中软国际

CHINASOFT INTERNATIONAL LIMITED

中軟國際有限公司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8216)

Announcement

Impact of the adoption of Hong Kong Accounting Standard 39

The Board would like to inform the shareholders of the Company and investors that due to the accounting treatment of the Series A Preferred Shares subscribed for by Microsoft Corporation and International Finance Corporation for an aggregate amount of US$20 million in the audited accounts of the Company for the year ended 31 December, 2006 pursuant to requirements under the Hong Kong Accounting Standard 39, the Group's results for the year ended December 31, 2006 are expected to be adversely affected.

Shareholders of the Company and investors are advised to exercise caution when dealing in the shares of the Company.

This announcement is made pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The board of Directors (the "**Board**") of Chinasoft International Limited (the "**Company**") and together with its subsidiaries, the "**Group**") wishes to inform the shareholders of the Company and investors that the Group's results for the year ended 31 December 2006 are expected to be adversely affected due to the fair value loss on derivative liability of the senior redeemable preferred shares with par value of HK$0.05 each issued by the Company to both Microsoft Corporation and International Finance Corporation for an aggregate of US$20 million ("**Series A Preferred Shares**") pursuant to the subscription agreement dated September 26, 2005 entered into by, among others, the Company, Microsoft Corporation and International Finance Corporation. The Series A Preferred Shares can be converted into ordinary shares of HK$0.05 each in the Company ("**Ordinary Shares**") at conversion price of HK$0.80 per share from the date of issue on 6 January, 2006 up to the sixth anniversary of such date.

As the functional currency of the Group is Renminbi and the issuance of the Series A Preferred Shares was in United States Dollar, our Auditors are of the view that the Series A Preferred Shares are a Financial Instrument rather than Equity Instrument and therefore, the Auditors have applied Hong Kong Accounting Standard 39 "Financial Instruments: Recognition and Measurement" ("**HKAS 39**") to the treatment of Series A Preferred Shares in the consolidated accounts of the Group.

Under the Hong Kong Accounting Standard 39, HKAS39, if the convertible bond is denominated in a currency other than the functional currency, the conversion option is required to be stated at fair value and the resulting change in the fair value would have an impact on the income statement. The change in value of the conversion option is principally affected by the price and the volatility of the stock.

The conversion price for the Series A Preferred Shares is HK$0.8 and if the closing price of the Ordinary Shares as at the account reporting date was above such conversion price, under the HKAS39, there would be a loss due to the change in the fair value of the conversion option and would have an impact on the income statement. Such loss would be non-cash expenses to the Group.

The Directors are concerned that the accounting treatment of the Series A Preferred Shares as prescribed under HKAS39 may not fairly present the operating results of the Company and the Group for the year ended Decemebr 31, 2006. The adoption of such accounting treatment is however necessary for full compliance with the prevailing accounting standards, thus avoiding a qualified opinion on the audited financial statements of the Group for the year ended December 31, 2006 by our auditors.

As the Group's audited consolidated results for the year ended December 31, 2006 have not yet been finalized, the Board is not in the position to quantify the financial impact of this incident on the Group. The Company will publish the Group's audited results for the year ended December 31, 2006 in accordance with the Listing Rules.

Shareholders of the Company and investors should exercise caution when dealing in the shares of the Company.

By order of the Board
Dr. Chen Yuhong
Managing Director

Hong Kong, 28 March 2007

As at the date hereof, the Board comprises three executive directors, namely, Dr. Chen Yuhong, Mr. Wang Hui, Dr. Tang Zhenming, five non-executive directors, namely, Madam Tang Min (Chairman), Dr. Cui Hui, Mr. Duncan Chiu, Mr. Timothy Chen Yung Cheng, Mr. Liu Zheng and three independent non-executive directors, namely, Mr. He Ning, Mr. Zhen Zhijie and Dr. Leung Wing Yin Patrick.

This announcement will remain on the "Latest Company Announcements" page on the GEM website for at least 7 days from the date of its posting.

* *For identification purposes only*