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中软国际

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 354)

(1) RESTRUCTURING OF IT OUTSOURCING BUSINESS

AND

(2) EQUITY PARTICIPATION IN IT OUTSOURCING FLAGSHIP BY HUAWEI

Financial Adviser to Chinasoft International Limited



This announcement is made pursuant to Rule 13.09 of the Listing Rules.

Restructure of IT outsourcing business of the Group

Currently, the IT outsourcing business of the Group has been carrying out through 15 of its subsidiaries in the PRC, United States of America and Japan. In order to expedite the Group's IT outsourcing business, enhance the efficiency of use of resource and business management, the Group intends to restructure its IT outsourcing business by gradually consolidating its IT outsourcing resources into IT Outsourcing Flagship, a single entity proposed to be established in the PRC.

The registered capital of the IT Outsourcing Flagship will be RMB100 million (equivalent to approximately HK\$122.9 million).

Equity Participation in IT Outsourcing Flagship by Huawei

On 12 January 2012, the conditional Huawei Equity Participation Agreement was entered into between CSI (China) and Huawei whereby Huawei have agreed to participate in the IT Outsourcing Flagship by contributing 40% of its registered capital.

Huawei is currently a major customer of the Group's IT outsourcing business. With the equity participation of Huawei in the IT Outsourcing Flagship, the Company will enter into the new Huawei IT Outsourcing Agreement with Huawei and the Group expects that it can further strengthen the current business relationship, expand service scale and scope, and become a core IT outsourcing service provider of Huawei.

Meanwhile, by considered Huawei Group's position as a leading global information and communications technology solutions provider, the equity participation of Huawei in the IT Outsourcing Flagship will provide a synergy to the business operation and future development of the IT Outsourcing Flagship and to the Group.

The Directors believe that the Huawei Group will (i) actively participate to assist the IT Outsourcing Flagship to develop its IT outsourcing business worldwide within the telecommunication industry; and (ii) assist IT Outsourcing Flagship to expand the software outsourcing business worldwide for all the industries.

The Parties consider that the IT Outsourcing Flagship will become a top-ranking software outsourcing company in the industry by fully merging many years' successful experience in outsourcing business of the Group, and the mature quality and delivery management and human resources management practice of Huawei Group.

Possible continuing connected transaction

Upon Completion, the IT Outsourcing Flagship will become a subsidiary of the Company and Huawei will be a substantial shareholder of the IT Outsourcing Flagship. Therefore, Huawei will become a connected person of the Company pursuant to the Listing Rules, and any transactions entered into between the Group and the Huawei Group shall constitute connected transactions of the Company. The Group expects to continue to carry on its IT outsourcing business with Huawei, therefore any such future continuing IT outsourcing business between Huawei and the Group will constitute continuing connected transactions of the Company upon Completion. The Company is currently negotiating with Huawei on the Huawei IT Outsourcing Agreement which set out the framework on which future provision of IT outsourcing business to Huawei by the Group (inclusive of IT Outsourcing Flagship) upon the establishment of the IT Outsourcing Flagship.

The establishment of the IT Outsourcing Flagship and the equity participation of Huawei in the IT Outsourcing Flagship is conditional upon, among others, (i) the Huawei IT Outsourcing Agreement being entered into by the Company and Huawei; and (ii) Huawei IT Outsourcing Agreement being approved by the Shareholders (or as required under the Listing Rules, the Independent Shareholders) at the general meeting of the Company.

The Company will comply with the Listing Rules in respect of the Huawei IT Outsourcing Agreement as and when appropriate.

This announcement is made pursuant to Rule 13.09 of the Listing Rule.

Restructure of IT outsourcing business of the Group

The Group's IT outsourcing business include the provision of various information technology services like (i) product engineering service to technology product development companies, including independent software provider and telecommunications equipment developers; (ii) application development and management services such as application software development, system maintenance and system function optimisation for the specific customers, based on the needs of industry customers; and (iii) enterprise application service which 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.; and (iv) business, engineering and knowledge process outsourcing which offer business process outsourcing (BPO), engineering process outsourcing (EPO) and knowledge process outsourcing (KPO) services in several languages to customers from different fields.

