtful debts of the solution business line.

In 2011, loss on deemed disposal of associates was RMB105,000 (2010: nil), representing 0.005% of its revenue.

In 2011, gain arising from changes in fair value of contingent consideration payable on acquisition of a business was RMB71.718 million (2010: nil), representing 3.2% of its revenue, slightly higher than the relevant impairment loss of RMB68.982 million in respect of goodwill araised (2010: nil) represented 3.1% of its revenue.

In 2011, loss arising from changes in fair value of redeemable convertible preferred shares to revenue was 1.7%, a significant decrease of 7.4% as compared with 9.1% in the same period of 2010. Loss arising from changes in fair value of redeemable convertible preferred shares amounted to RMB37.287 million (2010: RMB145.197 million), representing an decrease of 74.3% over the same period of last year, mainly attributable to the significant decrease in the fair value of redeemable convertible preferred shares resulting from the little fluctuations in share price over the same period in 2011.

PROFIT FOR THE YEAR AND EARNINGS PER SHARE

In 2011, excluding the effect of loss arising from changes in fair value of redeemable convertible preferred shares, gain arising from changes in fair value of contingent consideration payable on acquisition of a business, impairment loss recognised in respect of goodwill loss on deemed disposal of associates, the Group recorded a profit for the year of RMB155.732 million (2010: RMB115.461 million), representing an increase of 34.9%. Profit for the year to revenue was approximately 6.9% (2010: 7.2%), representing a decrease of 0.3% over the same period of last year; profit for the year to service revenue was approximately 7.9% (2010: 8.4%), representing a decrease of 0.5% over the same period of last year.

Based on the profit for the years, in 2011, in regards to the profit for the year as aforesaid, profit for the year attributable to the owners of the Group amounted to RMB145.250 million (2010: RMB105.064 million), representing an increase of 38.3% over the same period of last year. Based on the profit for the year attributable to the owners of the Group, earnings per share for 2011 amounted to approximately RMB0.1076 (2010: RMB0.0987), representing an year-on-year increase of 9.0%.

Corporate Governance Report

A. CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. The code provisions in the Code on Corporate Governance Practices of the Listing Rules (the "Code") have served as guideposts for the Company to follow in its implementation of corporate governance measures.

In the opinion of the Board, the Company has complied with the code provisions set out in the Code throughout the year ended 31 December 2011 save for the deviation from the code provision A.2.1 which requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Key corporate governance principles and practices of the Company as well as details relating to the foregoing deviation are summarised below.

The Board will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with statutory and professional standards and align with the latest developments.

B. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rule relating to dealings is securities. Having made specific enquiry of all the Directors, the Directors complied with the Model Code regarding securities transactions by the Directors throughout the year ended 31 December 2011.

C. BOARD OF DIRECTORS

1. Composition of the Board of Directors

During the year in review and up to the date of this report, the board of directors of the Company (the "Board") comprises:

Executive directors:

Dr. Chen Yuhong	*(Chairman and Chief Executive Officer)*
Dr. Tang Zhenming	
Mr. Wang Hui	
Mr. Jiang Xiaohai	(appointed on 18 May 2011)

Non-executive directors:

Mr. Zhao John Huan	(appointed on 29 July 2011)
Dr. Zhang Yaqin	
Dr. Song Jun	(appointed on 18 May 2011)
Mr. Lin Sheng	(appointed on 29 July 2011)
Ms. Shen Lipu	(appointed on 18 May 2011)
Dr. Cui Hui	(retired on 18 May 2011)
Mr. Fang Jun	(retired on 18 May 2011)
Mr. Liu Zheng	(retired on 18 May 2011)

Independent non-executive directors:

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

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the section headed "Biographical Details of Directors and Senior Management" in this Annual Report. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director are suitably qualified for his position, and has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

2. ***Board Meetings***

During the year ended 31 December 2011, two full board meetings were held on 28 March and 8 August and the attendance of each director is set out as follows:

Name of Director		Number of attendance
Executive Directors:		
Dr. Chen Yuhong		2/2
Dr. Tang Zhenming		2/2
Mr. Wang Hui		2/2
Mr. Jiang Xiaohai	(appointed on 18 May 2011)	1/1
Non-executive Directors:		
Mr. Zhao John Huan	(appointed on 29 July 2011)	1/1
Dr. Zhang Yaqin		2/2
Dr. Song Jun	(appointed on 18 May 2011)	1/1
Mr. Lin Sheng	(appointed on 29 July 2011)	1/1
Ms. Shen Lipu	(appointed on 18 May 2011)	1/1
Dr. Cui Hui	(retired on 18 May 2011)	1/1
Mr. Fang Jun	(retired on 18 May 2011)	1/1
Mr. Liu Zheng	(retired on 18 May 2011)	1/1
Independent non-executive Directors:		
Mr. Zeng Zhijie		2/2
Dr. Leung Wing Yin Patrick		2/2
Mr. Xu Zeshan		2/2

3. ***Functions of the Board of Directors***

The Board is currently responsible for corporate strategy and development, overseeing the business operations of the Group, financial reporting, legal and regulatory compliance, directors' appointments, risk management, major acquisitions, disposals and capital transactions. Major corporate matters delegated by the Board to management include preparation of annual and interim accounts for Board's approval, execution of business strategies and initiatives adopted by the Board and implementation of internal control system.

4. ***Independent Non-executive Directors***

The three independent non-executive Directors appointed by the Company have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Among the three independent non-executive Directors, one of them has appropriate professional qualifications in accounting or relevant financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.

5. ***Chairman and Chief Executive Officer***

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Dr. Chen Yuhong currently assumes the roles of both the Chairman and the Chief Executive Office of the Company. The Board believes that by holding both roles, Dr. Chen will be able to provide the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies of the Group. As such, the structure is beneficial to the business prospects of the Group.

6. ***Appointment, Re-election and Removal of Directors***

According to the articles of association of the Company, one-third of the Directors are required to retire from office at each annual general meeting, provided that every Director shall be subject to retirement by rotation at least once in every three years.

Prior to the convening of the annual general meeting of the Company in May 2012, the board of Directors resolved that Dr. Chen Yuhong, Dr. Tang Zhenming, Mr. Zhao John Huan, Dr. Zhang Yaqin, Mr. Lin Sheng and Dr. Leung Wing Yin Patrick should retire and stand for re-election at the annual general meeting in accordance with the requirements under the Articles of Association of the Company.

7. ***Nomination of Directors***

According to recommended best practices A.4.4 of the Code, listed issuers are recommended to set up a nomination committee with a majority of the members thereof being independent non-executive directors. As the board of Directors considered that may be taken up by the Board Members, the Company has not established a nomination committee. The board of Directors is responsible for selecting and recommending candidates for directorship, based on assessment of their professional qualifications and experience and is also responsible for determining the independence of each Independent Non-executive Directors.

During the year under review, one meeting was held by the board of Directors to consider the appointment and removal of Directors. Details of attendance of the nomination of Directors meeting are set out as follows:

Name of member	Number of attendance
Dr. Chen Yuhong	2/2
Dr. Cui Hui	1/1
Dr. Leung Wing Yin Patrick	2/2

D. BOARD COMMITTEES

1. *Remuneration Committee*

During the year under review, the chairman of the committee was Dr. Chen Yuhong after the retirement of Dr. Cui Hui on 18 May 2011 and other members included Mr. Zeng Zhijie, Dr. Leung Wing Yin Patrick and Mr. Xu Zeshan. Dr. Chen Yuhong is an executive Director, and the remaining three members are independent non-executive Directors.

The remuneration committee was established on 28 June 2005. The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the board of Directors for the remuneration of non-executive Directors. The remuneration committee will consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

Details of attendance of the meeting of the Remuneration Committee are set out as follows:

Name of Director	Number of attendance
Dr. Chen Yuhong	1/1
Dr. Cui Hui	1/1
Mr. Zeng Zhijie	1/1
Dr. Leung Wing Yin Patrick	1/1
Mr. Xu Zeshan	1/1

The board of Directors considered that the existing terms of appointment and levels of remuneration of the Directors are fair and reasonable, and resolved that a review be carried out again in the year ending 31 December 2012.

The Company adopted a share option scheme on 2 June 2003, which serves as an incentive to attract, retain and motivate talented eligible staff, including the Directors. Details of the share option scheme are set out in note 36 to the financial statements. The emolument payable to Directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 9 to the financial statements.

2. *Audit Committee*

The Company established an audit committee on 2 June 2003 and amended its written terms of reference to comply with the requirements in the Code on Corporate Governance Practices of the Listing Rules. The primary duties of the audit committee are to review and to supervise the financial reporting process and internal control system of the Group. During the year ended 31 December 2011, the audit committee comprised of three independent non-executive Directors, Mr. Zeng Zhijie, Dr. Leung Wing Yin Patrick and Mr. Xu Zeshan. Dr. Leung Wing Yin Patrick is the Chairman of the audit committee. The audit committee met on a semi-yearly basis during the year ended 31 December 2011.

The Group's unaudited interim results and audited annual results during the year ended 31 December 2011 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

During the year under review, two meetings were held by the audit committee. Details of attendance of audit committee meetings are set out as follows:

Name of member	Number of attendance
Mr. Zeng Zhijie	2/2
Dr. Leung Wing Yin Patrick	2/2
Mr. Xu Zeshan	2/2

E. ACCOUNTABILITY AND AUDIT

1. *Director's Responsibility for the Consolidated Financial Statements*

The Directors are responsible for the preparation of the consolidated financial statements. The Company's consolidated financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies have been adopted and applied consistently, and that judgments are estimates made are prudent and reasonable.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group. Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the consolidated financial statements.

2. *Internal Control*

The Board acknowledged that it has the overall responsibility of the internal control system to enhance the awareness of risk management and assets protection. The internal control system is designed to provide reasonable policies and procedures to manage business risk and to avoid misstatement of the performance of the Group. The Company has a clearly defined organisation chart by functions, an effective filing system to maintain proper records for accounting and business transactions, well established procedures in approving payments and safeguarding the appropriate use of assets. The Company periodically conducted reviews of its financial, operational and risk management control activities to ensure the Group's compliance with applicable laws and regulations. The Company also reviews its internal control system periodically and report to the senior management quarterly and to the Audit Committee annually thereafter, taking effective actions on recommendation, if any, to improve its system.

3. *Auditor's Remuneration*

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group was required to pay an aggregate of approximately RMB3.8 million to the external auditor for their services including audit and other services relating to financial information.

F. INVESTORS AND SHAREHOLDERS RELATIONS

The Company commits to promoting transparency and maintaining effective communication with investors, analysts and the press. The management periodically meets with existing and potential investors to make corporate presentations. The Company also communicates with its shareholders and investors through the publication of annual and interim reports, announcements and press releases, as well as the Company's website at http://www.chinasofti.com. The Company hosts an annual general meeting each year to meet the Company's shareholders and answer their enquiries.

Report of Directors

The Directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 1 to the financial statements. During the year under review, there were no significant changes in the Group's principal activities.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 59.

The Directors do not recommend the payment of a final dividend for the year.

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past five years, as extracted from the audited financial statements, is set out on page 148. This summary does not form part of the audited financial statements.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders as at 31 December 2011 are RMB1,016,632,000 approximately.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 29 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the Group's property, plant and equipment are set out in note 12 to the financial statements.

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors:

Dr. Chen Yuhong	
Dr. Tang Zhenming	
Mr. Wang Hui	
Mr. Jiang Xiaohai	(appointed on 18 May 2011)

Non-executive Directors:

Mr. Zhao John Huan	(appointed on 29 July 2011)
Dr. Zhang Yaqin	
Dr. Song Jun	(appointed on 18 May 2011)
Mr. Lin Sheng	(appointed on 29 July 2011)
Ms. Shen Lipu	(appointed on 18 May 2011)
Dr. Cui Hui	(retired on 18 May 2011)
Mr. Fang Jun	(retired on 18 May 2011)
Mr. Liu Zheng	(retired on 18 May 2011)

Independent non-executive Directors:

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

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independent pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company considers all the independent non-executive directors are independent.

In accordance with article 87 of the Company's Articles of Association, one-third of the Directors (who have been longest in office since their last election) will retire from office by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Dr. Chen Yuhong and Dr. Cui Hui have each entered into a service agreement with the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are set out below:

(i) each service contract is of two years duration commencing on 20 June 2003. The service contract shall continue thereafter until terminated by either party giving to the other not less than three months' prior written notice, such notice not to be given before the expiry of the initial term of two years;

(ii) the monthly salary for Dr. Chen Yuhong and Dr. Cui Hui is to be reviewed annually by the board of Directors. For the period from the expiry of the first year of appointment, the salary of the two Directors shall be determined by the board of Directors but shall not be more than 120 percent of the annual salary of such Director for the preceding year;

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

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

Dr. Tang Zhenming, Mr. Wang Hui, Mr. Jiang Xiaohai, Mr. Zhao John Huan, Dr. Zhang Yaqin, Dr. Song Jun, Mr. Lin Sheng and Ms. Shen Lipu have not entered into service agreements with the Group. Dr. Tang Zhenming, Mr. Wang Hui and Mr. Jiang Xiaohai receive no remuneration for holding their office as executive Directors. Mr. Zhao John Huan, Dr. Zhang Yaqin, Dr. Song Jun, Mr. Lin Sheng and Ms. Shen Lipu receive no remuneration for holding their office as non-executive Directors.

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

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

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

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

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2011, the following Directors had interests in the shares and underlying shares of the Company and shares in an associated corporation (as defined in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) of the Company as set out below and recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of listed issuers.

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

Name of Director	Total No. of Ordinary Shares	Approximate percentage of total issued ordinary share capital of the Company as at 31 December 2011
Zhao John Huan	271,476,453	16.73%
Chen Yuhong	115,320,136	7.11%
Tang Zhenming	11,747,765	0.72%
Jiang Xiaohai	6,872,447	0.42%
Wang Hui	6,277,838	0.39%
Zeng Zhijie	300,000	0.02%

Options to subscribe for Shares

Name of Director	Exercise Price (HK$)	No. of share options outstanding as at 1 January 2011	No. of share options exercised during the year	No. of share options outstanding as at 31 December 2011	Percentage of total issued ordinary share capital of the Company as at 31 December 2011	No of underlying ordinary shares interested in	Note
Chen Yuhong	1.78	3,800,000	(3,800,000)	–	0.00%	–	(5)
	1.37	5,000,000	(5,000,000)	–	0.00%		(6)
Cui Hui *(Note 1)*	0.65	500,000	–	500,000	0.03%	500,000	(3)
Tang Zhenming	0.58	80,000	–	80,000	0.00%	4,180,000	(2)
	0.65	1,300,000	–	1,300,000	0.08%		(3)
	0.97	800,000	–	800,000	0.05%		(4)
	1.78	2,000,000	–	2,000,000	0.12%		(5)
	1.37	2,000,000	(2,000,000)	–	0.00%		(6)
Wang Hui	0.65	250,000	(250,000)	–	0.00%	1,200,000	(3)
	0.97	1,000,000	(1,000,000)	–	0.00%		(4)
	1.78	2,000,000	(800,000)	1,200,000	0.07%		(5)
	1.37	1,150,000	(1,150,000)	–	0.00%		(6)
Zeng Zhijie	1.78	450,000	–	450,000	0.03%	450,000	(5)

Notes:

(1) Dr. Cui Hui retired as a Non-executive Director of the Company on 18 May 2011.

(2) These share options were offered on 13 August 2003 under the share option scheme of the Company adopted on 2 June 2003 (the "Share Option Scheme") and accepted on 27 August 2003. The share options are exercisable for a period of 10 years from the date of offer subject to the following conditions:

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

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

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

(4) These share options were offered on 30 March 2006 under the Share Option Scheme and accepted on 27 April 2006. These share options are exercisable for a period of 10 years from the date of offer, subject to the following conditions:

Exercisable Period Commencing	Ending	Number of share options exercisable
30/03/2006	29/03/2016	25% of the total number of share options granted
30/03/2007	29/03/2016	25% of the total number of share options granted
30/03/2008	29/03/2016	25% of the total number of share options granted
30/03/2009	29/03/2016	25% of the total number of share options granted

(5) These share options were offered on 10 April 2007 under the Share Option Scheme and accepted on 8 May 2007. These share options are exercisable for a period of 10 years from the date of offer, subject to the following conditions:

Exercisable Period Commencing	Ending	Number of share options exercisable
10/04/2007	09/04/2017	25% of the total number of share options granted
10/04/2008	09/04/2017	25% of the total number of share options granted
10/04/2009	09/04/2017	25% of the total number of share options granted
10/04/2010	09/04/2017	25% of the total number of share options granted

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

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

Save as disclosed above and so far as was known to the Directors, as at 31 December 2011 none of the Directors or chief executive of the Company had any interests or short positions in the shares, debentures or underlying shares of the Company or its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the required standard of dealings by directors of listed issuers as referred to the Model Code for Securities Transactions, to be notified to the Company and the Stock Exchange.

