



Neusoft[®]
Beyond Technology™

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The year 2011 saw the 20th anniversary of Neusoft, a milestone year for us. Focusing on business model innovation, global strategy and operational excellence, we have mapped out future development strategies to build up necessary power and capacities for a sustainable growth. In the aspect of business model innovation, we have been devoted to building a company driven by innovation and service through leveraging our competitiveness and competence. In the aspect of global strategy, we have combined all business lines in and outside China, making all products and services available in both local and international markets. In the aspect of operational excellence, we have made some reforms covering organization, technology, culture, leadership and human resources to ensure that Neusoft operates at increasingly high efficiency levels.

However, the past years were merely a start for our future adventure at Neusoft. We need more entrepreneurial employees to stand out and continue our growth with passion and wisdom. In the coming years, Neusoft will strive to maintain a fast sustainable growth through business innovations to build up an emerging multinational company.

Dr. Liu Jiren
Chairman

A handwritten signature in black ink, consisting of stylized Chinese characters, positioned to the right of the printed name and title.



As the economy was in a complicated ever-changing state in 2011, we have made continuous efforts in extending our global presence, building the marketing system focusing on key accounts, optimizing the distributed delivery model, implementing effective market competition strategies, expanding core business offerings to high-profile customers, and accelerating mergers and acquisitions across industries. On another dimension, we launched an operational excellent plan, which, through constantly optimizing resource allocation and improving organizational capabilities, has helped ensure a sustainable growth for all of our businesses.

In 2012, we will implement an innovation-based strategy aiming for global expansion. More input will be made in designing and developing new businesses to facilitate business restructuring towards an innovation/service-driven growth. In the meantime, with continued building of a highly efficient global service support system across the company, we need to further optimize and implement our operational excellence plan for improved management and operational efficiency. Specifically, for China's market, we will aggressively extend our offerings for high-profile customers for fast business growth, mostly by reinforcing our leading competitiveness in those industries and markets where we play. Globally, we will further increase input in international market development. Therefore, we need to improve our engineering service capabilities, such as planning, consulting, system design, etc., and build up our knowledge assets. Overall, we will further accelerate business integration and inter-promotion in both Chinese and international markets, thereby realizing a blistering growth.

Wang Yongfeng
President

(I) Important Notes

1) The Board of Directors, Board of Supervisors, directors, and supervisors as well as the senior management of the Company hereby represent and warrant that this Report contains no false representations, misleading statements or material omissions, and shall be individually and jointly reliable for the authenticity, accuracy and integrity of the contents.

2) BDO CHINA SHU LUN PAN Certified Public Accountants LLP has issued a standard and unqualified auditor's report.

3) Liu Jiren, Chairman & CEO, Wang Li, Senior Vice President & CFO, and Chen Lei, Head of Finance Operation Division hereby confirm the authenticity and integrity of financial reports in the Annual Report.

4) This Report is primarily about Neusoft Corporation ("Neusoft" or the "Company"), including any and/or all branches and subsidiaries of the Company.

(II) Company Profile

2.1 Overview

Registered Company Name in Chinese	“东软集团股份有限公司”
Abbreviation of Registered Company Name in Chinese	“东软集团”
Registered Company Name in English	Neusoft Corporation
Abbreviation of Registered Company Name in English	Neusoft
Legal Representative	Liu Jiren

2.2 Contact

	Secretary of the Board of Directors	Representative for Securities Affairs
Name	Wang Nan	Zhang Long
Address	Neusoft Park, No.2 Xinxu Street, Hunnan New District, Shenyang 110179, PR China	Neusoft Park, No.2 Xinxu Street, Hunnan New District, Shenyang 110179, PR China
Tel:	8624-83662115	8624-83662115
Fax:	8624-23783375	8624-23783375
Email:	investor@neusoft.com	investor@neusoft.com

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2.3 Basic information

Registered office	No.2 Xinxu Street, Hunnan New District, Shenyang 110179, PR China
Address of office	Neusoft Park, No.2 Xinxu Street, Hunnan New District, Shenyang 110179, PR China
Official website	http://www.neusoft.com
Email:	investor@neusoft.com