IT outsourcing business is one of the principal business activities of the Group. During each of the two years ended 31 December 2010 and the six months ended 30 June 2011, the revenue attributable to the provision of IT outsourcing services were approximately RMB456 million, RMB683 million (representing a growth rate of approximately 49.9%) and RMB475 million (representing a growth rate of approximately 50.9% as compared to the six months ended 30 June 2010) respectively, representing approximately 41%, 43% and 50% of the total revenue of the Group for their respective financial year or period.

Currently, the IT outsourcing business of the Group has been carrying out through 15 of its subsidiaries in the PRC, United States of America and Japan. In order to expedite the Group's IT outsourcing business, enhance the efficiency of use of resource and business management, the Group intends to restructure its IT outsourcing business by gradually consolidating its IT outsourcing resources into the IT Outsourcing Flagship, a single entity proposed to be established in the PRC. The registered capital of the IT Outsourcing Flagship will be RMB100 million (equivalent to approximately HK\$122.9 million).

As part of the IT outsourcing business restructuring process, the Group intends to gradually integrate its IT outsourcing resources from various entities including the employees and management in respect of its IT outsourcing business into the IT Outsourcing Flagship, and shall enter into any agreements in respect of provision of IT outsourcing business under the name of IT Outsourcing Flagship upon Completion. No binding terms has been reached between the Parties and the Company will comply with the Listing Rules upon confirmation of such terms as and when appropriate.

Based on the above, the Board considers that the establishment of the IT Outsourcing Flagship to restructure its IT outsourcing business is in the interest of the Group and the Shareholders as a whole.

Key description of the IT Outsourcing Flagship is set out below:

- Registered capital* : RMB100 million
- Place of incorporation* : PRC
- Scope of business activities* : Becoming a professional IT outsourcing business company; development of IT outsourcing business worldwide
- Term* : The IT Outsourcing Flagship shall have an initial term of fifty years from the date of establishment of the IT Outsourcing Flagship

The capital contribution to be made by CSI (China) to the IT Outsourcing Flagship is intended to be funded by internal resources of the Group.

EQUITY PARTICIPATION IN IT OUTSOURCING FLAGSHIP BY HUAWEI

On 12 January 2012, the conditional Huawei Equity Participation Agreement was entered into between CSI (China) and Huawei whereby Huawei have agreed to participate in the IT Outsourcing Flagship by contributing 40% of its registered capital.

To the best of the Directors’ knowledge, information, belief and having made all reasonable enquiries, save for the business relationship between the Group and Huawei Group (details of which has been set out under the section headed “Possible continuing connected transactions” of this announcement), Huawei and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons.

The establishment of the IT Outsourcing Flagship and the equity participation of Huawei in the IT Outsourcing Flagship is conditional upon the fulfillment of, among others, the following conditions:–

1. the Parties having signed the articles of association of the IT Outsourcing Flagship, and the effective conditions agreed in the Huawei Equity Participation Agreement having been fulfilled
2. the Huawei IT Outsourcing Agreement having being entered into by the Company and Huawei;

3. the obtaining of the approval by the Shareholders (or as required by the Listing Rules, the Independent Shareholders) approving the Huawei IT Outsourcing Agreement at a general meeting of the Company to be duly convened upon the Huawei Equity Participation Agreement becoming effective;
4. the confirmation of the list of directors and supervisors of the IT Outsourcing Flagship to be nominated by the Parties
5. all representations and warranties under the Huawei Equity Participation Agreement remain completely true, accurate and complete, and from the date of the Huawei Equity Participation Agreement up to the date when the Parties actually pay up the total registered capital of the IT Outsourcing Flagship, there does not exist any material change which has a material adverse impact on this transaction
6. the Parties having performed all the duties and complied with all the undertakings pursuant to the Huawei Equity Participation Agreement before paying up the registered capital of the IT Outsourcing Flagship
7. the Parties having signed a letter confirming that the conditions (1) to (6) above having been fulfilled.