As at 31 December 2011, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2011 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by, or leased to the Company or any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at 31 December 2011, none of the Directors were materially interested in any subsisting contract or arrangement which was significant in relation to the business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

During the year ended 31 December 2011, save as disclosed above, none of the Directors was granted any options to subscribe for shares of the Company. As at 31 December 2011, none of the Directors had any rights to acquire shares in the Company save as disclosed above.

Report of Directors

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the year ended 31 December 2011, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in the Model Code for Securities Transactions. Having made specific enquiry with all the Directors, the Directors had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the year ended 31 December 2011.

SHARE OPTION SCHEME

As at 31 December 2011, share options allowing for the subscription of an aggregate of 214,765,600 Shares granted to certain directors and employees of the Group pursuant to the Share Option Scheme were outstanding, with terms on the exercise of such share options granted as set out in note 36 to the financial statements and notes 2 to 6 in the section headed "Directors' Interests in Shares" above.

Save as disclosed above, no share options have been granted, exercised or have lapsed pursuant to the Share Option Scheme as at 31 December 2011.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the Directors, or their spouses or children under 18 years of age, had any rights to subscribe for the shares of the Company, or had exercised any such rights during the period.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiary, its holding company or any subsidiary of its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

During the year, the Group had entered into continuing connected transactions as set out below.

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

Date	:	20 December 2010
Floor area of leased premises	:	3,764.8792 square meters in aggregate
Term	:	1 January 2011 to 31 December 2011
Monthly rental	:	RMB276,718.63
Usage	:	as office premises

2. Lease of 5th Floor of Bock B of 55 Xue Yuan Nan Road, Haidian District, Beijing, PRC

Date	:	21 January 2011
Floor area of leased premises	:	641.0412 square meters in aggregate
Term	:	1 January 2011 to 31 December 2011
Monthly rental	:	RMB47,116.53
Usage	:	as office premises

3. Lease of Rooms 206-211 and Conference Room on 2nd Floor, Rooms 306-310 on 3rd Floor of Tower A2 at 18 Changsheng Road, Changping District, Beijing, PRC

Date	:	24 February 2011
Floor area of leased premises	:	2,444.7751 square meters in aggregate
Term	:	1 January 2011 to 31 December 2011
Monthly rental	:	RMB 161,355.16
Usage	:	as office premises

The various lease agreements entered into between certain subsidiaries of the Group and CNSS constituted a continuing connected transaction of the Company.

The Directors consider that the above continuing connected transactions of the Group have been entered into under normal commercial terms and in the ordinary and usual course of business, and the terms are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The total amount of rent payable by the Group to CNSS for the lease of office premises under the lease agreements, did not exceed the cap amount of RMB5,822,284 (equivalent to approximately HK$6,897,623).

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the above transactions.

Save as disclosed therein, there were no other transactions required to be disclosed as connected transactions and/or continuing connected transactions in accordance with the requirements of the Listing Rules.

Report of Directors

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers accounted for approximately 37.45% of the Group's total turnover and the Group's largest customer accounted for approximately 17.95% of the Group's total turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 21.82% of the Group's total purchases and the Group's largest supplier accounted for approximately 8.09% of the Group's total purchases.

None of the Directors, their associates, or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in any of the five largest suppliers or customers of the Group.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors, as at 31 December 2011, the interest of the persons (not being a Director or chief executive of the Company) in the shares of the Company which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in Shares

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of total issued ordinary share of the Company	Approximate percentage of total issued share* of the Company
Keen Insight Limited ("Keen Insight") *(Note 1)*	Beneficial interest	271.48	16.73%	15.61%
Hony Capital Fund 2008, L.P. *(Note 1)*	Interest of controlled corporation	271.48	16.73%	15.61%
Hony Capital Fund 2008 GP L.P. *(Note 1)*	Interest of controlled corporation	271.48	16.73%	15.61%
Hony Capital Fund 2008 GP Limited *(Note 1)*	Interest of controlled corporation	271.48	16.73%	15.61%
Hony Capital Management Limited ("Hony Capital") *(Note 1)*	Interest of controlled corporation	271.48	16.73%	15.61%
Zhao John Huan *(Note 2)*	Interest of controlled corporation	271.48	16.73%	15.61%

Name	Nature of interest	Approximate number of Shares (million)	Approximate percentage of total issued ordinary share of the Company	Approximate percentage of total issued share* of the Company
Right Lane Limited *(Note 2)*	Interest of controlled corporation	271.48	16.73%	15.61%
Legend Holdings Limited ("Legend Holdings") *(Note 3)*	Interest of controlled corporation	271.48	16.73%	15.61%
Chinese Academy of Sciences Holdings Co., Ltd. *(Note 4)*	Interest of controlled corporation	271.48	16.73%	15.61%
Chinese Academy of Sciences *(Note 4)*	Interest of controlled corporation	271.48	16.73%	15.61%
Beijing Lian Chi Zhi Yuan Management Consulting Center *(Note 5)*	Interest of controlled corporation	271.48	16.73%	15.61%
Beijing Lian Chi Zhi Tung Management Consulting Ltd. *(Note 5)*	Interest of controlled corporation	271.48	16.73%	15.61%
Greater Pacific Capital Partners, LP ("GPC") *(Note 6)*	Beneficial interest	119.27	7.35%	6.86%
EJF Capital LLC ("EJF") *(Note 7)*	Beneficial interest	116.40	7.18%	6.70%
Far East Holdings International Limited ("Far East Holdings") *(Note 8)*	Beneficial interest	113.99	6.99%	6.52%
China National Computer Software & Information Technology Service Corporation (Hong Kong) Limited ("CS&S(HK)") *(Note 9)*	Beneficial interest	100.32	6.18%	5.77%
Chinasoft National Software and Service Company Limited ("CNSS") *(Note 9)*	Interest of controlled corporation	100.32	6.18%	5.77%
Microsoft Corporation ("Microsoft") *(Note 10)*	Beneficial interest	97.25	5.99%	5.59%

* *The total number of issued share consists of 1,622,228,659 Ordinary Shares and 116,404,949 Convertible Notes, which could be converted into 116,404,949 Ordinary Shares.*

Report of Directors

Notes:

1. Hony Capital Fund 2008, L.P. holds the entire issued share capital of Keen Insight. Hony Capital Fund 2008 GP, L.P. is the sole general partner of Hony Capital Fund 2008, L.P.. Hony Capital Fund 2008 GP Limited, a wholly-owned subsidiary of Hony Capital, is the sole general partner of Hony Capital Fund 2008 GP, L.P.. Hony Capital is taken to be interested in the Shares in which Keen Insight is interested.

2. Zhao John Huan and Right Lane Limited are interested in 55% and 45% interests in Hony Capital respectively.

3. Legend Holdings Limited owns 100% interest in Right Lane Limited.

4. Chinese Academy of Sciences Holdings Co., Ltd, which is 100% owned by Chinese Academy of Sciences is taken to be interested in the Shares in which Keen Insight is interested. Chinese Academy of Sciences Holdings Co., Ltd owns 36% interest in Legend Holdings.

5. Beijing Lian Zhi Tung Management Consulting Ltd is the sole general partner of Beijing Lian Chi Zhi Yuan Management Consulting Center is taken to be interested in the Shares in which Keen Insight is interested. Beijing Lian Chi Zhi Yuan Management Consulting Center owns 35% interest in Legend Holdings.

6. GPC is interested in 119,268,639 Ordinary Shares.

7. EJF is an investment advisor registered under the Securities and Exchange Commission of the United States of America. EJF is interested in 116,404,949 Ordinary Shares which could be issued upon the full conversion of the Convertible Notes in the principal amount of RMB 200 million took place on 29 November 2010.

8. Far East Holdings is interested in 113,989,822 Ordinary Shares.

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

10. Microsoft is interested in 97,250,000 Ordinary Shares which was converted on 30 Deccember 2011 from 97,250,000 series A preferred shares of HK$0.05 each in the capital of the Company ("Series A Preferred Shares") allotted and issued on 6 January 2006.

Save as disclosed above, as at 31 December 2011, no other interest or short position in the Shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the year under review.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

COMPETING INTERESTS

As at 31 December 2011, none of the Directors or the management shareholders of the Company and their respective associates (as defined under the Listing Rules) had any interest in a business which competed or might compete with the business of the Group.

AFTER THE REPORTING PERIOD

Details of the subsequent event of the Group are set out in note 39 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board

Dr. Chen Yuhong
Chief Executive Officer

Beijing, 26 March 2012

Biographical Details of Directors and Senior Management

The following sets out the profile of the Directors and senior management of the Company:

DIRECTORS

Executive Directors

Dr. Chen Yuhong (陳宇紅), aged 49, is the Chairman and the Chief Executive Officer of the Company and is responsible for the overall business development of the Group. He has over 20 years of practicing experience in software information industry. Dr. Chen holds a doctorate degree in optics from Beijing Polytechnic University (北京理工大學) in 1991. Prior to joining the Company on 25 April 2000, Dr. Chen worked at China National Computer Software & Technology Service Corporation ("CS&S") from October 1996 to April 2000, subsequently was appointed as vice president in June 1999 and as senior vice president of CNTC (中軟網絡資訊技術有限公司) in December 2003. He has also been appointed a director of Chinasoft Resources. He was also a director of CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd., an associate company of CS&S from 1999 to March 2002. From June 1991 to October 1996, he was the deputy general manager of China Great Wall Computer Software Co., Ltd. (中國長城電腦軟體公司).

Dr. Tang Zhenming (唐振明), aged 49, is the senior vice president of the Company. He is responsible for the Group's training department. Dr. Tang obtained a doctorate degree in motor electronic control from Beijing Polytechnic University (北京理工大學) in 1994. Prior to joining the Company on 25 April 2000, Dr.Tang was employed by Beijing Institute of Technology Industrial Company (北京理工大學產業總公司) as deputy general manager from May 1995 to March 2000 and by American W&P Company, Beijing Office (美國W&P公司北京辦事處) as officer from December 1993 to March 1995.

Mr. Wang Hui (王暉), aged 39, is the senior vice president and chief strategic officer of the Company and has over 10 years of practicing experience in software information industry. Mr. Wang graduated from Tianjin University (天津大學) in 1995. Prior to joining the Company on 25 April 2000, Mr. Wang was a manager of China Greatwall Computer Software Co., Ltd. (中國長城計算機軟體公司) from 1995 to 2000.

Mr. Jiang Xiaohai (蔣曉海), aged 42, was appointed on 18 May 2011. Mr. Jiang possesses more than 15 years' working experience in the information technology and telecommunication industry. He graduated with a bachelor's degree in computer software from Xiangtan University in 1991. Mr. Jiang founded MMIM Technologies, Inc., which became a wholly-owned subsidiary of the Company since December 2010, in October 2004. Prior to MMIM Technologies, Inc. becoming a wholly-owned subsidiary of the Company, Mr. Jiang acted as its chairman and chief technology officer and his duties include research and development, operation support, frontier technology research and strategic management. From 1994 to 2002, he worked for UTStarcom (China) Inc., where he was wholly responsible for the research and development of digital service platforms and participated in and guided the design, development, implementation and after-sale services of many of China's first data service platforms on telecommunications, such as Intelligent Network, mobile SMS center, PHS data service platform, SMS Gateway, WAP Gateway and Call Center.

Biographical Details of Directors and Senior Management

Non-executive Director

Mr. Zhao John Huan (趙令歡), aged 49, was appointed on 29 July 2011. Mr. Zhao has many years of practicing experience in business management and investing operation. Mr. Zhao obtained a master degree in business administration from the Kellogg School of Management at Northwestern University in the United States of America ("USA") in June 1996, dual master degrees in electrical engineering and physics from Northern Illinois University in USA in 1987, and a bachelor degree in physics from Nanjing University (南京大學) in July 1984. Mr. Zhao established Hony Capital Fund 2008, L.P. in 2003 and serves as a president. Mr. Zhao also serves as a senior vice president and an executive director of the board of Legend Holdings Limited. Prior to joining Legend Holdings Limited, Mr. Zhao was a managing partner at eGarden Ventures, Ltd., chairman and chief executive officer of Infolio Inc. and Vadem Inc., a vice president and general manager at US Robotics Inc.. Prior to studying in USA, Mr. Zhao was a director of a workshop in Jiangsu Wireless Company.

Dr. Zhang Yaqin (張亞勤), aged 45, was appointed on 31 December 2008. Dr. Zhang is currently the corporate vice president of Microsoft Corporation ("Microsoft") and the chairman of Microsoft China Research & Development Group, responsible for driving Microsoft's overall research and development efforts in China. He joined Microsoft in January 1999 and served as the managing director and chief scientist of Microsoft Research Asia. Dr. Zhang is also a director of Microsoft (China) Company Limited, Microsoft Mobile Technology (Shenzhen) Company Limited and Shanghai MSN Network Communications Technology Company Limited. Dr. Zhang is a Fellow of the Institute of Electrical and Electronics Engineers.

Dr. Song Jun (宋軍), aged 50, was appointed on 18 May 2011. Dr. Song has over 20 years of extensive experience in corporate management and operation. Dr. Song obtained a doctorate degree from Tsinghua University in 1990. He is a professor and also currently the vice president and secretariat of Tsinghua University Education Foundation. He had held the positions of chairman and president of Tsinghua Holdings Co., Ltd. and director or chairman of over ten affiliates of Tsinghua Holdings Co., Ltd. Dr. Song is currently an independent non-executive director of China Glass Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited and an independent director of Gemdale Corporation, a company listed on the Shanghai Stock Exchange.

Mr. Lin Sheng (林盛), aged 37, was appointed on 29 July 2011. Mr. Lin obtained a master degree in economics in July 1999, and also a dual bachelor degree in engineering physics and business administration from Tsinghua University in July 1997. Mr. Lin joined Hony Capital in April 2003 and mainly responsible for the medicine, medical services and telecom, media and technology industry research and investment. Mr. Lin was a senior officer of Lenovo from April 2000 to April 2003, where he was responsible for strategic planning, market positioning, product design and business line operations.

Ms. Shen Lipu (沈麗普), aged 37, was appointed on 18 May 2011. Ms. Shen is an economist. She obtained a bachelor's degree from Hangzhou Dianzi University, and a master's degree from Central University of Finance and Economics. Ms. Shen worked in the international cooperation department, and the corporate & asset management department of CNSS. She held the positions of deputy general manager and general manager of the corporate & asset management department of CNSS since 2004, and from 2010, she has been serving as the general manager of the investment department.

Biographical Details of Directors and Senior Management

Dr. Cui Hui (崔輝), aged 51, was retired on 18 May 2011. Dr. Cui has about 20 years of experience in corporate management. Dr. Cui graduated from Jilin University (吉林大學) with a doctorate degree in economics. Prior to joining the Company on 25 April 2000, he was appointed as senior vice president of CNTC (中軟網絡資訊技術有限公司) (subsequently renamed as CNSS) in December 2003. Dr. Cui worked for deputy general manager from July 1999 to January 2000 and was the vice president of CS&S in 2000. He was chairman of the board and general manager of Chinasoft Tonghe Systems Integration Company Ltd. (中軟同和系統集成有限公司) from January 1998 to June 1999. From May 1992 to December 1997, Dr. Cui was the deputy general manager and general manager of Oriental Technology (Beijing) Company Ltd (東方科技（北京）有限公司). Dr. Hui served as the deputy department head in CS&S in August 1983 to April 1992. Currently, he is the director of CNSS.

Mr. Fang Jun (方軍), aged 50, was retired on 18 May 2011. Mr. Fang is a member of the Chinese Institute of Certified Public Accountants. He studied accountancy in Shanghai Collegeof Finance and Economics (subsequently renamed as Shanghai University of Finance and Economics) and graduatedin 1982. He also holds a master degree in management. Mr. Fang is currently the financial controller of CNSS which is a substantial shareholder of the Company. Before joining CNSS in 2004, Mr. Fang was a financial controller of SED Electronics Group (深圳桑達電子集團有限公司) since 2003. Mr. Fang is also a non-executive director of certain companies in PRC engaged in information technology and investment.

Mr. Liu Zheng (劉征), aged 39, was retied on 18 May 2011. Mr. Liu has 10 years of experience in the financial industry and graduated from the Finance and Banking Institute of China (中國金融學院) in 1992 with a bachelor's degree in economics. Mr. Liu has been a general manager of ITG since April 2000. From 1997 to 2000, he was the general manager of Ding Rong Investment Management Co., Ltd (鼎榮投資管理公司). Mr. Liu worked for China Everbright Bank from 1992 to 1997.