2.4 Information disclosure and venue of report preparation

Newspaper designated by the Company for information disclosure	<i>China Securities Journal, Shanghai Securities News</i>
Website designated by China Securities Regulatory Commission for publication of annual report	http://www.sse.com.cn
Venue of preparation of annual report	Office of the Board of Directors

2.5 Company stock

Company Stock				
Class of stock	Stock exchange	Stock name	Stock code	Name of stock before alteration
A	Shanghai Stock Exchange	Neusoft Corporation	600718	Neusoft Stock/ Neu-Alpine

2.6 Others

Date of initial registration	June 17 th , 1991
Place of initial registration	No. 11, Lane 3, Wenhua Road, Heping District, Shenyang 110819, PR China
Date of registration alternation	October 28 th , 2010
Place of registration alternation	No. 2, Xinxiu Street, Hunnan New District, Shenyang 110179, PR China
Registered No. of Corporate Business License	210100402001491
Tax Registration No.	210132604608172
Organization code	60460817-2
Name of the appointed CPA firm	BDO CHINA SHU LUN PAN Certified Public Accountants LLP (Formally known as BDO CHINA SHU LUN PAN Certified Public Accountants Co., Ltd.)
Office address of the CPA firm	F4, New Huangpu Financial Plaza, No. 61, East Nanjing Road, Shanghai 201804, PR China

(III) Financial and Operating Highlights

3.1 Key accounting data

Unit: RMB Yuan

Item	Amount
Operating income	310,300,179
Total profit	492,886,660
Net profit attributable to shareholders of listed company	417,068,980
Net profit attributable to shareholders of listed company after deducting non-recurring profits and losses	286,807,569
Net cash flow from operating activities	300,196,604

3.2 Non-recurring profits/losses

Unit: RMB Yuan

Non-recurring profits/losses	2011	Remarks	2010	2009
Profit/loss on disposal of non-current assets	18,180,599	Profits and losses arising from disposal of fixed assets, intangible asset and long-term equity investment	43,302,916	-7,903,766
Government grants recorded in current profit and loss, with exception of those closely related to the normal operations of the Company and continuously received at certain quotation or quantity according to the policies and regulations of China	105,173,354	Government grants for research projects and various government funds and subsidiaries recorded in the current profit and loss	109,335,552	38,968,688
Payment from non-financial businesses for use of funds recorded in current profit and loss	9,946,738	Surcharges received from Nanhai Neusoft Institute of Information Technology and Chengdu Neusoft Institute of Information Technology on delayed payment for assets transfer	9,897,547	7,730,763
Profits from fair value of the investee's net identifiable assets attributable to the Company when the investment cost acquired from the subsidiary, associated or joint-venture is lower than the investment	—	—	26,753	—
Gains/losses from exchange of non-monetary assets	24,934,400	Profits and losses from investment into Appconomy, Inc. with the right to use technical intangible asset	—	—

Continued table

Non-recurring profits/losses	2011	Remarks	2010	2009
Profits/losses on changes in fair value from held-for-trading financial assets/liabilities, investment income from disposal of held-for-trading financial assets/liabilities and available-for-sale financial assets, except for hedging business related to normal operation of the Company	950,557	Profits on changes in fair value of held-for-trading financial assets (Foreign exchange forward contract)	-694,314	83,998,795
Reversal of provision for depreciation of receivables measured separately	—	—	6,600,000	13,400,000
Other non-operating income/expenses	1,313,927	—	-1,945,474	2,295,537
Other non-recurring gains/losses	1,221,899	Investment income from acquisition of Beijing LBS Social Insurance Information Technology Co., Ltd.	—	—
Minority shareholders' interests	-11,201,619	—	-21,764,898	-10,030,006
Income tax consequences	-20,258,444	—	-17,278,655	-9,690,610
Total	130,261,411	—	127,479,427	118,769,401

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3.3 Three-year key accounting data and financial indicators before the end of reporting period