The Parties have the discretion to waive any of the conditions precedent above.

Upon Completion, the Group will own 60% of equity interest of the IT Outsourcing Flagship and the IT Outsourcing Flagship will become a subsidiary of the Group, and thus the financial results of the IT Outsourcing Flagship will be consolidated into the consolidated financial statements of the Group.

The amount of capital contribution by Huawei in the IT Outsourcing Flagship was arrived at after arm's length negotiations between the Parties with reference to the capital requirements of the IT Outsourcing Flagship.

REASONS FOR AND BENEFITS OF PARTICIPATION IN THE IT OUTSOURCING FLAGSHIP BY HUAWEI

The Group is principally engaged in the provision of consulting-powered solutions, professional information technology outsourcing (ITO) and business process outsourcing (BPO), and human resources supply chain oriented training services, including information technology consulting, software development, application integration, software testing, software localization, construction and maintenance of business application platforms, IT outsourcing and operational process outsourcing.

Huawei is a leading global information and communications technology solutions provider. Huawei has established end-to-end advantages in telecom networks, devices and cloud computing and is committed to creating maximum value for telecom

operators, enterprises and consumers by providing competitive solutions and services. For more information about Huawei, please refer to www.huawei.com.

Huawei is currently one of the major customers of the Group in respect of IT outsourcing business (details of which has been set out under the section headed “Possible continuing connected transactions” of this announcement). With the equity participation of Huawei in the IT Outsourcing Flagship, the Company will enter into the new Huawei IT Outsourcing Agreement with Huawei and the Group expects that it can further strengthen the current business relationship, expand service scale and scope, and become a core IT outsourcing service provider of Huawei.

Meanwhile, by considered Huawei Group’s position as a leading global information and communications technology solutions provider, the equity participation of Huawei in the IT Outsourcing Flagship will provide a synergy to the business operation and future development of the IT Outsourcing Flagship and to the Group.

The Directors believe that the Huawei Group will (i) actively participate to assist the IT Outsourcing Flagship to develop its IT outsourcing business worldwide within the telecommunication industry; and (ii) assist IT Outsourcing Flagship to expand the software outsourcing business worldwide for all the industries.

The Parties consider that the IT Outsourcing Flagship will become a top-ranking software outsourcing company in the industry by fully merging many years’ successful experience in outsourcing business of the Group, and the mature quality and delivery management and human resources management practice of Huawei Group.

Having considered the above factors, the Directors consider that the terms of the Huawei Equity Participation Agreement are fair and reasonable and that it is in the interest of the Group and the Shareholders as a whole to have an equity participation of Huawei in the IT Outsourcing Flagship.

POSSIBLE CONTINUING CONNECTED TRANSACTIONS

The Group has commenced the provision of IT outsourcing service to Huawei Group since 2009. Currently, Huawei Group is one of the major customers of the Group in respect of its IT outsourcing business. The transaction amount in respect of the provision of IT outsourcing service by the Group to Huawei Group for each of the two years ended 31 December 2010 and six months ended 30 June 2011 were approximately RMB99 million, RMB269 million and RMB169 million respectively, representing approximately 22%, 39% and 36% of the revenue attributable to the IT outsourcing business of the Group of the respective financial year or period.

Upon Completion, the IT Outsourcing Flagship will become a subsidiary of the Company and Huawei will be a substantial shareholder of the IT Outsourcing Flagship. Therefore, Huawei will become a connected person of the Company pursuant to the

Listing Rules, and any transactions entered into between the Group and the Huawei Group shall constitute connected transactions of the Company. The Group expects to continue to carry on its IT outsourcing business with Huawei Group, therefore any such future continuing IT outsourcing business between Huawei Group and the Group will constitute continuing connected transactions of the Company upon Completion. The Company is currently negotiating with Huawei on the Huawei IT Outsourcing Agreement which set out the framework on which future provision of IT outsourcing business to Huawei by the Group (inclusive of IT Outsourcing Flagship) upon the establishment of the IT Outsourcing Flagship.