Independent Non-executive Director

Mr. Zeng Zhijie (曾之杰), aged 44, was appointed on 21 April 2003. Mr. Zeng received his B.S. in Economics from the University of Nagasaki, Japan, and M.M. from Stanford University. Mr. Zeng is currently Managing Partner of Kaixin Investment, a founded by China Development Bank and CITIC Capital. He is currently chairman of China Special Article Logistics Company. Prior to joining Kaixin Investment, he served as managing director of Walden International since 2001, for which he was mainly responsible for venture investments in China and other Asia countries. Prior to Walden International, Mr. Zeng worked for Mitsubishi Corporation in Tokyo, Japan and CITIC Pacific Ltd. in Hong Kong. At present, Mr. Zeng serves as director or independent director for several listed companies: China Greatwall Computer Shenzhen Co., Ltd, Hunan Talkweb Information System Ltd (Shenzhen Stock Exchange), Shanghai AJ Corporation (Shanghai Stock Exchange), E-House and Vimicro (Nasdaq). Other companies he serves as director: AutoNavi Software Co., Ltd, Landv Limited (Tianjin), State Microelectronics, the executive director of AAMA China branch and board member of WRSACC 2005 Committee.

Dr. Leung Wing Yin Patrick (梁永賢), aged 55, was appointed on 22 March 2006. Dr. Leung has many years working experience in internal auditing and corporate finance in banks. He holds a doctor's degree in accounting from the University of New South Wales, Australia, and is a member of Certified Public Accountants of Australia, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute. Dr. Leung is an Assistant Professor and a Doctor Student Supervisor at the School of Accounting and Finance of the Hong Kong Polytechnic University. Dr. Leung previously worked as a consultant in a firm of Certified Public Accountants and as a Senior Lecturer at Charles Sturt University, Australia and the City University of Hong Kong.

Biographical Details of Directors and Senior Management

Mr. Xu Zeshan (徐澤善), aged 63, was appointed on 8 May 2008. Mr. Xu is a senior engineer and has many years of experience in administration and corporate management. Since January 2003 to present, Mr. Xu acted as the deputy manager and then the manager of China Electronics Technology Group Corporation Industrial Park, the Chairman of the Board of Yangtse River Data Company Limited (長江數據股份有限公司), the chairman of the Board of China Information & Electronics Development Inc. Ltd. (Wuhan) and the managing director of China Electricity Investment Development Company Limited. From March 1998 to December 2002, he was the head of the 49th Research Institute of the Ministry of Information Industry (which was renamed as China Electronics Technology Group Corporation the 49th Research Institute in March 2002). From May 1995 to March 1998, he was the deputy mayor of Zibo in Shandong Province. He is specialised in the research and technological management of sensors and the related systems and was awarded the ministry level Technology Improvement second-ranked prize.

SENIOR MANAGEMENT

Mr. Fok Ming Fuk, William (霍銘福), aged 50, is the qualified accountant and company secretary of the Company. He has over 20 years experience in auditing and financial management. Prior to joining the Company on 17 May 2004, Mr. Fok worked as the chief financial officer of Portolan Commerce Solutions, a software developer engaged in enterprise resources planning in Germany. Mr. Fok got a master's degree in business administration from Henley Management College, England and is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants, an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Taxation Institute of Hong Kong and Certified Tax Advisor in Hong Kong.

Mr. Simon Chung (鍾鎮銘), aged 50, is the global chief operating officer of the Company and the chief executive officer in ITO business of Japan. He is responsible for the overall daily operation of the Group. He has over 20 years of experience in IT professional services covering account management, service delivery management, technical sales, quality assurance and control, project management and customer support operation in the area of public government, telecom and finance sectors. He holds a bachelor's degree in Computing Mathematics from the University of Wollongong in Australia. Prior to joining the Compnay, he was a project director of Atos Origin responsible for the management of large scale projects and service delivery for major clients in Asia Pacific from 1996 to 2005. He was an information technology officer and manager from 1991 to 1995 for the department of defense in Australia (Navy division). He was an IT database leader in the financial department of a government sector from 1989 to 1991.

Mr. Simon Zhang (張崇濱), aged 49, is the senior vice president and chief human resources officer of the Company. He is responsible for the human resources management of the Company. Mr. Zhang worked in Shaanxi Provincial Tourism Bureau after graduating from the Department of Economics of Northwest University in 1987. Prior to joining the Company, he was the General Manager of Chongqing Three Gorges Liner Corporation (under China International Travel Service in Xi'an) from 1997 to 1999. From 1994 to 1997, he was the Deputy General Manager and General Manager of Northwestern branch in Weijiang Plastics Co. Ltd., which was a Sino- US joint venture. From 1992 to 1994, Mr. Zhang was employed as Chief Business Representative in U.S. Phonenix Medical Equipment Company.

Biographical Details of Directors and Senior Management

Mr. Han Shenyao (韓申瑤), aged 56, is the senior vice president and chief executive officer of professional services of the Company and the president and chief executive officer of Shanghai Huateng Software System Co. Ltd. (上海華騰軟件系統有限公司). From 1984 to 1997, Mr. Han served for the Shanghai Municipal Government as the Director for Shanghai Municipal Office Information Processing Center and Director of the Department of Technologies of the Shanghai Municipal Government General Office, during which he served as a member of the expert group of Shanghai Information Port and Deputy Head of the expert group of the Decision making System of National Executive Heads Office. Mr. Han, as one of the first group of EMBA graduates in China-Europe International Business School (CEIBS), joined CEIBS in 1997 and had worked as an officer of the President's Office. Mr. Han participates a number of principalships and is also a member of Chinese People's Political Consultative Conference in Xuhui district of Shanghai, Vice President of Shanghai Computer Institute, and Vice President of Shanghai Software Industry Association and has been elected as 2008 Shanghai Excellent Software Enterpriser.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Fok Ming Fuk, William (霍銘福), is the qualified accountant and company secretary of the Company. Please refer to the paragraph headed "Senior Management" in this section above for further details regarding his background.

COMPLIANCE OFFICER

Dr. Chen Yuhong (陳宇紅), is the compliance officer of the Company. Please refer to the paragraph headed "Directors" in this section above for further details regarding his background.

Deloitte.
德勤

TO THE MEMBERS OF CHINASOFT INTERNATIONAL LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Chinasoft International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 59 to 147, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Turnover	5	2,243,754	1,601,211
Cost of sales		(1,514,263)	(1,088,007)
Gross profit		729,491	513,204
Other income, gains and losses		46,036	35,264
Selling and distribution costs		(148,706)	(94,203)
Administrative expenses		(309,278)	(241,444)
Research and development cost expensed		(45,989)	(39,086)
Allowance for doubtful debts		(17,417)	(8,276)
Amortisation of intangible assets and prepaid lease payments		(47,514)	(29,889)
Impairment loss recognised in respect of goodwill	14	(68,982)	–
Finance costs	6	(23,898)	(8,102)
Share of results of associates	15	2,618	2,650
Gain arising from changes in fair value of contingent consideration payable on acquisition of a business	33(b)	71,718	–
Loss arising from changes in fair value of redeemable convertible preferred shares	27	(37,287)	(145,197)
Loss on deemed disposal of associates		(105)	–
Profit (loss) before taxation		150,687	(15,079)
Taxation	7	(29,611)	(14,657)
Profit (loss) for the year	8	121,076	(29,736)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		(680)	1,197
Total comprehensive income (loss) for the year		120,396	(28,539)
Profit (loss) for the year attributable to:			
Owners of the Company		110,594	(40,133)
Non-controlling interests		10,482	10,397
		121,076	(29,736)
Total comprehensive income (loss) attributable to:			
Owners of the Company		109,918	(38,948)
Non-controlling interests		10,478	10,409
		120,396	(28,539)
Earnings (loss) per share	11		
Basic		RMB 0.0819	RMB (0.0377)
Diluted		RMB 0.0756	RMB (0.0377)

Consolidated Statement of Financial Position

At 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	12	**131,456**	108,871
Intangible assets	13	**157,172**	181,316
Goodwill	14	**657,129**	729,111
Interests in associates	15	**25,551**	21,758
Available-for-sale investment	16	**25,000**	–
Prepaid lease payments	17	**469**	643
Deferred tax assets	26	**10,069**	9,025
		1,006,846	1,050,724
Current assets			
Inventories	18	**24,405**	18,441
Trade and other receivables	19	**760,648**	557,160
Prepaid lease payments	17	**178**	178
Amounts due from associates	15	**5,859**	2,430
Amounts due from customers for contract work	20	**363,683**	251,278
Amounts due from related companies	23	**394**	414
Pledged deposits	21	**12,571**	8,826
Bank balances and cash	21	**772,950**	484,172
		1,940,688	1,322,899
Current liabilities			
Amounts due to customers for contract work	20	**56,142**	58,066
Trade and other payables	22	**613,149**	460,799
Bills payable	24	**21,525**	6,213
Amounts due to related companies	23	**3,765**	147
Dividend payable to shareholders		**75**	79
Taxation payable		**29,849**	14,770
Borrowings	25	**165,600**	186,950
Consideration payable on acquisition of businesses	33(b)	**–**	74,430
		890,105	801,454
Net current assets		**1,050,583**	521,445
Total assets less current liabilities		**2,057,429**	1,572,169

Consolidated Statement of Financial Position

At 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current liabilities			
Deferred tax liabilities	26	**24,767**	32,784
Consideration payable on acquisition of businesses	33(b)(c)	**5,557**	17,830
Redeemable convertible preferred shares	27	**–**	254,443
Convertible loan notes	28	**193,820**	165,109
Bank borrowings	25	**29,600**	–
		253,744	470,166
		1,803,685	1,102,003
Capital and reserves			
Share capital	29	**77,879**	61,133
Share premium	30	**1,392,651**	807,664
Reserves	30	**255,142**	167,651
Equity attributable to owners of the Company		**1,725,672**	1,036,448
Non-controlling interests		**78,013**	65,555
Total equity		**1,803,685**	1,102,003

The consolidated financial statements on pages 59 to 147 were approved and authorised for issue by the board of directors on 26 March 2012 and are signed on its behalf by:

Dr. Chen Yuhong
DIRECTOR

Dr. Tang Zhenming
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to the owners of the Company											
	Share capital RMB'000	Share premium RMB'000 (note 30)	Translation reserve RMB'000	Share options reserve RMB'000	Convertible loan notes reserves RMB'000	General reserve fund RMB'000 (note 30)	Statutory enterprise expansion fund RMB'000 (note 30)	Statutory surplus reserve fund RMB'000 (note 30)	Accumulated profits RMB'000	Total RMB'000	Attributable to the non-controlling interests RMB'000	Total RMB'000
At 1 January 2010	52,357	519,389	(1,891)	64,714	–	15,793	12,978	4,121	58,596	726,057	50,957	777,014
Loss for the year	–	–	–	–	–	–	–	–	(40,133)	(40,133)	10,397	(29,736)
Other comprehensive income for the year												
– Exchange differences arising on translation of foreign operations	–	–	1,185	–	–	–	–	–	–	1,185	12	1,197
Total comprehensive income for the year	–	–	1,185	–	–	–	–	–	(40,133)	(38,948)	10,409	(28,539)
Issue of ordinary shares upon partial conversion of redeemable convertible preferred shares	1,319	43,032	–	–	–	–	–	–	–	44,351	–	44,351
Acquisition of businesses	5,140	194,861	–	–	–	–	–	–	–	200,001	2,940	202,941
Capital contribution from non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	1,249	1,249
Issue of ordinary shares upon exercise of share options	2,317	50,382	–	(11,903)	–	–	–	–	–	40,796	–	40,796
Recognition of equity-settled share-based payments	–	–	–	27,669	–	–	–	–	–	27,669	–	27,669
Recognition of equity component of convertible loan notes	–	–	–	–	36,522	–	–	–	–	36,522	–	36,522
Appropriations	–	–	–	–	–	–	2,158	3,540	(5,698)	–	–	–
At 31 December 2010	61,133	807,664	(706)	80,480	36,522	15,793	15,136	7,661	12,765	1,036,448	65,555	1,102,003
Profit for the year	–	–	–	–	–	–	–	–	110,594	110,594	10,482	121,076
Other comprehensive income for the year												
– Exchange differences arising on translation of foreign operations	–	–	(676)	–	–	–	–	–	–	(676)	(4)	(680)
Total comprehensive income for the year	–	–	(676)	–	–	–	–	–	110,594	109,918	10,478	120,396
Issue of ordinary shares upon subscription	6,237	225,211	–	–	–	–	–	–	–	231,448	–	231,448
Issue of ordinary shares upon partial conversion of redeemable convertible preferred shares	6,628	264,711	–	–	–	–	–	–	–	271,339	–	271,339
Reclassification to liability component (note 28)	–	–	–	–	(21,355)	–	–	–	–	(21,355)	–	(21,355)
Capital contribution from non-controlling interest of subsidiaries	–	–	–	–	–	–	–	–	–	–	1,980	1,980
Issue of ordinary shares upon exercise of share options	3,881	95,065	–	(25,933)	–	–	–	–	–	73,013	–	73,013
Recognition of equity-settled share-based payments	–	–	–	24,861	–	–	–	–	–	24,861	–	24,861
Cancellation of share options	–	–	–	(1,186)	–	–	–	–	1,186	–	–	–
Appropriations	–	–	–	–	–	–	11,613	4,492	(16,105)	–	–	–
At 31 December 2011	77,879	1,392,651	(1,382)	78,222	15,167	15,793	26,749	12,153	108,440	1,725,672	78,013	1,803,685

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	NOTE	2011 RMB'000	2010 RMB'000
Operating activities			
Profit (loss) before taxation		**150,687**	(15,079)
Adjustments for:			
Impairment loss recognised in respect of goodwill		**68,982**	–
Amortisation of intangible assets and prepaid lease payments		**47,514**	29,889
Depreciation of property, plant and equipment		**39,047**	35,377
Loss arising from changes in fair value of redeemable convertible preferred shares		**37,287**	145,197
Share option expenses		**24,861**	27,669
Finance costs		**23,898**	8,102
Allowance for doubtful debts		**17,417**	8,276
Loss on disposal of property, plant and equipment		**573**	266
Loss on deemed disposal of associates		**105**	–
Net foreign exchange gain		**(12,589)**	(5,002)
Gain arising from changes in fair value of contingent consideration payable on acquisition a business		**(71,718)**	–
Interest income		**(3,802)**	(1,392)
Share of results of associates		**(2,618)**	(2,650)
Operating cash flows before movements in working capital		**319,644**	230,653
Increase in trade and other payables		**150,556**	114,801
Increase in bills payable		**15,312**	4,958
Increase in amounts due to related companies		**–**	19
Increase in trade and other receivables		**(220,905)**	(177,188)
Increase in amounts due from customers for contract work		**(112,405)**	(90,259)
Increase in inventories		**(5,964)**	(3,714)
Decrease in amounts due to customers for contract work		**(1,924)**	(21,679)
Cash generated from operations		**144,314**	57,591
Income taxes paid		**(27,056)**	(19,789)
Taxation refunded		**3,463**	198
Net cash generated from operating activities		**120,721**	38,000
Investing activities			
Interest received		**3,802**	1,392
Proceeds from disposal of property, plant and equipment		**809**	115
Repayment from related companies		**20**	297
Purchases of property, plant and equipment		**(63,110)**	(48,878)
Acquisition of available-for-sale investment		**(25,000)**	–
Development costs paid		**(19,489)**	(9,807)
(Increase) decrease in pledged deposits		**(3,745)**	4,044
Purchases of software		**(3,725)**	–
Advances to associates		**(3,429)**	(2,430)
Investments in associates		**(1,280)**	(1,680)
Acquisition of businesses	33(a)(b)	**–**	(19,823)
Prepayment for acquisition of technical knowhow		**–**	(579)
Net cash used in investing activities		**(115,147)**	(77,349)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
Financing activities		
Proceeds from issue of shares	**231,448**	–
New bank loans raised	**217,200**	206,950
Proceeds from exercise of share options	**73,013**	40,796
Advance from a related company	**3,762**	–
Capital contribution from non-controlling interests	**1,980**	1,249
Repayment of borrowings	**(208,950)**	(107,000)
Deferred payments for acquisition of businesses	**(11,985)**	(20,140)
Interest paid	**(11,232)**	(5,860)
Interest paid on redeemable convertible preferred shares	**(6,008)**	(6,697)
Interest paid on convertible loan notes	**(5,310)**	–
Repayment to related companies	**(144)**	–
Proceeds from issue of convertible loan notes	**–**	200,000
Repayment of other loan	**–**	(64,859)
Repayment to third party	**–**	(16,995)
Net cash from financing activities	**283,774**	227,444
Net increase in cash and cash equivalents	**289,348**	188,095
Cash and cash equivalents at beginning of the year	**484,172**	297,029
Effect of foreign exchange rate changes	**(570)**	(952)
Cash and cash equivalents at end of the year, representing bank balances and cash	**772,950**	484,172