Unit: RMB Yuan

Key accounting data	2011	2010	Year-on-year change (%)	2009	
				Before	After
Total operating income	5,751,249,330	4,937,696,440	16.48	4,166,055,393	4,166,055,393
Operating profit	310,300,179	407,491,880	-23.85	671,687,541	671,687,541
Total profits	492,886,660	560,105,328	-12.00	727,756,717	727,756,717
Net profit attributable to shareholders of listed company	417,068,980	484,675,178	-13.95	640,564,034	640,590,492
Net profit attributable to shareholders of listed company after deducting non-recurring gains/losses	286,807,569	357,195,751	-19.71	521,794,633	521,821,091
Net cash flows from operating activities	300,196,604	381,889,530	-21.39	772,564,482	772,564,482
Key accounting data	Year-end 2011	Year-end 2010	Year-on-year change (%)	Year-end 2009	
				Before	After
Total assets	7,925,285,114	6,858,879,805	15.55	6,209,047,971	6,209,047,971
Total liabilities	2,910,161,846	2,273,667,334	27.99	1,936,157,245	1,936,157,245
Ownership equity attributable to shareholders of listed company	4,674,677,555	4,280,208,312	9.22	3,997,562,677	3,997,589,135
Total equity	1,227,594,245	1,227,594,245	—	944,303,265	944,303,265

Unit: RMB Yuan

Key financial indicators	2011	2010	Year-on-year change (%)	2009	
				Before	After
Basic earnings per share (RMB Yuan/share)	0.34	0.39	-13.95	0.52	0.52
Diluted earnings per share (RMB Yuan/share)	0.34	0.39	-13.95	0.52	0.52
Earning per share based on current equity	0.34	0.39	-13.95	0.52	0.52
Basic earnings per share after deducting non-recurring gains/losses (RMB Yuan/share)	0.23	0.29	-19.71	0.43	0.43
Average weighted rate of return on equity	9.34	11.67	Decline by 2.33 percents	17.21	17.21
Average weighted rate of return on equity after deducting non-recurring gains/losses	6.42	8.60	Decline by 2.18 percents	14.02	14.02
Net cash flows per share from operating activities (RMB Yuan/share)	0.24	0.31	-21.39	0.82	0.82
Key financial indicators	Year-end 2011	Year-end 2010	Year-on-year change (%)	Year-end 2009	
Book value per share attributable to shareholders of listed company	3.81	3.49	9.22	4.23	4.23
Asset-liability ratio (%)	36.72	33.15	+3.57	31.18	31.18

Note:

(1) In accordance with relevant provisions of the *Accounting Standards for Business Enterprises No. 16* issued by the Ministry of Finance of the People's Republic of China, net profit attributable to shareholders of listed company, net profit attributable to shareholders of listed company after deducting non-recurring gains/losses and ownership equity attributable to parent company which was adjusted in 2009 shall be based on the data with retroactive adjustments;

(2) In accordance with relevant regulations, earnings per share shall be calculated by 1,227,594,245 shares while cash flow from operating activities per share and book value per share shall be accounted by 1,227,594,245 shares for both 2010 and 2011 and 944,303,265 shares for 2009.

3.4 Fair value-measured items

Unit: RMB Yuan

Item	Year-begin balance	Year-end balance	Change	Influence on current profits (after tax)
Held-for-trading financial assets	969,350	863,170	-106,180	-95,562
Held-for-trading financial liabilities	1,227,304	170,567	-1,056,737	951,063
Total	—	—	—	855,501

(IV) Changes in Equity and Shareholders

4.1 Changes in equity

(1) Statement of changes in equity

Unit: Share

Item	Before		Changes (+/-)					After	
	Quantity	Percent (%)	New issue	Bonus issue	Conversion from reserves	Others	Sub-total	Quantity	Percent (%)
Shares with selling restrictions	900,294,040	73.3381				-900,294,040	-900,294,040		
a) State-owned shares	121,838,079	9.9249				-121,838,079	-121,838,079		
b) Shares held by state-owned companies	216,361,562	17.6248				-216,361,562	-216,361,562		
c) Shares held by other domestic investors	382,071,106	31.1236				-382,071,106	-382,071,106		
Including: Shares held by companies other than state-owned companies	382,071,106	31.1236				-382,071,106	-382,071,106		
Shares held by domestic natural persons									
d) Shares held by foreign investors	180,023,293	14.6647				-180,023,293	-180,023,293		
Include: Shares held by foreign companies	180,023,293	14.6647				-180,023,293	-180,023,293		
Shares held by foreign natural persons									
Floating shares without trading restrictions	327,300,205	26.6619				900,294,040	900,294,040	1,227,594,245	100.0000
a) RMB-denominated ordinary shares	327,300,205	26.6619				900,294,040	900,294,040	1,227,594,245	100.0000
b) Shares traded in non-RMB currencies and listed domestically									
c) Shares listed overseas									
d) Others									
Total shares	1,227,594,245	100.0000						1,227,594,245	100.0000