The Company will comply with the Listing Rules in respect of the Huawei IT Outsourcing Agreement as and when appropriate.

DEFINITIONS

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

“associate(s)”	such term has the meaning as ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Business Day(s)”	Monday to Friday, including a Saturday and a Sunday on which the State Council of the PRC promulgates that it is a working day but excluding public holidays in the PRC;
“CSI (China)”	中軟國際(中國)科技有限公司 (Chinasoft International (China) Technology Co., Ltd.*), a limited company incorporated in the PRC, being a wholly-owned subsidiary of the Company;
“Company”	Chinasoft International Limited (中軟國際有限公司*), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange;
“Completion”	completion of the establishment of the IT Outsourcing Flagship pursuant to terms and conditions of the Huawei Equity Participation Agreement;
“connected person(s)”	such term has the meaning ascribed to it under the Listing Rules;
“connected transaction(s)”	such term has the meaning ascribed to it under the Listing Rules;

“continuing connected transaction(s)”	such term has the meaning ascribed to it under the Listing Rules;
“Director(s)”	directors (including independent non-executive directors) of the Company;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Huawei”	華為技術有限公司 (Huawei Technology Company Limited*) a limited liability company established in the PRC;
“Huawei Equity Participation Agreement”	the capital contribution agreement dated 12 January 2012 entered into between CSI (China) and Huawei in relation to the establishment of IT Outsourcing Flagship and the equity participation of Huawei in the IT Outsourcing Flagship;
“Huawei Group”	Huawei and its subsidiaries
“Huawei IT Outsourcing Agreement”	the information technology outsourcing agreement to be entered into between the Company and Huawei which set out the framework on which future provision of IT outsourcing business to Huawei by the Group (inclusive of IT Outsourcing Flagship) upon the establishment of the IT Outsourcing Flagship;
“Independent Shareholder(s)”	Shareholders other than those who has a material interest in the Huawei IT Outsourcing Agreement and the transactions contemplated thereunder;
“IT Outsourcing Flagship”	中軟國際科技服務有限公司 (Chinasoft International Technology Services Co., Ltd.*), joint venture to be established in the PRC pursuant to the Huawei Equity Participation Agreement, which is to be owned as to 60% and 40% by CSI (China) and Huawei respectively immediately upon Completion;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

“Parties”	parties to the Huawei Equity Participation Agreement, namely CSI (China) and Huawei;
“PRC” or “China”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan);
“RMB”	Renminbi, the lawful currency of the PRC;
“Share(s)”	ordinary share(s) of HK\$0.05 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of Shares;
“substantial shareholder”	such term has the meaning as ascribed to it under the Listing Rules;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

For illustration purpose only, conversion of RMB into Hong Kong dollars in this announcement is based on the exchange rate of RMB0.81346 to HK\$1.00. Such conversion should not be construed as a representation that any amounts have been, could have been, or may be, exchanged at this or any other rate.

The English names of the PRC entities referred to in this announcement are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.

By order of the Board
Chinasoft International Limited
Dr. Chen Yuhong
Chairman and Chief Executive Officer

12 January 2012, Hong Kong

As at the date of this announcement, the Board comprises:

Executive Directors:

Dr. CHEN Yuhong (*Chairman and Chief Executive Officer*), Dr. TANG Zhenming, Mr. WANG Hui, Mr. JIANG Xiaohai

Non-executive Directors:

Mr. ZHAO John Huan, Dr. ZHANG Yaqin, Dr. SONG Jun, Mr. LIN Sheng, Ms. SHEN Lipu

Independent Non-executive Directors:

Mr. ZENG Zhijie, Dr. LEUNG Wing Yin, Mr. XU Zeshan

* *for identification purposes only*