1. GENERAL INFORMATION OF THE COMPANY

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

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

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

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

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

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

Particulars of the Company's subsidiaries at 31 December 2011 and 2010 are set out as follows:

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2011	2010	**2011**	2010	
			%	%	**%**	%	
Chinasoft International Holdings Limited	Samoa/ Hong Kong ("HK")	US$1	**100**	100	**–**	–	Investment holding
Chinasoft International (Hong Kong) Limited	HK	HK$100	**–**	–	**100**	100	Investment holding and trading of standalone software products
Chinasoft International Treasury Management (Hong Kong) Limited	HK	HK$1	**–**	–	**100**	100	Inactive

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2011 %	2010 %	2011 %	2010 %	
Chinasoft Resource (International) Limited	HK	HK$100,000	–	–	100	100	Provision of IT outsourcing services
Chinasoft International Inc.	United States of America ("USA")	US$0.01	–	–	100	100	Provision of IT outsourcing services
北京中軟國際信息技術有限公司 Chinasoft International Information Technology Limited ("Chinasoft Beijing") (Note iv)	People's Republic of China (other than HK) ("PRC")	RMB50,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services, software development and trading of standalone software and hardware products
中軟國際(廣州)信息技術有限公司 Chinasoft International (Guang Zhou) Information Technology Limited (Note iv)	PRC	HK$5,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟總公司計算器培訓中心 Computer Training Center of CS&S (Note iii)	PRC	RMB500,000	–	–	100	100	Provision of IT training services
北京中軟國際教育科技有限公司 Beijing Chinasoft International Education Technology Co., Ltd.	PRC	RMB1,000,000	–	–	70	70	Development of educational software

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group Directly 2011 %	Directly 2010 %	Indirectly 2011 %	Indirectly 2010 %	Principal activities
無錫中軟國際信息技術培訓有限公司 Wuxi Chinasoft International Information Technology Training Co., Ltd.	PRC	RMB2,000,000	–	–	70	70	Provision of IT training services
中軟國際(昆明)信息技術有限公司 Chinasoft International (Kunming) Information Technology Limited (Note iv)	PRC	HK$8,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟國際(湖南)信息技術有限公司 Chinasoft International (Hunan) Information Technology Limited (Note iv)	PRC	US$1,000,000	–	–	100	100	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟賽博資源軟件技術(天津)有限公司 CS&S Cyber Resources Software Technology (Tianjin) Co., Ltd. ("Cyber Resources") (Note iv)	PRC	RMB5,000,000	–	–	76	76	Provision of IT outsourcing services
廈門中軟海晟信息技術有限公司 Xiamen Chinasoft Haisheng International Technology Limited	PRC	RMB50,000,000	–	–	51	51	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
北京中科久輝信息自動化有限公司 Sino Sunnyever Automation and Information Co., Ltd. ("Sino Sunnyever")	PRC	RMB8,000,000	–	–	100	100	Provision of solutions services

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2011 %	2010 %	2011 %	2010 %	
北京中軟資源信息科技服務有限公司 Chinasoft Resources Information Technology Services Limited ("Chinasoft Resources Beijing") (Note iv)	PRC	US$800,000	–	–	100	100	Provision of IT outsourcing services
深圳市中軟資源技術服務有限公司 Shenzhen Chinasoft Resources Information Technology Services Limited ("Chinasoft Resources Shenzhen")	PRC	RMB5,000,000	–	–	100	100	Provision of IT outsourcing services
上海中軟資源技術服務有限公司 Shanghai Chinasoft Resources Information Technology Services Limited ("Chinasoft Resources Shanghai")	PRC	RMB3,000,000	–	–	80	80	Provision of IT outsourcing services
日本創智株式會社 Japan Powerise Co., Ltd.	Japan	JPY22,500,000	–	–	100	100	Provision of IT outsourcing services
Hinge Global Resource Inc. ("HGR")	Cayman Islands	US$3,956,000	97.35	97.35	–	–	Investment holding
上海華騰軟件系統有限公司 Shanghai Huateng Software Systems Co., Ltd. ("Shanghai Huateng") (Note iv)	PRC	US$8,000,000	–	–	86.43	86.43	Development and provision of IT system
大連全數科技有限公司 Dalian Digitall Technology Co., Ltd. ("Dalian Digitall") (Note i)	PRC	JPY25,000,000	–	–	58.41	58.41	Provision of IT outsourcing services

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2011 %	2010 %	2011 %	2010 %	
大連信華軟件技術有限公司 Dalian Xinhua Software Co., Ltd. (Note iv)	PRC	US$150,000	–	–	97.35	97.35	Provision of IT outsourcing services
大連信華信息技術有限公司 Dalian Xinhua Infotech Co., Ltd. (Note iv)	PRC	US$250,000	–	–	97.35	97.35	Provision of IT outsourcing services
株式會社東京信華 Kabushiki Kaisha Tokyo Xinhua	Japan	JPY10,000,000	–	–	97.35	97.35	Provision of IT outsourcing services
DoubleBridge Technologies, Inc.	USA	US$2,204,400	–	–	97.35	97.35	Provision of IT outsourcing services
長沙中軟教育科技有限公司 Excellency Training Center of CSI (Changsha)	PRC	RMB1,500,000	–	–	70	70	Provision of IT training services
重慶中卓教育諮詢有限公司 Excellency Training Center of CSI (Chongqing)	PRC	RMB1,500,000	–	–	70	70	Provision of IT training services
大連中軟卓越信息技術有限公司 Dalian Excellency Information & Technology Ltd.	PRC	RMB500,000	–	–	70	70	Provision of IT training services
大連中軟卓越計算機培訓中心 Excellency Training Center of CSI (Dalian) (Note iii)	PRC	RMB1,000,000	–	–	70	70	Provision of IT training services
廈門中軟卓越教育服務有限公司 Excellency Training Center of CSI (Xiamen)	PRC	RMB1,000,000	–	–	70	70	Provision of IT training services

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group Directly 2011 %	Directly 2010 %	Indirectly 2011 %	Indirectly 2010 %	Principal activities
天津開發區中軟卓越信息技術有限公司 Excellency Training Center of CSI (Tianjin)	PRC	RMB3,000,000	–	–	70	70	Provision of IT training services
北京中軟國際教育科技南京有限公司* Excellency Training Center of CSI (Nanjing)	PRC	RMB1,000,000	–	–	70	–	Provision of IT training services
中軟國際資源信息技術(無錫)有限公司 Chinasoft International Information Technology (Wuxi) Limited (Note iv)	PRC	USD3,000,000	–	–	100	100	Provision of IT outsourcing services
北京廣域齊民信息技術有限公司 Beijing Guangyuqimin Information Technology Limited ("Guangyuqimin")	PRC	RMB506,200	–	–	100	100	Provision of IT solutions
深圳市金華業軟件系統有限公司 Shenzhen Jinhuaye Software Ltd. ("Shenzhen Jinhuaye")	PRC	RMB1,000,000	–	–	100	100	Provision of IT outsourcing Services
蘇州華騰軟件系統有限公司 Suzhou Huateng Software Systems Co., Ltd	PRC	RMB2,000,000	–	–	86.43	86.43	Provision of solutions, IT outsourcing, IT consulting services and trading of standalone software and hardware products
中軟國際電子商務有限公司* Chinasoft International E-Co. Ltd.	PRC	RMB6,027,271/ RMB30,000,000	–	–	67	–	Provision of e-tickets agency services
中軟國際(中國)科技有限公司* Chinasoft International (China) Technology Limited (Note iv)	PRC	HK$20,000,000/ HK$100,000,000	–	–	100	–	Provision of solutions, IT outsourcing, IT consulting

1. GENERAL INFORMATION OF THE COMPANY – continued

Name of company	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group				Principal activities
			Directly		Indirectly		
			2011	2010	**2011**	2010	
			%	%	**%**	%	
南京中軟資源科技服務有限公司 Nanjing Chinasoft Resources Information Technology Services Limited (Note iv)	PRC	US$6,000,000	**–**	–	**100**	100	Provision of IT outsourcing services
漢普管理諮詢(中國)有限公司 Han Consulting (China) Ltd. ("Han Consulting") (note 33(a))	PRC	RMB55,026,571	**–**	–	**51**	51	Provision of consulting services
掌中無限控股有限公司 MMIM Technologies Inc. ("MMIM") (note 33(b))	Cayman Islands	US$561	**100**	100	**–**	–	Investment holding
掌中無限信息服務有限公司 Mobile Instant Messaging and Information System, Ltd.	HK	HK$1	**–**	–	**100**	100	Provision of mobile internet technology services
北京掌迅互動信息技術有限公司 MMIM Interactive Co., Ltd. ("MMIM Interactive") (Note iv)	PRC	US$13,150,000	**–**	–	**100**	100	Provision of mobile internet technology services
北京掌中無限信息技術有限公司 MMIM Info. Technology Co., Ltd. (Note ii)	PRC	RMB10,000,000	**–**	–	**100**	100	Provision of mobile internet technology services
北京靈息互動信息技術有限公司 MMIM Palm Interactive Co., Ltd. (Note ii)	PRC	RMB10,000,000	**–**	–	**100**	100	Provision of mobile internet technology services
北京掌上靈息科技有限公司 MMIM Palm Co., Ltd. (Note ii)	PRC	RMB500,000	**–**	–	**100**	100	Provision of mobile internet technology services

1. GENERAL INFORMATION OF THE COMPANY – continued

* Newly established during the year ended 31 December 2011.

None of the subsidiaries had any debt securities outstanding at 31 December 2011 or at any time during the year.

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

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

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

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

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

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

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

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

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

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

Amendments to HKAS 1 Presentation of Financial Statements

(as part of Improvements to HKFRSs issued in 2010)

The amendments to HKAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the consolidated statement of changes in equity. Such amendments have been applied retrospectively, and hence the disclosures in these consolidated financial statements have been modified to reflect the change.

New and revised HKFRSs issued but not yet effective

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

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[1]
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (Revised 2011)	Employee Benefits[2]
HKAS 27 (Revised 2011)	Separate Financial Statements[2]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

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

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the amendments to HKFRS 7 and the amendments to HKAS 32 will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 January 2013 and 1 January 2014 respectively. The relevant disclosure will be retrospectively modified accordingly when the amendments are applied in the future accounting periods.

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that HKFRS 9 will be adopted in the Group's financial year beginning on 1 January 2015 and the application of HKFRS 9 may have an impact on the classification and measurement of the Group's available-for-sale equity investment measured at cost less impairment. Other than this, the directors do not expect the adoption of HKFRS 9 will have material impact on the Group's consolidated financial statements based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2011.

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time. The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 January 2013. The application of these five standards may have impacts on amounts reported in the consolidated financial statements and will result in more extensive disclosures.

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

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning on 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group’s equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of consolidation – continued

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Business combinations that took place on or after January 1 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations – continued

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

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

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

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

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

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

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

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations – continued

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

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

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

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

Business combinations that took place prior to 1 January 2010

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill

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

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

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

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Interests in associates – continued

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits and instalments received from purchasers in respect of sales of goods prior to meeting the above criteria on revenue recognition are included in the consolidated statement of financial position under current liabilities.

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

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Project-based development contracts

Where the outcome of a contract for project-based development can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total costs for each contract, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. Contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Government grants

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

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Retirement benefits costs

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

Borrowing costs

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

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

Deferred tax assets and liabilities is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets or liabilities.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

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

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets – continued

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities or from the development phase of an internal project is recognised if, and only if, all of the following have been demonstrated:

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Prepaid lease payments

Prepaid lease payments represent the right to use a trademark and is amortised on a straight-line basis over the effective period stipulated on the trademark license registration certificate.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from associates, amounts due from related companies, pledged deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For available-for-sale equity investment, a significant or prolonged decline in fair value of the investment below its cost is objective evidence of impairment.

For other financial assets, objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables from third parties and trade receivables from related companies, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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

Financial liabilities at fair value through profit or loss

Redeemable convertible preferred shares issued by the Company comprise the host debt instrument and the embedded derivatives (including the redemption option and conversion option) are designated as financial liabilities at FVTPL on initial recognition. The conversion option allows the holder to convert the preferred shares into ordinary shares and will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, and therefore it does not meet the equity classification under HKAS 32. At the end of each reporting period subsequent to initial recognition, the entire redeemable convertible preferred shares are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Transaction costs that relate to the issue of the redeemable convertible preferred shares designated as financial liabilities at FVTPL are charged to profit or loss immediately.

Other financial liabilities

Other financial liabilities including trade and other payables, bills payable, amounts due to related companies, dividend payable to shareholders and borrowings are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Convertible loan notes

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

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

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

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

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

Equity-settled share-based payment transactions

Share options granted to employees and customers of the Group

In relation to share options granted after 7 November 2002 and vested before 1 January 2005, the financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Equity-settled share-based payment transactions – continued

Share options granted to employees and customers of the Group – continued

The Group has applied HKFRS 2 to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005 and share options that were granted on or after 1 January 2005. For share options granted to employees on or after 1 January 2005, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options granted to customers of the Group, share options are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counter parties render services, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

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

Allowance for doubtful debts

In determining whether there is objective evidence of allowance for doubtful debts, the Group takes into consideration the collectability, aged analysis of trade receivables and estimation of future cash flows. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. The amount of the allowance for doubtful debts is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, an allowance for doubtful debts may arise. As at 31 December 2011, the carrying amount of trade receivables is RMB639,934,000 (2010: RMB455,011,000) which is after allowance for doubtful debts of RMB79,307,000 (2010: RMB61,890,000) (see note 19).

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated. For certain CGUs, the recoverable amount determination is based on the value in use calculation which requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The recoverable amount determination for other CGUs is based on an estimation of a weighted average of market value multiples as determined by comparable companies in the relevant industry. Should there be any change in the market conditions, it may lead to a change in the results of the determination and impairment of goodwill may be required. During the year ended 31 December 2011, the Group recognised an impairment loss of RMB68,982,000 (2010: nil). As at 31 December 2011, the carrying amount of goodwill is RMB657,129,000 (2010: RMB729,111,000). Details of the recoverable amount calculation are disclosed in note 14.

Project-based development contracts

Revenue from project-based development contracts is recognised under the percentage of completion method which requires estimation made by management. The Group's management estimates the contract costs, outcome and expected cost to complete the contacts based on the budgets prepared for the contracts. Because of the nature of the activities, management reviews and revises the estimates of both contract outcome and expected costs to complete in the budget prepared for each contract as the contract progresses. Any revisions to estimates of contract outcomes and expected costs to completion would affect contract revenue recognition. Should expected costs to complete exceed contract revenue, a provision for contract loss would be recognised.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Convertible loan notes

The liability component of the convertible loan notes is carried at amortised cost using effective interest rate. In deriving the initial value of the liability component, the Group's management adopted the discounted cash flow method. In the discounted cash flow method the effective interest rate is a key estimation. The Group estimates the effective interest rate by reference to certain factors such as average yield of comparable bonds and illiquidity risk premium. Should there be any change in the factors of the effective interest rate, it may lead to a change in the determination on the value of the liability component of any other convertible loan notes arrangements the Group may have in future. As at 31 December 2011, the carrying amount of the liability component of the convertible loan notes is RMB193,820,000 (2010: RMB165,109,000) (see note 28).

Fair value of contingent considerations arising from business combinations

The fair value of contingent considerations arising from business combinations is based on a discounted cash flow model considering the forecasted financial performance, the market potential of the acquired business and the market performance. As at 31 December 2011, the carrying amount of the contingent considerations arising from business combinations which involve fair value estimation is RMB5,557,000 (2010: RMB77,275,000). When the actual result is different from the expected result, the actual payment will be different and the difference will be recognised in profit or loss.

5. TURNOVER AND SEGMENT INFORMATION

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

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

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

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

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

3. IT outsourcing

4. Training

Information regarding the above segments is reported below.