On March 5th, 2011, the Company announced that 900,294,040 floating shares with trading restrictions held by its shareholders including NEU Science & Technology Industry Group Co., Ltd. were to be listed for sales on the stock market on March 14th, 2011 by publishing the *Notice on Listing of Floating Shares with Trading Restrictions* on both China Securities Journal and Shanghai Securities News. By then, 1,227,594,245 shares of the Company had been turned into floating ones without trading restrictions.

(2) Changes in shares with trading restrictions

Unit: Share

Shareholder	Number of shares with trading restrictions at the beginning of 2011	Number of shares with trading restrictions expired in 2011	Number of additional shares with trading restrictions in 2011	Number of shares with trading restrictions at the end of 2011	Expiry date of trading restrictions
NEU Science & Technology Industry Group Co., Ltd.	216,361,562	216,361,562	0	0	March 13 th , 2011
Chengdu Huixu Technology Co., Ltd.	210,807,559	210,807,559	0	0	March 13 th , 2011
Alpine Electronics (China) Co., Ltd.	171,263,547	171,263,547	0	0	March 13 th , 2011
Baosteel Group Corporation	121,838,079	121,838,079	0	0	March 13 th , 2011
Toshiba Solutions Corporation	58,228,036	58,228,036	0	0	March 13 th , 2011
INTEL CAPITAL CORPORATION	52,181,184	52,181,184	0	0	March 13 th , 2011
PHILIPS ELECTRONICS CHINA B.V.	24,954,871	24,954,871	0	0	March 13 th , 2011
Alpine Electronics Inc.	20,057,144	20,057,144	0	0	March 13 th , 2011
SAP AG	16,283,768	16,283,768	0	0	March 13 th , 2011
Toshiba Corporation	8,318,290	8,318,290	0	0	March 13 th , 2011
Total	900,294,040	900,294,040	0	0	—
Reasons for trading restrictions	According to the undertakings made by 10 shareholders who have hold floating shares with trading restrictions of the Company, including NEU Science & Technology Industry Co., Ltd., upon stock subscription, the shares held by such shareholders should not be transferred within three years from March 13 th , 2008 until the expiry of such restrictions. On March 14 th , 2011, the shares with trading restrictions held by the said shareholders were made available for sale on the stock market upon the expiry of trading restrictions.				

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4.2 Issue and listing of securities

(1) Issue of securities in the past three years

No securities were issued and listed in the past three years prior to the end of the reporting period.

(2) Changes in the total number of shares and shareholding structure of the Company

There is no change in the total number of shares and shareholding structure caused by bonus issue and allotted shares during the reporting period.

(3) Shares held by employees

During the reporting period, no shares for employees of the Company were in issue.

4.3 Shareholders and ultimate controllers

(1) Number of shareholders and their shareholdings

Unit: Share

Total number of shareholders at the end of 2011	79,200	Total number of shareholders as of February 29 th , 2012	77,775
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Shareholdings of the top ten shareholders