5. TURNOVER AND SEGMENT INFORMATION – continued

Segment revenues and results

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

	Segment revenue		Segment results	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
G&M	**726,905**	471,820	**54,586**	36,997
BFSI	**488,052**	392,059	**43,615**	36,168
IT outsourcing	**959,458**	682,917	**110,609**	85,596
Training	**69,339**	54,415	**9,779**	7,778
	2,243,754	1,601,211	**218,589**	166,539

Reconciliation of segment results to profit (loss) before taxation:

	2011	2010
	RMB'000	RMB'000
Segment results	**218,589**	166,539
Other income, gains and losses unallocated	**12,632**	4,455
Interest charge on convertible loan notes	**(12,666)**	(1,631)
Impairment loss recognised in respect of goodwill	**(68,982)**	–
Corporate expenses	**(8,456)**	(11,576)
Share-based payment	**(24,861)**	(27,669)
Gain arising from changes in fair value of contingent consideration payable on acquisition of a business	**71,718**	–
Loss arising from changes in fair value of redeemable convertible preferred shares	**(37,287)**	(145,197)
Profit (loss) before taxation	**150,687**	(15,079)

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

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

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

5. TURNOVER AND SEGMENT INFORMATION – continued

Segment assets and liabilities

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

	2011 RMB'000	2010 RMB'000
Segment assets		
G&M	**827,113**	736,430
BFSI	**523,081**	354,334
IT outsourcing	**635,408**	466,457
Training	**60,056**	42,622
Segment assets	**2,045,658**	1,599,843
Goodwill	**657,129**	729,111
Others	**244,747**	44,669
Consolidated assets	**2,947,534**	2,373,623
Segment liabilities		
G&M	**329,862**	364,959
BFSI	**357,783**	245,113
IT outsourcing	**211,383**	188,925
Training	**18,843**	12,921
Segment liabilities	**917,871**	811,918
Redeemable convertible preferred shares	**–**	254,443
Convertible loan notes	**193,820**	165,109
Others	**32,158**	40,150
Consolidated liabilities	**1,143,849**	1,271,620

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

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

5. TURNOVER AND SEGMENT INFORMATION – continued

Other information

The following is the information about expenses (income) included in the measure of segment profit or loss and amounts included in segment asset:

	G&M		BFSI		IT outsourcing		Training		Total	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Additions to non-current assets, other than deferred tax assets	22,857	124,599	19,807	5,774	33,775	44,554	9,885	2,656	86,324	177,583
Interests in associates	21,620	19,998	–	–	3,931	1,760	–	–	25,551	21,758
Depreciation of property, plant and equipment	10,767	17,803	4,545	4,227	19,467	10,927	4,268	2,420	39,047	35,377
Amortisation of intangible assets and prepaid lease payments	37,344	16,936	–	–	9,985	12,953	185	–	47,514	29,889
Allowance for doubtful debts	9,644	2,298	6,869	5,849	394	129	510	–	17,417	8,276
Interest income	(1,067)	(672)	(1,629)	–	(757)	(711)	(9)	(9)	(3,462)	(1,392)
Finance costs	4,836	4,437	1,696	206	4,522	1,743	178	85	11,232	6,471
Share of results of associates	(1,593)	(2,598)	(1,025)	(52)	–	–	–	–	(2,618)	(2,650)
Loss (gain) on disposal of property, plant and equipment	429	78	8	(31)	130	216	6	3	573	266

Geographical information

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

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

	Revenues from external customers		Non-current assets, other than deferred tax assets and available-for-sale investment	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
PRC and HK	2,005,120	1,446,463	970,421	1,040,794
USA	209,154	132,358	1,154	618
Japan	29,480	22,390	202	287
	2,243,754	1,601,211	971,777	1,041,699

5. TURNOVER AND SEGMENT INFORMATION – continued

Geographical information – continued

Segment revenue by products and services:

	2011 RMB'000	2010 RMB'000
Sale of software and hardware products	**283,869**	226,787
Provision of services		
Solutions	**931,088**	637,092
IT outsourcing	**959,458**	682,917
Training	**69,339**	54,415
	1,959,885	1,374,424
	2,243,754	1,601,211

Information about major customers

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

	2011 RMB'000	2010 RMB'000
Customer A	**402,194**	268,451
Customer B	**237,893**	153,771

6. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interest on borrowings wholly repayable within five years	**11,232**	5,860
Imputed interest expenses on		
– consideration payable for acquisition of a business	**–**	611
Effective interest on convertible loan notes	**12,666**	1,631
	23,898	8,102

7. TAXATION

	2011 RMB'000	2010 RMB'000
Tax charge comprises:		
PRC Enterprise Income Tax		
– current year	**38,928**	22,406
– over provision in prior year	**(721)**	(19)
	38,207	22,387
The US Federal and State Income taxes	**86**	406
Japan Corporate Income Tax	**379**	–
	38,672	22,793
Deferred tax (note 26)	**(9,061)**	(8,136)
	29,611	14,657

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

Pursuant to a certificate issued by Beijing Municipal Science and Technology Commission dated 11 October 2011, Chinasoft Beijing had been designated as a High and New Technology Enterprise ("HNTE") for a period up to 11 October 2014 and its income tax rate was reduced from 25% to 15%. Moreover, pursuant to the resolutions of National Development and Reform Commission dated 31 December 2008, Chinasoft Beijing had been designated as a Key Software Enterprise ("KSE") and its income tax rate was reduced from 15% to 10% for the year dated 31 December 2010. Chinasoft Beijing is still in the application process of KSE status for the year ended 31 December 2011. As a result, Chinasoft Beijing is subject to the income tax rate of 15% for the current year.

Pursuant to a certificate issued by Beijing Municipal Science and Technology Commission dated 24 December 2008, Chinasoft Resources Beijing had been designated as a HNTE till the end of 2011 and its income tax rate was reduced from 25% to 15% for both years.

Pursuant to an approval document issued by the Shanghai City District Bureau dated 27 February 2007, Chinasoft Resources Shanghai was entitled to the two year's exemption from income tax followed by three years of 50% tax reduction with effect from 2006. As a result, Chinasoft Resources Shanghai is subject to the income tax at the rate of 12.5% for the year ended 31 December 2010. Pursuant to a certificate issued by Shanghai Municipal Science and Technology Commission dated 11 December 2009, Chinasoft Resources Shanghai had been designated as a technically advanced service enterprise for a period up to 31 December 2013. As a result, its income tax rate was reduced from 25% to 15% for the current year.

7. TAXATION – continued

Pursuant to an approval document issued by the Xuhui Branch of State Administration of Taxation Bureau in Shanghai and Xuhui Branch of Shanghai Local Taxation Bureau dated 22 May 2008, Shanghai Huateng was approved as a production enterprise and its income tax rate was reduced from 25% to 12.5% with effective from 1 January 2008 to 31 December 2010. Pursuant to a certificate issued by Shanghai Municipal Science and Technology Commission dated 20 October 2011, Shanghai Huateng had been designated as a HNTE for a period up to 20 October 2014. As a result, Shanghai Huateng is subject to the income tax rate of 15% for the current year.

In addition, Chinasoft Resources Shenzhen is located in the Shenzhen Special Economic Zone and the applicable tax rate was 15% before the effective date of the new EIT Law. With effect from 1 January 2008, the tax rate will increase progressively to 25%. The applicable tax rate of the Special Economic Zone is 24% in 2011 (2010: 22%). As a result, Chinasoft Resources Shenzhen is subject to the income tax at the rate of 24% for the year ended 31 December 2011 (2010: 22%).

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

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

	2011 RMB'000	2010 RMB'000
Profit (loss) before taxation	150,687	(15,079)
Tax at PRC Enterprise Income Tax rate of 25% (2010: 25%)	37,672	(3,770)
Tax effect of share of results of associates	(655)	(663)
Tax effect attributable to tax exemptions and concessions granted to PRC subsidiaries	(42,362)	(39,080)
Tax effect of expenses not deductible for tax purpose	44,919	59,744
Tax effect of income not taxable for tax purpose	(20,063)	(5,327)
Over provision in prior year	(721)	(19)
Tax effect of utilisation of tax losses previously not recognised	(1,313)	(426)
Tax effect of tax losses not recognised	11,918	3,946
Effect of different tax rates of subsidiaries	216	252
Tax charge for the year	29,611	14,657

8. PROFIT (LOSS) FOR THE YEAR

	2011 RMB'000	2010 RMB'000
Profit (loss) for the year has been arrived at after charging:		
Directors' remuneration (note 9)	3,463	3,956
Other staff costs	1,115,622	661,136
Retirement benefits costs (excluding those for directors)	89,865	61,727
Share option expenses (excluding those for directors)	24,861	27,519
Total staff costs	1,233,811	754,338
Less: Staff costs capitalised as development costs	(14,073)	(9,807)
	1,219,738	744,531
Research and development costs expensed	50,987	41,601
Less: Government grants	(4,998)	(2,515)
	45,989	39,086
Depreciation of property, plant and equipment	39,047	35,377
Amortisation of intangible assets	47,358	29,725
Amortisation of prepaid lease payments	156	164
	86,561	65,266
Auditor's remuneration	3,800	4,800
Cost of inventories recognised as an expense	241,301	191,259
Loss on disposal of property, plant and equipment	573	266
Minimum lease payments in respect of buildings	58,326	45,539
and after crediting:		
Interest income from pledged deposits and bank balances	3,802	1,392
Government grants	26,628	22,831
Net foreign exchange gain	12,082	3,094
Tax incentive subsidies	3,463	5,599

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

Details of emoluments to the directors for the year ended 31 December 2011 are as follows:

	Executive director				Non-executive director								Independent non-executive director			
	Chen Yuhong RMB'000	Tang Zhenming RMB'000	Wang Hui RMB'000	Jiang Xiaohai RMB'000 (Note b)	Cui Hui RMB'000 (Note a)	Fang Jun RMB'000 (Note a)	Liu Zheng RMB'000 (Note a)	Zhang Yaqin RMB'000	John Zhao RMB'000 (Note b)	Song Jun RMB'000 (Note b)	Lin Sheng RMB'000 (Note b)	Shen Lipu RMB'000 (Note b)	Xu Zeshan RMB'000	Zeng Zhijie RMB'000	Leung Wing Yin Patrick RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	–	–	–	–	–	–	–	99	99	198
Other emoluments:																
Salaries and other benefits	1,910	458	807	–	–	–	–	–	–	–	–	–	–	–	–	3,175
Share option expenses	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Retirement benefits costs	30	30	30	–	–	–	–	–	–	–	–	–	–	–	–	90
Total directors' remuneration	1,940	488	837	–	–	–	–	–	–	–	–	–	–	99	99	3,463

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

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

Note a: Resigned during 2011.
Note b: Appointed during 2011.
Note c: Resigned during 2010.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – continued

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2010: three) was a director of the Company whose emoluments were included above. The emolument of the remaining four (2010: two) highest paid individuals was as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other benefits	3,017	1,482
Share option expenses	4,653	267
Retirement benefits costs	94	38
	7,764	1,787

Their emoluments were within the following bands:

	No. of employees 2011	 2010
HK$1 to HK$1,000,000 (equivalent to RMB1 to RMB827,900; 2010: equivalent to RMB1 to RMB870,800)	–	1
HK$1,000,001 to HK$1,500,000 (equivalent to RMB827,901 to RMB1,241,850; 2010: equivalent to RMB870,801 to RMB1,306,200)	–	1
HK$2,000,001 to HK$2,500,000 (equivalent to RMB1,655,801 to RMB2,069,750; 2010: equivalent to RMB1,741,601 to RMB2,177,000)	3	–
HK$2,500,001 to HK$3,000,000 (equivalent to RMB2,069,751 to RMB2,483,700; 2010: equivalent to RMB2,177,001 to RMB2,612,400)	1	–
	4	2

During either year, no emoluments were paid by the Group to any of the directors and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

None of the directors waived any emoluments during either year.

10. DIVIDEND

No dividend was paid or proposed during 2010 and 2011, nor has any dividend been proposed since the end of the reporting period.

11. EARNINGS (LOSS) PER SHARE

	2011 RMB'000	2010 RMB'000
Earnings (loss)		
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share (Profit (loss) for the year attributable to owners of the Company)	**110,594**	(40,133)

Number of shares

	2011 '000	2010 '000
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**1,349,785**	1,064,256
Effect of dilutive potential ordinary shares:		
Share options	**113,451**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**1,463,236**	1,064,256

The computation of diluted loss per share for the year ended 31 December 2010 did not assume the conversion of the Company's outstanding redeemable convertible preferred shares or convertible loan notes as the conversion would result in a decrease in loss per share.

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

The computation of diluted earnings per share for the year ended 31 December 2011 did not assume the conversion of the Company's outstanding redeemable convertible preferred shares prior to their conversion or the Company's outstanding convertible loan notes because the assumed conversion would result in an increase in earnings per share.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST					
At 1 January 2010	34,164	106,229	14,367	2,663	157,423
Exchange adjustments	(10)	(255)	(2)	–	(267)
Additions	9,434	33,882	1,952	3,610	48,878
Acquired on acquisition of businesses (note 33(a)(b))	–	861	–	–	861
Disposals	–	(3,343)	(268)	–	(3,611)
Transfers	1,513	2,559	–	(4,072)	–
At 31 December 2010	45,101	139,933	16,049	2,201	203,284
Exchange adjustments	(12)	(257)	(6)	–	(275)
Additions	20,044	40,001	1,869	1,196	63,110
Disposals	–	(8,113)	(41)	–	(8,154)
Transfers	209	206	–	(415)	–
At 31 December 2011	**65,342**	**171,770**	**17,871**	**2,982**	**257,965**
DEPRECIATION					
At 1 January 2010	12,453	44,923	4,916	–	62,292
Exchange adjustments	(9)	(15)	(2)	–	(26)
Provided for the year	8,184	25,550	1,643	–	35,377
Eliminated on disposals	–	(2,987)	(243)	–	(3,230)
At 31 December 2010	20,628	67,471	6,314	–	94,413
Exchange adjustments	(12)	(165)	(2)	–	(179)
Provided for the year	10,959	26,195	1,893	–	39,047
Eliminated on disposals	–	(6,733)	(39)	–	(6,772)
At 31 December 2011	**31,575**	**86,768**	**8,166**	**–**	**126,509**
CARRYING VALUES					
At 31 December 2011	**33,767**	**85,002**	**9,705**	**2,982**	**131,456**
At 31 December 2010	24,473	72,462	9,735	2,201	108,871

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

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

13. INTANGIBLE ASSETS

	Development costs RMB'000	Technical knowhow RMB'000	Software RMB'000	Contract-based customer-related intangibles RMB'000	Technical expertise RMB'000	Customer relationship RMB'000	Patent RMB'000	Trade name RMB'000	Technology RMB'000	Non-compete agreements RMB'000	Total RMB'000
COST											
At 1 January 2010	56,542	11,572	4,850	19,704	12,494	42,875	717	968	6,643	1,019	157,384
Acquired on acquisitions of businesses (note 33(a)(b))	–	–	5,306	–	–	93,889	13,047	–	–	–	112,242
Additions	9,807	5,795	–	–	–	–	–	–	–	–	15,602
At 31 December 2010	66,349	17,367	10,156	19,704	12,494	136,764	13,764	968	6,643	1,019	285,228
Additions	19,489	–	3,725	–	–	–	–	–	–	–	23,214
At 31 December 2011	**85,838**	**17,367**	**13,881**	**19,704**	**12,494**	**136,764**	**13,764**	**968**	**6,643**	**1,019**	**308,442**
AMORTISATION/IMPAIRMENT											
At 1 January 2010	27,004	5,830	969	13,793	9,779	13,972	467	339	1,993	41	74,187
Provided for the year	7,199	2,222	1,427	3,941	1,712	11,095	309	194	1,329	297	29,725
At 31 December 2010	34,203	8,052	2,396	17,734	11,491	25,067	776	533	3,322	338	103,912
Provided for the year	8,532	2,801	2,233	1,970	814	27,833	1,355	194	1,329	297	47,358
At 31 December 2011	**42,735**	**10,853**	**4,629**	**19,704**	**12,305**	**52,900**	**2,131**	**727**	**4,651**	**635**	**151,270**
CARRYING VALUES											
At 31 December 2011	**43,103**	**6,514**	**9,252**	**-**	**189**	**83,864**	**11,633**	**241**	**1,992**	**384**	**157,172**
At 31 December 2010	32,146	9,315	7,760	1,970	1,003	111,697	12,988	435	3,321	681	181,316

Development costs are internally generated. All other intangible assets were acquired from third parties.