Shareholder	Nature of shareholder	Shareholding percentage (%)	Number of total shareholdings	Changes in shareholdings during the reporting period	Number of shares with trading restrictions	Number of the shares pledged or frozen
NEU Science & Technology Industry Group Co., Ltd.	State-owned company	17.6248	216,361,562	0	0	N/A
Alpine Electronics (China) Co., Ltd.	Domestic non-state-owned company	13.9512	171,263,547	0	0	N/A
Baosteel Group Corporation	The state	5.1320	63,000,000	-58,838,079	0	N/A
Toshiba Solutions Corporation	Foreign company	4.7433	58,228,036	0	0	N/A
INTEL CAPITAL CORPORATION	Foreign company	2.6045	31,973,228	-20,207,956	0	N/A
PHILIPS ELECTRONICS CHINA B.V.	Foreign company	2.0328	24,954,871	0	0	N/A
Alpine Electronics Inc.	Foreign company	1.6339	20,057,144	0	0	N/A
China Construction Bank - LOF	Unknown	1.5477	18,999,769	15,999,769	0	N/A
SAP AG	Foreign company	1.3265	16,283,768	0	0	N/A
National Social Security Fund 103	Unknown	1.1812	14,499,750	11,499,750	0	N/A

Shareholdings of top ten shareholders with shares without trading restrictions

Shareholder	Number of shares without trading restrictions	Classes and number of shares	
NEU Science & Technology Industry Group Co., Ltd.	216,361,562	RMB-denominated ordinary shares	216,361,562
Alpine Electronics (China) Co., Ltd.	171,263,547	RMB-denominated ordinary shares	171,263,547
Baosteel Group Corporation	63,000,000	RMB-denominated ordinary shares	63,000,000

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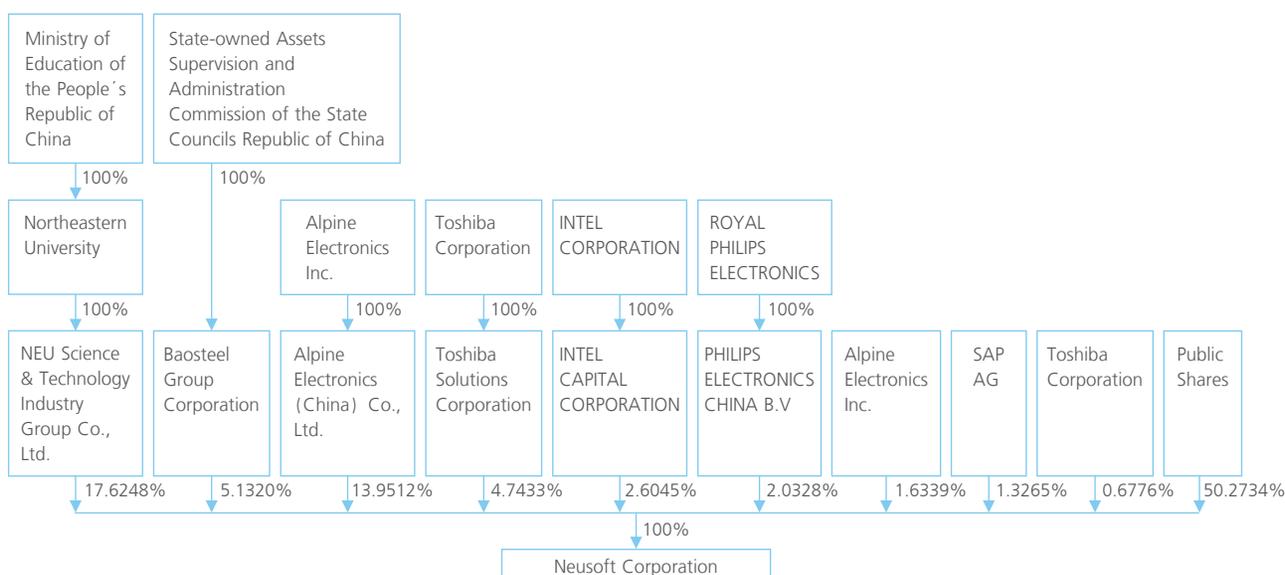
Toshiba Solutions Corporation	58,228,036	RMB-denominated ordinary shares	58,228,036
INTEL CAPITAL CORPORATION	31,973,228	RMB-denominated ordinary shares	31,973,228
PHILIPS ELECTRONICS CHINA B.V.	24,954,871	RMB-denominated ordinary shares	24,954,871
Alpine Electronics Inc.	20,057,144	RMB-denominated ordinary shares	20,057,144
China Construction Bank - LOF	18,999,769	RMB-denominated ordinary shares	18,999,769
SAP AG	16,283,768	RMB-denominated ordinary shares	16,283,768
National Social Security Fund 103	14,499,750	RMB-denominated ordinary shares	14,499,750
Notes on the relationship or XX action of the said shareholders	Alpine Electronics (China) Co., Ltd. operates as an investment company solely owned by Alpine Electronics Inc. in China. The Company has no knowledge of the relationship of other shareholders such as concerted actor.		