13. INTANGIBLE ASSETS – continued

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

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

14. GOODWILL

	RMB'000
COST	
At 1 January 2010	513,657
Arising on acquisition of businesses (note 33)	314,496
At 31 December 2010	828,153
Adjustment on contingent consideration in respect of the acquisition of IT solution business in tobacco retailing industry ("Tobacco") in 2009 (Note i)	(3,000)
At 31 December 2011	**825,153**
IMPAIRMENT	
At 1 January 2010	99,042
Impairment loss recognised for the year	–
At 31 December 2010	99,042
Impairment loss recognised for the year	68,982
At 31 December 2011	**168,024**
CARRYING VALUES	
At 31 December 2011	**657,129**
At 31 December 2010	729,111

14. GOODWILL – continued

Impairment testing on goodwill

For the purposes of impairment testing, the carrying amount of goodwill (net of impairment loss) as at 31 December 2011 and 2010 has been allocated to the following individual CGUs under the four segments:

	2011 RMB'000	2010 RMB'000
G&M segment		
– Chinasoft Beijing	**26,396**	26,396
– Sino Sunnyever	**2,669**	2,669
– Guangyuqimin	**2,909**	2,909
– Tobacco (Note i)	**23,275**	26,275
– Han Consulting	**11,250**	11,250
– MMIM (Note ii)	**234,264**	303,246
	300,763	372,745
BFSI segment		
– HGR and its subsidiaries (Note iii)	**134,188**	134,188
IT outsourcing segment		
– Cyber Resources (Note iv)	**31,963**	31,963
– Chinasoft Resources Beijing	**80,968**	80,968
– HGR and its subsidiaries (Note iii)	**82,817**	82,817
– Chinasoft Resources Shanghai	**6,109**	6,109
– Shenzhen Jinhuaye	**19,491**	19,491
	221,348	221,348
Training segment	**830**	830
	657,129	729,111

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

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

14. GOODWILL – continued

Impairment testing on goodwill – continued

CGUs	Discount rate		Growth rate	
	2011	2010	**2011**	2010
G&M segment				
– Chinasoft Beijing	**15%**	16%	**3%**	3%
– Sino Sunnyever	**15%**	16%	**3%**	3%
– Guangyuqimin	**15%**	16%	**3%**	3%
– Tobacco	**15%**	16%	**3%**	3%
– Han Consulting	**16%**	16%	**3%**	3%
– MMIM	**16%**	18%	**3%**	3%
BFSI segment				
– HGR and its subsidiaries	**15%**	16%	**3%**	3%
IT outsourcing segment				
– Cyber Resources	**Note iv**	Note iv	**Note iv**	Note iv
– Chinasoft Resources Beijing	**16%**	15%	**3%**	3%
– HGR and its subsidiaries	**15%**	15%	**3%**	3%
– Chinasoft Resources Shanghai	**16%**	15%	**3%**	3%
– Shenzhen Jinhuaye	**16%**	18%	**3%**	3%
Training segment	**15%**	16%	**3%**	3%

Notes:

i. During the year ended 31 December 2011, certain specific milestones in relation to the contingent consideration of RMB3,000,000 arising on acquisition of Tobacco in 2009 was finally determined to be unachieved. The adjustment on contingent consideration is recognised against the cost of acquisition.

ii. The Group recognised an impairment loss of RMB68,982,000 in 2011 (2010: nil) in relation to the goodwill arising on acquisition of MMIM under the G&M segment.

iii. At the end of 2011 and 2010, the total carrying amount of goodwill before impairment was of RMB297,672,000 which was resulted from the acquisition of HGR and its subsidiaries in 2007. The goodwill contributes to the cash flows of both the BFSI and IT outsourcing segments.

iv. In 2011, the recoverable amount of Cyber Resources was fair value less costs to sell and had been determined based on the valuation at 31 December 2011. The valuation was based on the management's 2011 financial information and a weighted average of market value of invested capital over earnings before interest and taxation of 23 (2010: 22) and that over earnings of 23 (2010: 22) based on comparable companies in the relevant industry.

15. INTERESTS IN ASSOCIATES

	2011 RMB'000	2010 RMB'000
Unlisted cost of investments in associates	**9,460**	8,180
Share of post-acquisition profits net of dividend received	**16,091**	13,578
	25,551	21,758

Included in the unlisted cost of investments in associates is goodwill of RMB3,052,000 (2010: RMB3,052,000) arising on acquisition of China National Tobacco Information Company Limited in 2005.

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

Particulars of the Group's associates at 31 December 2011 and 2010 are as follows:

Name of associate	Form of business structure	Place of establishment	Principal place of operation	Proportion of registered capital held by the Group 2011	2010	Nature of business
武漢中軟國際資訊技術有限公司 Wuhan Chinasoft International Information Technology Limited	Equity joint venture enterprise	PRC	PRC	**46%**	46%	Provision of solutions and IT consulting services
北京中煙資訊技術有限公司 China National Tobacco Information Company Limited	Equity joint venture enterprise	PRC	PRC	**20%**	20%	Maintenance of a policy making system for the production, operation and management of the tobacco industry
上海華騰數據信息科技有限公司 Shanghai Huateng Data Service Co., Ltd (Note) ("Huateng Data")	Equity joint venture enterprise	PRC	PRC	**20%**	24%	Operation of data centre
上海華騰智能系統有限公司 Shanghai Huateng Intelligent System Co., Ltd (Note) ("Huateng Intelligent")	Equity joint venture enterprise	PRC	PRC	**20%**	24%	Design of intelligent terminal hardware

Note: The proportion of registered capital of the associates held by the Group was diluted as the capital injections in 2011 contributed by the Group were lower than the original proportion. A loss on deemed disposal of RMB105,000 is recognised during the year.

15. INTERESTS IN ASSOCIATES – continued

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

	2011 RMB'000	2010 RMB'000
Total assets	121,820	116,578
Total liabilities	(43,170)	(58,572)
Net assets	78,650	58,006
Group's share of net assets of associates	22,499	18,706
Revenue	114,046	101,398
Profit for the year	12,779	10,248
Group's share of profits of associates for the year	2,618	2,650

16. AVAILABLE-FOR-SALE INVESTMENT

	2011 RMB'000	2010 RMB'000
Unlisted equity investment	25,000	–

On 17 January 2011, the Group entered into a trust agreement (the "Agreement") with Easy Win Technology Limited ("Easy Win"), an equity owner of Huateng Data and Huateng Intelligent, associates of the Group. Under the Agreement, Easy Win agreed to acquire and hold on behalf of the Group a 19.8% unlisted equity investment in Fu Fei Tong Information Service Company Limited ("Fu Fei Tong"), an entity established in the PRC and engaged in the provision of digital payment services in the PRC, at a consideration of RMB25,000,000. Pursuant to the Agreement, the Group is entitled to the relevant investment return but is not entitled to other owners' rights on the investment (including voting rights in shareholders' and directors' meetings). The owners' rights, including voting rights in shareholders' and directors' meetings are to be exercised by Easy Win. The directors consider that the Group cannot exercise significant influence over Fu Fei Tong.

The investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably.

17. PREPAID LEASE PAYMENTS

	RMB'000
COST	
At 1 January 2010	1,781
Exchange adjustment	(55)
At 31 December 2010	1,726
Exchange adjustment	(75)
At 31 December 2011	1,651
AMORTISATION	
At 1 January 2010	748
Exchange adjustment	(7)
Provided for the year	164
At 31 December 2010	905
Exchange adjustment	(57)
Provided for the year	156
At 31 December 2011	1,004
CARRYING VALUES	
At 31 December 2011	647
At 31 December 2010	821

	2011 RMB'000	2010 RMB'000
Analysed for reporting purposes as:		
Non-current assets	**469**	643
Current assets	**178**	178
	647	821

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

18. INVENTORIES

	2011 RMB'000	2010 RMB'000
Computer hardware, equipment and software products	**24,405**	18,441

19. TRADE AND OTHER RECEIVABLES

	2011 RMB'000	2010 RMB'000
Trade receivables	**717,577**	510,761
Less: Allowance for doubtful debts	**(79,307)**	(61,890)
	638,270	448,871
Trade receivables from related companies (Note)	**1,664**	6,140
	639,934	455,011
Advances to suppliers	**39,296**	42,856
Deposits, prepayments and other receivables	**81,418**	59,293
	760,648	557,160

Note: The balances principally arose from provision of services by the Group to certain related companies (see note 38(ii)(iii)).

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

	2011 RMB'000	2010 RMB'000
Within 90 days	**483,793**	370,973
Between 91 – 180 days	**80,316**	40,565
Between 181 – 365 days	**39,804**	16,347
Between 1 – 2 years	**30,293**	26,073
Over 2 years	**5,728**	1,053
	639,934	455,011

19. TRADE AND OTHER RECEIVABLES – continued

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by each customer. Limits attributed to customers are reviewed each time. 71% (2010: 68%) of the trade receivables that are neither past due nor impaired have the best credit quality assessed by the Group.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of RMB131,106,000 (2010: RMB102,957,000) which are past due at the reporting date for which the Group has not provided for an impairment loss as the Group is satisfied with the subsequent settlement and the credit quality of these customers had not been deteriorated. Accordingly, the Group does not consider these balances impaired. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	2011 RMB'000	2010 RMB'000
Within 90 days	12,601	32,308
Between 91 – 180 days	42,680	27,176
Between 181 – 365 days	39,804	16,347
Between 1 – 2 years	30,293	26,073
Over 2 years	5,728	1,053
Total	131,106	102,957

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

Movement in the allowance for doubtful debts

	2011 RMB'000	2010 RMB'000
Balance at beginning of the year	61,890	55,768
Impairment losses recognised on receivables	17,417	8,276
Amounts written off as uncollectible	–	(2,154)
Balance at end of the year	79,307	61,890

20. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2011 RMB'000	2010 RMB'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**1,557,975**	563,075
Less: Progress billings	**(1,250,434)**	(369,863)
	307,541	193,212
Analysed for reporting purposes as:		
Amounts due from contract customers for contract work	**363,683**	251,278
Amounts due to contract customers for contract work	**(56,142)**	(58,066)
	307,541	193,212

At 31 December 2011, retentions held by customers for contract work amounted to RMB3,680,000 (2010: RMB3,730,000). There are no advances received from customers for contract work at the end of 2011 and 2010.

21. PLEDGED DEPOSITS/BANK BALANCES

Pledged deposits

The amount represents deposits pledged to certain banks as collaterals for short-term trade facilities granted to the Group and is therefore classified a current asset. The deposits carry interest at the prevailing market interest rate. The weighted average interest rate at the end of the reporting period was 1.09% (2010: 2.15%) per annum. The pledged deposits will be released upon the settlement of relevant liabilities under the trade facilities.

Bank balances

The amounts comprise short-term bank deposits carried at the prevailing market interest rates which range from 2.5% to 2.82% (2010: from 2.25% to 2.5%) per annum as at 31 December 2011. At the end of the reporting period, included in bank balances are the following amounts denominated in currencies other than the functional currency of the relevant group entity to which they relate.

	2011 RMB'000	2010 RMB'000
Hong Kong Dollars	**15,877**	34,990
United States Dollars	**375**	7,254
Japanese Yen	**11,267**	–

22. TRADE AND OTHER PAYABLES

	2011 RMB'000	2010 RMB'000
Trade payables	283,359	183,656
Trade payables to related companies (Note)	–	2,153
	283,359	185,809
Deposits received from customers	41,505	23,519
Other payables and accrued charges	288,285	251,471
	613,149	460,799

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

	2011 RMB'000	2010 RMB'000
Within 90 days	161,373	74,129
Between 91 – 180 days	20,780	30,630
Between 181 – 365 days	20,811	37,414
Between 1 – 2 years	65,345	31,807
Over 2 years	15,050	11,829
	283,359	185,809

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

Note: The balance at the end of 2010 principally arose from rental expenses charged by a related company to the Group (note 38(i)).

23. AMOUNTS DUE FROM/TO RELATED COMPANIES

At the end of 2011, the amounts due from related companies principally represent the balance with a company whose director is also a director of a subsidiary of the Company, which are unsecured, non-interest bearing and repayable on demand. The amounts due to related companies principally represent an advance from a non-controlling shareholder of a subsidiary of the Company, which is unsecured, interest-bearing at 5.68% per annum and repayable on demand.

At the end of 2010, the amounts due from/to related companies are unsecured, non-interest bearing and repayable on demand. The amounts due from related companies principally represent the balance with a company whose director is also a director of a subsidiary of the Company. The remaining portion of the amounts due from related companies and the amounts due to related companies are principally the balances with a holding company of a former substantial shareholder of the Company.

24. BILLS PAYABLE

An aged analysis of bills payable is as follows:

	2011 RMB'000	2010 RMB'000
Within 90 days	21,525	6,213

25. BORROWINGS

	2011 RMB'000	2010 RMB'000
Unsecured bank loans (Note (i))	195,200	146,950
Unsecured loans from other financial institution	–	40,000
	195,200	186,950

25. BORROWINGS – continued

	2011 RMB'000	2010 RMB'000
Carrying amount repayable:		
Within one year	165,600	186,950
More than one year, but not exceeding two years	29,600	–
	195,200	186,950
Less: Amounts due within one year shown under current liabilities	(165,600)	(186,950)
Amounts shown under non-current liabilities	29,600	–

	2011 RMB'000	2010 RMB'000
Total borrowings		
At floating rates (Note (ii))	195,200	186,950

	2011 RMB'000	2010 RMB'000
Analysis of borrowings by currency		
Denominated in RMB	195,200	186,950

Notes:

(i) Credit guaranteed by the Company and certain subsidiaries of the Company.

(ii) Interests on RMB borrowings are charged at interest rates announced by the People's Bank of China. The average interest rate during the year is 6.71% (2010: 5.40%) per annum.

26. DEFERRED TAXATION

The following are the major deferred tax (liabilities) and assets recognised by the Group and movement thereon during the current and prior year:

	Deferred development costs RMB'000	Technical expertise RMB'000	Software RMB'000	Customer relationship RMB'000	Patent RMB'000	Technology RMB'000	Trade name RMB'000	Non-compete agreement RMB'000	Property, plant and equipment RMB'000	Accrued expenses RMB'000	Total RMB'000
At 1 January 2010	(2,764)	(95)	–	(4,827)	–	(1,163)	(138)	(221)	–	3,528	(5,680)
Arising from acquisition of subsidiaries (note 33(a)(b))	–	–	(285)	(23,472)	(3,262)	–	–	–	804	–	(26,215)
Credit to profit or loss	998	35	4	1,936	27	332	43	69	–	4,692	8,136
At 31 December 2010	(1,766)	(60)	(281)	(26,363)	(3,235)	(831)	(95)	(152)	804	8,220	(23,759)
Credit to profit or loss	937	35	147	6,124	328	333	43	69	–	1,045	9,061
At 31 December 2011	**(829)**	**(25)**	**(134)**	**(20,239)**	**(2,907)**	**(498)**	**(52)**	**(83)**	**804**	**9,265**	**14,698**

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

	2011 RMB'000	2010 RMB'000
Deferred tax assets	**10,069**	9,025
Deferred tax liabilities	**(24,767)**	(32,784)
	(14,698)	(23,759)

At the end of the reporting period, the Group had unused tax losses available for offset against future profits of approximately RMB98,131,000 (2010: RMB57,112,000) which may be carried forward indefinitely except for losses of approximately RMB62,246,000 (2010: RMB47,625,000) which will expire from 2012 to 2016 (2012: RMB839,000, 2013: RMB6,888,000, 2014: RMB32,673,000, 2015: RMB5,826,000, 2016: RMB16,020,000). No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams.

Under the new EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profit earned by PRC subsidiaries from 1 January 2008 onwards at 5% or 10% according the relevant tax treaties. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits of the PRC subsidiaries as at 31 December 2011 amounting to RMB381,620,000 (2010: RMB167,306,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

27. REDEEMABLE CONVERTIBLE PREFERRED SHARES

	Number of shares	Nominal amount HK$'000
Redeemable convertible preferred shares (the "Series A Preferred Shares") of HK$0.05 each:		
Authorised		
Balance at 31 December 2010 and 2011	625,000,000	31,250
Issued and fully paid		
Balance at 1 January 2010	194,500,000	9,725
Converted into ordinary shares during the year	(30,000,000)	(1,500)
Balance at 31 December 2010	164,500,000	8,225
Converted into ordinary shares during the year	(164,500,000)	(8,225)
Balance at 31 December 2011	–	–

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

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

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

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

27. REDEEMABLE CONVERTIBLE PREFERRED SHARES – continued

On 4 May 2010, the Company announced that IFC requested to convert its 30,000,000 out of the total 194,500,000 Series A Preferred Shares into the Company's ordinary shares (note 29). Immediately before the conversion, the fair value of the redeemable convertible preferred shares of the converted portion was approximately RMB44,351,000 which was measured by the Company with reference to the share price as adjusted by an estimated discount rate for the restriction of trading given the converted ordinary shares are prohibited for sale for 180 days after the conversion.

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

On 22 November 2011, the Company announced that one of the investors requested to convert its 7,250,000 out of the total 164,500,000 outstanding Series A Preferred Shares into the Company's ordinary shares (note 29). Immediately before the conversion, the fair value of the redeemable convertible preferred shares of the converted portion was approximately RMB12,899,000 which was measured by the Company with reference to the share price as adjusted by an estimated discount rate for the restriction of trading given the converted ordinary shares are prohibited for sale for 180 days after the conversion.