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(2) Holding shareholders and ultimate controllers

At present, the Company, with stock held in separate shareholdings, has no holding shareholders or ultimate controllers. The largest shareholder is NEU Science & Technology Industry Group Co., Ltd. with a shareholding percentage of 17.6248%.

Shareholders and Control Relations Chart



(3) Introduction to major shareholders

a) NEU Science & Technology Industry Group Co., Ltd.

NEU Science & Technology Industry Group Co., Ltd., approved by the Ministry of Education of the People's Republic of China through issuing the Document of No.11 [2005] of Department of Science and Technology, the Ministry of Education on July 1st, 2005, was incorporated as a limited liability company wholly owned by Northeastern University in compliance with a judicial restructure of NEU Industry Development Co., Ltd. (a company owned by all members of Northeastern University) in accordance with the *Guidelines for Promoting the Development of Technology Industry in China's Colleges and Universities*. It holds the equity and business assets of investees on behalf of Northeastern University.

Date of incorporation: August 5th, 2005

Registered capital: RMB 500 million Yuan

Registered office: No. 11, Lane 3, Wenhua Road, Heping District, Shenyang 110819, PR China

Business scope: Research/development/manufacturing/contracting of computer software/hardware, mechatronics, high-tech products, emerging materials and metallurgical products, technology consulting/service/transfer/training, importing/exporting of self-owned and commissioned products and technologies, corporate investment management, corporate assets management, property management

b) Baosteel Group Corporation

Baosteel Group Corporation is a legally incorporated and wholly state-owned corporation for which the State-owned Assets Supervision & Administration Commission under the State Council of the People's Republic of China performs the duty of investor on behalf of the State Council.

Date of incorporation: January 1st, 1992

Registered capital: RMB 5,108,262.1 Yuan

Registered office: Baosteel Plaza, No.370, Pudian Road, Pudong New Area, Shanghai 200122, PR China

Business scope: State-owned assets business under authorization of the State Council of the People's Republic of China and relevant investment business, other business related to steel, mineral & metals, chemicals (except for hazardous goods), power supply, terminal service, warehousing and transpiration and development/transfer/management/consulting of technologies relating to such business, importing/exporting services approved by the Ministry of Foreign Trade and Economic Cooperation, domestic and foreign trading (except for those under special regulations of China) and relevant services

c) Alpine Electronics Inc.

Alpine Electronics Inc., organized and existing under the laws of Japan, is an auto electronics manufacturer mainly engaged in the production of in-car audio, information and communication products. It is listed on Tokyo Stock Exchange.

Date of incorporation: May 10th, 1967

Registered capital: 25,920,599,127 Yen

Registered office: 1-1-8 Nishi-Gotanda, Shinagawa-ku, Tokyo 141-8501, Japan

Business scope: In-car audio products/in-car information & communication products

d) Alpine Electronics (China) Co., Ltd.

Alpine Electronics (China) Co., Ltd., established in Beijing, China in 1994, operates as an investment company wholly owned by Alpine Electronics Inc.

Date of incorporation: December 28th, 1994

Registered capital: 90 million US dollars

Registered office: F4, Block R2, China Merchants Tower, No.116, Jianguo Road, Chaoyang District, Beijing 100022, PR China

Business scope: Investment in in-car audio products, in-car information/communication/navigation products and relevant parts, sales of and services for products designed for investees

e) Toshiba Corporation

Toshiba Corporation, a company organized and existing under the laws of Japan, is listed on the Tokyo Stock Exchange.

Date of incorporation: 1875

Registered capital: 439,901,268,477 Yen

Registered office: 1-1, Shibaura 1-chome, Minato-ku, Tokyo 105-8001, Japan

Business scope: Digital products, electronic devices and components, infrastructure systems, home appliance & others

f) Toshiba Solutions Corporation

Toshiba Solutions Corporation is a company incorporated and existing under the laws of Japan. Its major shareholder is Toshiba Corporation.

Date of incorporation: October 2003

Registered capital: 23,500,000,000 Yen

Registered office: 1-1, Shibaura 1-chome, Minato-ku, Tokyo 105-8001, Japan

Business scope: Software development and solutions offering. Its software is now widely used in the infrastructure development industry covering government, roadways, transportation and exhibition as well as other sectors such as manufacturing, industries, logistics, service offering, finance, telecommunication, and media.

g) Philips Electronics China B.V.

Philips Electronics China B.V., a limited liability company organized and existing under the laws of the Netherlands, operates as a subsidiary of Koninklijke Philips Electronics NV. Based in Eindhoven, the Netherlands, the company is dedicated to Philips' investment and development in China.

Date of incorporation: September 12th, 1946

Registered capital: 15,750,000 European Dollars

Registered office: Eindhoven, Groenewoudseweg 1

Business scope: Healthcare, high-quality lifestyle, lighting systems

h) SAP AG

SAP AG, organized under the laws of Germany, is one of the global leading software providers, ranking third among the world's independent software developers in terms of market. Serving more than 183,000 customers from 130-plus countries, the company has 55,000 employees in 60-plus countries including EMEA, USA, Asia Pacific and Japan. SAP is listed on a number of stock exchanges such as Frankfurt Stock Exchange and New York Stock Exchange.

Date of incorporation: 1972

Registered capital: 1,228,083,382 European Dollars

Registered office: SAP AG, Dietmar-Hopp-Allee 16, 69190 Walldorf, Germany

Business scope: Development/sales/implementation of commercial software solutions and relevant support & consulting services

i) Intel Capital Corporation

Listed on NASDAQ Stock Market, Intel Capital Corporation operates as a wholly owned subsidiary of Intel Corporation. Being a capi-

tal venture company under the control of Intel, it is dedicated to providing innovative technology enterprises and fresh businesses with access to capital investments.

Date of incorporation: April 6th, 1998

Registered capital: 10 US Dollars

Registered office: 2200 Mission College Boulevard, Santa Clara, California 95052, USA

Business scope: Capital venture

(V) Directors, Supervisors and Senior Management

5.1 Changes in shareholdings of directors, supervisors and senior management and their compensation

Name	Title	Gender	Age	Commencement of service	Expiry of service	Number of shares at the beginning of 2011	Number of shares at the end of 2011	Reason for changes	Compensation received from the Company during the reporting period (RMB'000 Yuan/before tax)	Compensation/ allowance received from shareholders' firms or other affiliated enterprises
Liu Jiren	Chairman & CEO	Male	57	May 25 th , 2011	May 24 th , 2014	456,681	7,160,832	See Note 1	256.00	No
Wang Yongfeng	Vice Chairman & President	Male	42	May 25 th , 2011	May 24 th , 2014	146,085	3,178,391	See Note 1 See Note 2	168.00	No
Wang Li	Director, Senior Vice President & CFO	Female	47	May 25 th , 2011	May 24 th , 2014	0	1,445,403	See Note 1 See Note 2	87.00	No
Seizo Ishiguro	Director	Male	69	May 25 th , 2011	May 24 th , 2014	0	0		0	Yes
Klaus Michael Zimmer	Director & Senior Vice President	Male	56	May 25 th , 2011	May 24 th , 2014	0	0	See Note 3	188.22	No
Akira Kasano	Director	Male	56	May 25 th , 2011	May 24 th , 2014	0	0	See Note 3	0	Yes
Fang Hongxing	Independent Director	Male	40	May 25 th , 2011	May 24 th , 2014	0	0		8.00	No
Xue Lan	Independent Director	Male	53	May 25 th , 2011	May 24 th , 2014	0	0		8.00	No
Gao Wen	Independent Director	Male	56	May 25 th , 2011	May 24 th , 2014	0	0		8.00	No
Tu Ganfeng	Chairman, Board of Supervisors	Male	48	May 25 th , 2011	May 24 th , 2014	0	0		0	Yes
Hu Aimin	Supervisor	Male	39	May 25 th , 2011	May 24 th , 2014	0	0		0	Yes