On 30 December 2011, the Company announced that the investors requested to convert their entire 157,250,000 outstanding Series A Preferred Shares into the Company's ordinary shares (note 29). Immediately before the conversion, the fair value of the redeemable convertible preferred shares of the converted portion was approximately RMB258,440,000 which was measured by the Company with reference to the share price as adjusted by an estimated discount rate for the restriction of trading given the converted ordinary shares are prohibited for sale for 180 days after the conversion.

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

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

	2010
Share price	HK$1.95
Exercise price	HK$0.8
Time to maturity	1 year
Risk free rate	0.348%
Share price volatility	58.25%

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

27. REDEEMABLE CONVERTIBLE PREFERRED SHARES – continued

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

	Liability component	Derivative component	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2010	120,131	47,524	167,655
Exchange adjustment	(3,616)	(3,745)	(7,361)
Conversion during the year	(19,288)	(25,063)	(44,351)
Loss arising from changes in fair value	15,545	129,652	145,197
Interest paid	(6,697)	–	(6,697)
As at 31 December 2010	106,075	148,368	254,443
Exchange adjustment	(5,102)	(7,487)	(12,589)
Conversion during the year	(104,992)	(166,347)	(271,339)
Loss arising from changes in fair value	11,821	25,466	37,287
Interest paid	(6,008)	–	(6,008)
Reclassification of interest payable to other payable	(1,794)	–	(1,794)
As at 31 December 2011	**–**	**–**	**–**

Included in the loss arising from changes in fair value is an interest expense of RMB5,993,000 (2010: RMB6,710,000).

28. CONVERTIBLE LOAN NOTES

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

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

28. CONVERTIBLE LOAN NOTES – continued

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

At the date of issue, the convertible loan notes contained two components, liability element of RMB163,478,000 and equity element of RMB36,522,000. The equity element is presented in equity heading convertible loan notes reserve. During the year, with the introduction of a new investor, the directors have conducted an assessment of the Group borrowing portfolio. As part of the assessment, the directors re-assessed the value of the convertible loan notes and decided to apply a revised effective interest rate of 7.24% per annum effective from January 2011 (2010: 11.99% per annum) on the liability component of the convertible loan notes, resulting in a reduction of the equity component by RMB21,355,000. The directors considered the impact is not material to the consolidated financial statements as a whole.

29. SHARE CAPITAL

	Number of shares	Nominal amount HK$'000
Ordinary shares of HK$0.05 each:		
Authorised:		
At 1 January 2010 and 1 January 2011	1,500,000,000	75,000
Increase on 18 May 2011 (Note i)	2,500,000,000	125,000
At 31 December 2011	4,000,000,000	200,000

29. SHARE CAPITAL – continued

	Number of shares	Amount	Amount shown in the financial statements
		HK$	RMB'000
Issued and fully paid			
At 1 January 2010	1,011,348,688	50,567,435	52,357
Exercise of share options	53,436,500	2,671,825	2,317
Conversion of redeemable convertible preferred shares (note 27)	30,000,000	1,500,000	1,319
Issue of new shares (Note ii)	119,542,071	5,977,103	5,140
At 31 December 2010	1,214,327,259	60,716,363	61,133
Exercise of share options	93,401,400	4,670,070	3,881
Conversion of redeemable convertible preferred shares (note 27)	164,500,000	8,225,000	6,628
Issue of new shares (Note iii)	150,000,000	7,500,000	6,237
At 31 December 2011	**1,622,228,659**	**81,111,433**	**77,879**

Notes:

(i) Pursuant to a resolution passed by shareholders of the Company in the annual general meeting on 18 May 2011, the authorised share capital of the Company is increased to 4,000,000,000 shares of HK$0.05 each.

(ii) Pursuant to a resolution passed by directors on 20 May 2010, 9,208,126 new shares of the Company of HK$0.05 each were allotted and issued as fully paid to the former shareholders of Han Consulting as the consideration of HK$14,181,000 (equivalent to RMB12,413,000) for the acquisition of a 51% equity interest of Han Consulting (see note 33(a)).

Pursuant to a resolution passed by shareholders of the Company in the extraordinary general meeting on 29 November 2010, the limit of the maximum number of Consideration Shares (as defined in the circular dated 12 November 2010 issued by the Company) are approved to be allotted and issued as fully paid to the former shareholders of MMIM as the consideration shares. Accordingly, within such a limit, 110,333,945 new shares of the Company of HK$0.05 each were allotted and issued as the consideration of HK$218,461,000 (equivalent to RMB187,588,000) for the acquisition of the entire interest of MMIM (see note 33(b)).

(iii) On 21 June 2011, the Company entered into a subscription agreement with the subscriber, an existing shareholder of the Company, pursuant to which the subscriber has agreed to subscribe for 150,000,000 new shares at the subscription price of HK$1.86 per share, raising proceeds of HK$278,182,000 (equivalent to RMB231,448,000). The proceeds from the subscription was intended to be used as general working capital of the Group.

All the shares which were issued by the Company during the year rank pari passu with existing shares in all respects.

30. SHARE PREMIUM AND RESERVES

Share premium

In accordance with the Companies Law of the Cayman Islands, the share premium account is distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

No dividend has been paid and distributed in years 2010 and 2011.

General reserve fund and statutory enterprise expansion fund

As stipulated by the relevant laws and regulations in the PRC, foreign invested enterprises are required to provide for the general reserve fund and the statutory enterprise expansion fund. Appropriations to such reserve funds are made out of net profit after taxation as reported in the statutory financial statements of the relevant subsidiaries prepared in accordance with accounting principles generally accepted in the PRC and the amount and allocation basis are decided by their respective boards of directors annually. The general reserve fund can be used to make up prior year losses of these subsidiaries, if any, and can be applied in conversion into capital by means of capitalisation issue. The statutory enterprise expansion fund is used for expanding the capital base of these subsidiaries by means of capitalisation issue.

Statutory surplus reserve fund

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

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 25 and convertible loan notes disclosed in note 28, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, share premium, reserves and accumulated profits.

The directors review the capital structure on a quarterly basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and as well as the issue of new debt or the redemption of existing debt.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2011 RMB'000	2010 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,511,462**	954,768
Available-for-sale financial assets	**25,000**	–
Financial liabilities		
FVTPL designated as at FVTPL (see below)	**–**	254,443
Amortised cost	**707,467**	572,749
Contingent consideration arising from business combination	**5,557**	77,275

Redeemable convertible preferred shares

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

Note: The redeemable convertible preferred shares of the Company contain the liability component and embedded derivatives are designated as financial liability at FVTPL on initial recognition. With respect to the liability component, the loss in fair value attributable to change in credit risk was calculated as the difference between total change in fair value of the liability component and the change in fair value of the liability component due to change in market conditions alone. The change in fair value of the liability component due to market conditions was calculated using benchmark interest yield curves as at the end of the reporting period holding credit risk rate constant. The fair value of the liability component was estimated by discounting future cash flows using quoted benchmark interest yield curves as at the end of the reporting period and by obtaining lender quotes for borrowing of similar maturity to estimate credit risk margin.

32. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, amounts due from associates, amounts due from/to related parties, trade payables, borrowings, bills payable, contingent consideration arising from business combination, redeemable convertible preferred shares and convertible loan notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Company have bank balances and cash and trade receivables denominated in foreign currencies arising from income generated from provision of services, which expose the Group to foreign currency risk. Approximately 4.4% (2010: 5.5%) of the Group's income generated from provisions of services is denominated in currencies other than the functional currency of the group entity providing the services. In addition, redeemable convertible preferred shares, a loan from a related party of the Group, contingent consideration arising from business combination and certain trade payables are denominated in foreign currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong dollar	**30,863**	581,589	**21,371**	411,274
US dollar	**71,854**	127,339	**13,325**	58,192
Japanese Yen	**2,028**	7,523	**11,267**	7,850

It is the Group's policy for each operating entity to operate in local currency as far as possible to minimise currency risk. The Group's principal businesses are conducted in Renminbi. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management but the management has kept on monitoring the movement of all foreign currency exposure.

32. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

(i) Currency risk – continued

Sensitivity analysis

The Group is mainly exposed to Hong Kong dollar, US dollar and Japanese Yen.

The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive/negative number below indicates an increase/decrease in the result where Renminbi strengthens 5% against the relevant currencies. For a 5% weakening of Renminbi against the relevant currencies, there would be an equal and opposite impact on the result.

	Hong Kong dollar Impact		US dollar Impact		Japanese Yen Impact	
	2011	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Profit (loss) for the year	**356**	8,516 (a)	**2,915**	3,457 (b)	**(346)**	(16) (c)

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

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

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

32. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to convertible loan notes (see note 28 for details).

The Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short-term bank deposits and borrowings at market rates.

The Group currently does not have an interest rate hedging policy and will consider hedging significant interest rate exposure should the need arises.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for floating rate borrowings (see note 25) and short-term deposits at the end of the reporting period. A 50 basis points (2010: 50 basis points) increase or decrease is used for floating rate borrowings and a 10 basis points (2010: 10 basis points) increase or decrease is used for short-term deposits when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

In respect of the floating rate borrowings, if interest rates had been 50 basis points (2010: 50 basis points) higher and all other variable were held constant, the Group's result for the year ended 31 December 2011 would decrease/increase by RMB732,000 (2010: RMB935,000). This is attributable to the Group's exposure to interest rate on floating rate borrowings.

In respect of short-term bank deposits, if interest rates had been 10 basis points (2010: 10 basis points) higher/lower and all other variables were held constant, the Group's result for the year ended 31 December 2011 would increase/decrease by RMB589,000 (2010: RMB493,000). This is attributable to the Group's exposure to interest rates on its short-term bank deposits.

32. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Market risk – continued

(iii) Other price risk

The Group is required to estimate the fair value of the conversion option embedded in the redeemable convertible preferred shares at the end of the reporting period with changes in fair value to be recognised in profit or loss as long as the redeemable convertible preferred shares are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in market interest rate, the Company's share market price and share price volatility.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to the Company's share price risks at the reporting date only as the directors consider that the change in market interest rate may not have significant financial impact on the fair value of conversion option.

If the Company's share price had been 5% higher/lower and all other variables were held constant, the Group's profit (2010: loss) for the year (as a result of changes in fair value of conversion option component of redeemable convertible preferred shares) would have no impact as the redeemable convertible preferred shares have been fully converted during the current year (2010: increase/decrease by RMB11,767,000/ RMB11,752,000).

In management's opinion, the sensitivity analyses are unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the conversion option component of redeemable convertible preferred shares involves multiple variables and certain variables are interdependent.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2011 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group reviews the recoverable amount of each individual trade receivable at each end of the reporting period to ensure that adequate impairment losses, if necessary, are made for irrecoverable amounts.

In this regard, the directors consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are authorised banks in the PRC.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 91.8% (2010: 92.7%) of the total trade receivable as at 31 December 2011. Trade receivables consist of a large number of customers, spread across diverse industries. In addition, there is concentration of credit risk on liquid funds which are deposited with several authorised banks in the PRC. Other than the above, the Group does not have any other significant concentration of credit risk.

32. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

As at 31 December 2011, the Group has available unutilised general borrowing facilities of approximately RMB73,475,000 (2010: RMB43,787,000).

The following table details the Group's remaining contractual maturity for its financial liabilities. It has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity tables

	Weighted average interest rate	On demand or less than 6 months	Over 6 months but not more than 1 year	1-2 years	2+ years	Total undiscounted cash flows	Carrying amount at 31 December 2011
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2011							
Trade and other payables		293,082	–	–	–	293,082	293,082
Bills payable		21,525	–	–	–	21,525	21,525
Amounts due to related companies	5.68	3,765	–	–	–	3,765	3,765
Dividend payable to shareholders		75	–	–	–	75	75
Borrowings	6.71	96,849	78,819	31,587	–	207,255	195,200
Contingent consideration arising from business combination in 2010 (Note)		–	–	57,338	–	57,338	5,557
Convertible loan notes	7.24	4,285	4,238	211,667	–	220,190	193,820
		419,581	83,057	300,592	–	803,230	713,024

32. FINANCIAL INSTRUMENTS – continued

Financial risk management objectives and policies – continued

Liquidity risk – continued

Liquidity tables – continued

	Weighted average interest rate %	On demand or less than 6 months RMB'000	Over 6 months but not more than 1 year RMB'000	1-2 years RMB'000	2+ years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2010 RMB'000
2010							
Trade and other payables		199,266	–	–	–	199,266	199,266
Bills payable		6,213	–	–	–	6,213	6,213
Amounts due to related companies		147	–	–	–	147	147
Dividend payable to shareholders		79	–	–	–	79	79
Borrowings	5.40	124,741	66,979	–	–	191,720	186,950
Contingent consideration arising from business combination in 2010 (Note)		33,133	–	63,267	64,267	160,667	77,275
Contingent consideration arising from business combination prior to 2010	5.40	15,147	–	–	–	15,147	14,985
Redeemable convertible preferred shares	12.00	3,393	3,079	112,492	–	118,964	254,443
Convertible loan notes	11.99	4,250	4,250	8,500	208,500	225,500	165,109
		386,369	74,308	184,259	272,767	917,703	904,467

Note: The amounts included above for contingent consideration arising from business combination are the maximum amounts of cash the Group could be required to settle under the arrangement if certain milestones are achieved by the acquirees. Based on expectations at the end of the reporting period, the directors have assessed the fair value of the contingent consideration which will be payable under the arrangement. However, this estimate is subject to change depending on the actual financial performance of the acquirees.

32. FINANCIAL INSTRUMENTS – continued

Fair value

The fair value of financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binomial model).

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognised in the statement of financial position

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

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

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

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

At the end of the reporting period, level 3 financial liability included contingent consideration arising from business combination. The contingent consideration arising from business combination is measured at fair value of RMB5,557,000 (2010: RMB77,275,000) at the end of the reporting period and a fair value gain of RMB71,718,000 (2010: nil) is recognised in profit or loss during the year. Redeemable convertible preferred shares are fully converted into ordinary shares at the end of the reporting period (2010: RMB254,443,000) and a fair value loss of RMB37,287,000 (2010: RMB145,197,000) is recognised in the profit or loss during the year.

33. ACQUISITIONS

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

Consideration transferred

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

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

Acquisition-related costs amounting to RMB175,000 have been recognised as an expense in 2010, within the administrative expenses in the consolidated statement of comprehensive income.

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

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

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

33. ACQUISITIONS – continued

Goodwill arising on acquisition

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

Net cash inflow on acquisition of Han Consulting

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

(b) On 2 December 2010, the Group acquired the entire equity interest of MMIM for a consideration up to US$91,000,000 comprising of both cash consideration and issue of consideration shares. The amount included a consideration of US$45,500,000, comprising of both cash consideration and issue of consideration shares, the payment of which is contingent upon achievement of certain specific milestones. The contingent consideration is measured at fair value of RMB77,275,000 at the date of acquisition, which is based on a discounted cash flow model considering the forecasted financial performance, the market potential of the acquired business and the market performance.

MMIM, through its subsidiary and special purpose entities, is engaged in provision of mobile internet technology services. Acquisition of the subsidiary was accounted for by the acquisition method.

33. ACQUISITIONS – continued

Consideration transferred

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

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

Acquisition-related costs amounting to RMB525,000 have been recognised as expenses in 2010, and included in the administrative expenses in the consolidated statement of comprehensive income.

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

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

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

33. ACQUISITIONS – continued

Goodwill arising on acquisition

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

Net cash outflow on acquisition of MMIM

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

During the year ended 31 December 2011, certain specific milestones in relation to the contingent consideration payable in 2011 were finally determined to be unachieved and no payment has been made during the year. The Group recognised a gain arising from changes in fair value of contingent consideration payable on acquisition of a business of RMB71,718,000 (2010: nil). The remaining balance of the contingent consideration is payable upon achieving certain milestones in 2012 and payable in 2013. The fair value of the contingent consideration is RMB5,557,000 as at 31 December 2011 and included as non-current liability.

(c) As at 31 December 2010, RMB11,985,000, related to acquisition of Shenzhen Jinhuaye in 2009, included in consideration payable on acquisition of business-current portion was settled during the year ended 31 December 2011.

34. MAJOR NON-CASH TRANSACTIONS

(i) In November and December 2011, holders of redeemable convertible preferred shares converted 164,500,000 redeemable convertible preferred shares into 164,500,000 ordinary shares of the Company of HK$0.05 each.

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

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

35. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of buildings which fall due as follows:

	2011 RMB'000	2010 RMB'000
Within one year	32,073	52,257
In the second to fifth year inclusive	25,545	38,653
	57,618	90,910

Operating lease payments represent rentals payable by the Group for certain premises for training centers, office properties and storeroom. Leases are negotiated for lease terms ranging from one year to five years (2010: one year to five years) for the Group and rentals are normally fixed during the lease period.

36. SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 2 June 2003 by the shareholders for the purpose of providing incentives and rewards to the people and the parties working for the interest of the Group. Under the Share Option Scheme, the board of directors may grant options to eligible participants including the directors, full-time and part-time employees of the Company or any of its subsidiaries or associates, suppliers and customers of the Company or any of its subsidiaries or associates to subscribe for shares in the Company in accordance with the terms of the Share Option Scheme. An offer for the grant of options must be accepted within 30 days from the date of offer, and a consideration of HK$1.00 is payable by each of the participants on acceptance of the grant of options. The Share Option Scheme will remain valid for a period of ten years commencing on 2 June 2003. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of not more than ten years after the date on which an offer of the grant of an option is accepted. The subscription price for shares under the Share Option Scheme will be a price determined by the board of directors and notified to each grantee and will be no less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer and; (iii) the nominal value of a share.

The Company may grant options under the Share Option Scheme and any other share option schemes of the Company entitling the grantees to exercise up to an aggregate of 10% of the total number of shares in issue immediately upon the listing of the shares on the Stock Exchange and subject to renewal with shareholders' approval. However, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in any one year exceeding the higher of 0.1% of the Company's shares in issue and with a value in excess of HK$5,000,000 must be approved by the Company's shareholders.

36. SHARE OPTION SCHEME – continued

The movements of the share options granted to the directors and other employees of the Group during the year ended 31 December 2011 are as follows:

					Number of share option				
Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 12.31.2011
Directors and other employees:									
	13.8.2003	HK$ 0.58	13.8.2003 – 12.8.2006	13.8.2006 – 12.8.2013	1,392,500	–	–	–	1,392,500
			13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	1,977,500	–	(100,000)	–	1,877,500
	13.5.2004	HK$ 0.65	Nil	13.5.2004 – 12.5.2014	375,000	–	–	–	375,000
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	375,000	–	–	–	375,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	6,950,000	–	(750,000)	–	6,200,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	9,300,000	–	(1,000,000)	–	8,300,000
	30.3.2006	HK$ 0.97	Nil	30.3.2006 – 29.3.2016	450,000	–	–	–	450,000
			30.3.2006 – 29.3.2007	30.3.2007 – 29.3.2016	2,750,000	–	–	–	2,750,000
			30.3.2006 – 29.3.2008	30.3.2008 – 29.3.2016	3,550,000	–	–	–	3,550,000
			30.3.2006 – 29.3.2009	30.3.2009 – 29.3.2016	3,550,000	–	(1,400,000)	–	2,150,000
	10.4.2007	HK$ 1.78	Nil	10.4.2007 – 9.4.2017	5,060,000	–	(1,450,000)	–	3,610,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	7,550,000	–	(1,330,000)	–	6,220,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	7,662,500	–	(1,600,000)	–	6,062,500
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	7,662,500	–	(1,200,000)	–	6,462,500
	14.4.2008	HK$ 1.37	Nil	14.4.2008 – 13.4.2011	8,500,000	–	(8,500,000)	–	–
			14.4.2008 – 13.4.2009	14.4.2009 – 13.4.2011	9,650,000	–	(9,650,000)	–	–
	13.6.2008	HK$ 1.21	13.6.2008 – 12.6.2010	13.6.2010 – 12.6.2011	2,900,000	–	(2,900,000)	–	–
	4.7.2008	HK$ 1.14	4.7.2008 – 3.7.2010	4.7.2010 – 3.7.2011	6,120,000	–	(2,960,000)	(3,160,000)	–
	2.2.2009	HK$ 0.48	Nil	2.2.2009 – 1.2.2012	2,395,000	–	–	–	2,395,000
			2.2.2009 – 1.2.2010	2.2.2010 – 1.2.2012	10,005,000	–	(7,330,000)	–	2,675,000
			2.2.2009 – 1.2.2011	2.2.2011 – 1.2.2012	13,340,000	–	(7,560,000)	–	5,780,000

36. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share option: Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 12.31.2011
	15.5.2009	HK$ 0.71	15.5.2009 – 14.5.2010	15.5.2010 – 14.5.2012	10,464,852	–	(2,861,000)	–	7,603,852
			15.5.2009 – 14.5.2011	15.5.2011 – 14.5.2012	19,375,148	–	(12,780,000)	–	6,595,148
	24.8.2009	HK$ 0.86	Nil	24.8.2009 – 23.8.2012	14,100,000	–	(11,460,000)	–	2,640,000
			24.8.2009 – 23.8.2010	24.8.2010 – 23.8.2012	15,000,000	–	(11,460,000)	–	3,540,000
			24.8.2009 – 23.8.2011	24.8.2011 – 23.8.2012	20,000,000	–	(40,000)	–	19,960,000
	3.11.2009	HK$ 0.76	Nil	3.11.2009 – 2.11.2012	14,243,492	–	(3,015,000)	–	11,228,492
			3.11.2009 – 2.11.2010	3.11.2010 – 2.11.2012	15,269,360	–	(3,360,000)	–	11,909,360
			3.11.2009 – 2.11.2011	3.11.2011 – 2.11.2012	20,359,148	–	(600,000)	–	19,759,148
	22.10.2010	HK$ 2.00	Nil	22.10.2010 – 21.10.2013	18,900,000	–	(95,400)	–	18,804,600
			22.10.2010 – 21.10.2011	22.10.2011 – 21.10.2013	18,900,000	–	–	–	18,900,000
			22.10.2010 – 21.10.2012	22.10.2012 – 21.10.2013	25,200,000	–	–	–	25,200,000
					303,327,000	–	(93,401,400)	(3,160,000)	206,765,600
Customers:									
	13.5.2004	HK$ 0.65	Nil	13.5.2004 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	2,000,000	–	–	–	2,000,000
					8,000,000	–	–	–	8,000,000
Total					311,327,000	–	(93,401,400)	(3,160,000)	214,765,600
Exercisable at the end of the year									189,565,600
Weighted average exercise price					HK$ 1.09	–	HK$ 0.94	HK$ 1.14	HK$ 1.22

36. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share option: Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 12.31.2011
Directors and other employees:									
	13.8.2003	HK$ 0.58	13.8.2003 – 12.8.2005	13.8.2005 – 12.8.2013	967,500	–	(967,500)	–	–
			13.8.2003 – 12.8.2006	13.8.2006 – 12.8.2013	1,897,500	–	(505,000)	–	1,392,500
			13.8.2003 – 12.8.2007	13.8.2007 – 12.8.2013	2,227,500	–	(250,000)	–	1,977,500
	13.5.2004	HK$ 0.65	Nil	13.5.2004 – 12.5.2014	375,000	–	–	–	375,000
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	499,000	–	(124,000)	–	375,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	9,925,000	–	(2,975,000)	–	6,950,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	9,925,000	–	(625,000)	–	9,300,000
	30.3.2006	HK$ 0.97	Nil	30.3.2006 – 29.3.2016	1,250,000	–	(800,000)	–	450,000
			30.3.2006 – 29.3.2007	30.3.2007 – 29.3.2016	3,550,000	–	(800,000)	–	2,750,000
			30.3.2006 – 29.3.2008	30.3.2008 – 29.3.2016	3,550,000	–	–	–	3,550,000
			30.3.2006 – 29.3.2009	30.3.2009 – 29.3.2016	3,550,000	–	–	–	3,550,000
	10.4.2007	HK$ 1.78	Nil	10.4.2007 – 9.4.2017	6,162,500	–	(1,102,500)	–	5,060,000
			10.4.2007 – 9.4.2008	10.4.2008 – 9.4.2017	7,662,500	–	(112,500)	–	7,550,000
			10.4.2007 – 9.4.2009	10.4.2009 – 9.4.2017	7,662,500	–	–	–	7,662,500
			10.4.2007 – 9.4.2010	10.4.2010 – 9.4.2017	7,662,500	–	–	–	7,662,500
	14.4.2008	HK$ 1.37	Nil	14.4.2008 – 13.4.2011	9,800,000	–	(1,300,000)	–	8,500,000
			14.4.2008 – 13.4.2009	14.4.2009 – 13.4.2011	9,800,000	–	(150,000)	–	9,650,000
	13.6.2008	HK$ 1.21	Nil	13.6.2008 – 12.6.2011	930,000	–	(930,000)	–	–
			13.6.2008 – 12.6.2009	13.6.2009 – 12.6.2011	3,930,000	–	(3,930,000)	–	–
			13.6.2008 – 12.6.2010	13.6.2010 – 12.6.2011	5,240,000	–	(2,340,000)	–	2,900,000
	4.7.2008	HK$ 1.14	Nil	4.7.2008 – 3.7.2011	3,472,000	–	(3,472,000)	–	–
			4.7.2008 – 3.7.2009	4.7.2009 – 3.7.2011	5,532,000	–	(5,532,000)	–	–
			4.7.2008 – 3.7.2010	4.7.2010 – 3.7.2011	7,376,000	–	(1,256,000)	–	6,120,000
	2.2.2009	HK$ 0.48	Nil	2.2.2009 – 1.2.2012	8,145,000	–	(5,750,000)	–	2,395,000
			2.2.2009 – 1.2.2010	2.2.2010 – 1.2.2012	10,005,000	–	–	–	10,005,000
			2.2.2009 – 1.2.2011	2.2.2011 – 1.2.2012	13,340,000	–	–	–	13,340,000

36. SHARE OPTION SCHEME – continued

Type of option holders	Date of grant	Exercise price	Vesting period	Exercise period	Number of share option: Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 12.31.2011
	15.5.2009	HK$ 0.71	Nil	15.5.2009 – 14.5.2012	14,531,360	–	(14,523,492)	(7,868)	–
			15.5.2009 – 14.5.2010	15.5.2010 – 14.5.2012	14,531,360	–	(4,066,508)	–	10,464,852
			15.5.2009 – 14.5.2011	15.5.2011 – 14.5.2012	19,375,148	–	–	–	19,375,148
	24.8.2009	HK$ 0.86	Nil	24.8.2009 – 23.8.2012	15,000,000	–	(900,000)	–	14,100,000
			24.8.2009 – 23.8.2010	24.8.2010 – 23.8.2012	15,000,000	–	–	–	15,000,000
			24.8.2009 – 23.8.2011	24.8.2011 – 23.8.2012	20,000,000	–	–	–	20,000,000
	3.11.2009	HK$ 0.76	Nil	3.11.2009 – 2.11.2012	15,269,360	–	(1,025,000)	(868)	14,243,492
			3.11.2009 – 2.11.2010	3.11.2010 – 2.11.2012	15,269,360	–	–	–	15,269,360
			3.11.2009 – 2.11.2011	3.11.2011 – 2.11.2012	20,359,148	–	–	–	20,359,148
	22.10.2010	HK$ 2.00	Nil	22.10.2010 – 21.10.2013	–	18,900,000	–	–	18,900,000
			22.10.2010 – 21.10.2011	22.10.2011 – 21.10.2013	–	18,900,000	–	–	18,900,000
			22.10.2010 – 21.10.2012	22.10.2012 – 21.10.2013	–	25,200,000	–	–	25,200,000
					293,772,236	63,000,000	(53,436,500)	(8,736)	303,327,000
Customers:									
	13.5.2004	HK$ 0.65	Nil	13.5.2004 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2005	13.5.2005 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2006	13.5.2006 – 12.5.2014	2,000,000	–	–	–	2,000,000
			13.5.2004 – 12.5.2007	13.5.2007 – 12.5.2014	2,000,000	–	–	–	2,000,000
					8,000,000	–	–	–	8,000,000
Total					301,772,236	63,000,000	(53,436,500)	(8,736)	311,327,000
Exercisable at the end of the year									175,252,704
Weighted average exercise price					HK$ 1.00	HK$ 2.00	HK$ 0.88	HK$0.71	HK$ 1.09

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$2.08 (2010: HK$1.85).

36. SHARE OPTION SCHEME – continued

The estimated fair value of the share options granted on 22 October 2010 ranged from HK$0.66 to HK$0.71. Fair values were calculated using the Binomial model. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

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

Expected volatility was determined by using the historical volatility of the Company's share price over a period of 1,095 days in 2010.

The Group recognised a total expense of RMB24,861,000 for the year ended 31 December 2011 (2010: RMB27,669,000) in relation to share options granted by the Company.

37. RETIREMENT BENEFITS SCHEMES

As stipulated by the rules and regulations in the PRC, the Group contributes to state-sponsored retirement plans for its employees in the PRC. The Group is required to contribute a certain percentage of the basic salaries of its employees to the retirement plans, and has no further obligation for the actual payment of the previous or post retirement benefits. The relevant state-sponsored retirement plans are responsible for the entire present obligation to retired employees.

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a Mandatory Provident Fund ("MPF") scheme ("MPF Scheme") for all qualifying Hong Kong employees. The assets of the scheme are held separately from those of the Group and under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group in respect of the MPF Scheme is to make the required contributions under the scheme.

During the year, the total cost of retirement benefits contributions charged to profit or loss of RMB89,955,000 (2010: RMB61,811,000) represents contributions to the schemes made by the Group at rates specified in the rules of the respective schemes.

38. RELATED PARTY TRANSACTIONS

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

	Notes	2011 RMB'000	2010 RMB'000
Rental expenses			
– China National Software and Service Company Limited ("CNSS")	(a) & (i)	**2,862**	6,019
Provision of IT outsourcing services			
–日本國株式會社CDI	(b) & (ii)	**10,021**	12,884
– Viador Inc.	(c) & (iii)	**–**	1,327
Trademark usage right			
– CNSS Group (see note 17)	(a) & (iv)	**78**	164
Sales of property, plant and equipment			
– Huateng Data	(d)	**6**	148
– Huateng Intelligent	(d)	**1,892**	30

Notes:

(a) CNSS is a holding company of a former substantial shareholder of the Company. CNSS, its subsidiaries and predecessor entities are referred to as CNSS Group. Following the dilution of its interest in the Company in June 2011, CNSS Group ceased to be a related party of the Group thereafter. The transactions with CNSS Group shown above represent the transactions occurred from January 2011 to June 2011.

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

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

(d) Huateng Data and Huateng Intelligent are the associates of the Group.

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

(ii) During the year, the Group provided IT outsourcing services of RMB10,021,000 (2010: RMB12,884,000) to日本國株式會社CDI. At 31 December 2011, an amount of RMB859,000 (2010: RMB869,000) was included in trade and other receivables in the consolidated statement of financial position.

(iii) During the year, the Group did not provide IT outsourcing services (2010: RMB1,327,000) to Viador Inc. At 31 December 2011, an amount of RMB393,000 (2010: RMB2,669,000) was included in trade and other receivables in the consolidated statement of financial position.

(iv) The Group entered into a trademark usage right agreement with CNSS Group on 20 December 2003 and paid RMB2,000,000 for the trademark usage right. The annual amount charged to expense is RMB156,000 (2010: RMB164,000).

38. RELATED PARTY TRANSACTIONS – continued

Compensation of key management personnel

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

	2011 RMB'000	2010 RMB'000
Short-term employee benefits	6,377	6,057
Retirement benefits costs	169	169
Share option expenses	3,012	1,824
	9,558	8,050

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

39. SUBSEQUENT EVENT

On 12 January 2012, the Company announced the intention to restructure its IT outsourcing business by gradually consolidating its IT outsourcing resources into a single subsidiary proposed to be established in the PRC (the "New Subsidiary"). The proposed registered capital of the New Subsidiary is RMB100 million. In addition, the Company entered into a capital contribution agreement with Huawei Technology Company Limited ("Huawei"), an independent third party, on the same date. Huawei agreed to contribute 40% of the registered capital of the New Subsidiary.

Financial Summary

RESULTS

	For the year ended 31 December				
	2007	2008	2009	2010	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	811,552	983,372	1,104,602	1,601,211	**2,243,754**
Profit (loss) before taxation	131,448	80,979	(107,077)	(15,079)	**150,687**
Taxation	(8,908)	(9,254)	(13,480)	(14,657)	**(29,611)**
Profit (loss) for the year	122,540	71,725	(120,557)	(29,736)	**121,076**
Attributable to:					
Owners of the Company	115,445	63,335	(126,743)	(40,133)	**110,594**
Non-controlling interests	7,095	8,390	6,186	10,397	**10,482**
	122,540	71,725	(120,557)	(29,736)	**121,076**
Dividend	797	4,406	–	–	**–**

ASSETS AND LIABILITIES

	As at 31 December				
	2007	2008	2009	2010	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	1,362,272	1,405,047	1,468,512	2,373,623	**2,947,534**
Total liabilities	(587,584)	(534,935)	(691,498)	(1,271,620)	**(1,143,849)**
	774,688	870,112	777,014	1,102,003	**1,803,685**