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Name	Title	Gender	Age	Commencement of service	Expiry of service	Number of shares at the beginning of 2011	Number of shares at the end of 2011	Reason for changes	Compensation received from the Company during the reporting period (RMB'000 Yuan/before tax)	Compensation/ allowance received from shareholders' firms or other affiliated enterprises
Shingo Kurata	Supervisor	Male	41	May 25 th , 2011	May 24 th , 2014	0	0		0	Yes
Ge Shengliu	Supervisor	Male	37	May 25 th , 2011	May 24 th , 2014	315,267	315,267	See Note 3	59.62	No
Ma Chao	Supervisor	Male	35	May 25 th , 2011	May 24 th , 2014	0	0	See Note 3	38.60	No
Chen Ximin	Senior Vice President & COO	Male	43	May 25 th , 2011	May 24 th , 2014	0	449,272	See Note 1 See Note 2	95.00	No
Lu Zhaoxia	Senior Vice President	Female	55	May 25 th , 2011	May 24 th , 2014	22,274	2,201,949	See Note 1	97.00	No
Zhang Xia	Senior Vice President, CTO & CKO	Female	47	May 25 th , 2011	May 24 th , 2014	0	1,103,048	See Note 1	84.00	N/A
Wang Jingxi	Senior Vice President	Male	43	May 25 th , 2011	May 24 th , 2014	0	792,609	See Note 1	78.00	N/A
Zhang Xiao'ou	Senior Vice President & CFO	Male	40	May 25 th , 2011	May 24 th , 2014	0	370,000	See Note 1 See Note 2	78.00	N/A
Li Jun	Senior Vice President & CMO	Male	39	May 25 th , 2011	May 24 th , 2014	0	660,508	See Note 1	78.00	No
Wang Nan	Senior Vice President & Secretary of the Board of Directors	Female	36	May 25 th , 2011	May 24 th , 2014	344,278	344,278	See Note 3	62.00	No
Zhao Hong	Former Director & Senior Vice President	Male	58	May 30 th , 2008	May 25 th , 2011	247,824	3,669,253	See Note 1 See Note 4	48.00	Yes

Continued table

Name	Title	Gender	Age	Commencement of service	Expiry of service	Number of shares at the beginning of 2011	Number of shares at the end of 2011	Reason for changes	Compensation received from the Company during the reporting period (RMB'000 Yuan/before tax)	Compensation/ allowance received from shareholders' firms or other affiliated enterprises
Kazuaki Onchi	Former Director	Male	58	May 30 th , 2008	May 25 th , 2011	0	0	See Note 4	0	Yes
Xu Qingrong	Former Supervisor	Female	42	May 30 th , 2008	May 25 th , 2011	0	3,170,436	See Note 1 See Note 4	32.50	N/A
Zhang Hong	Former Supervisor	Female	41	May 30 th , 2008	May 25 th , 2011	0	359,824	See Note 1 See Note 4	23.40	Yes
Wang Zidong	Former Senior Vice President & Secretary of the Board of Directors	Male	47	May 30 th , 2008	May 25 th , 2011	0	970,946	See Note 1 See Note 4	54.00	Yes
Total	/	/	/	/	/	1,532,409	26,192,016	/	1,551.34	/

Note 1: In accordance with the *Notification of Neusoft Corporation on Changes in and Transfer of Shareholders' Equity* published on *China Securities Journal* and *Shanghai Securities News*, 210,807,559 shares held by Chengdu Huixu Technology Co., Ltd. ("Huixu Technology"), previously the second largest shareholder of the Company, has been transferred to 137 shareholders based on shareholding percentage with the help of China Securities Depository & Clearing Corporation Limited Shanghai Branch. Therefore, Huixu Technology has no longer owned any share of the Company. As a result, shares held by the directors, supervisors and senior management of the Company have increased.

Note 2: The shares held by Zhang Xiao'ou decreased by 72,540 on June 14th, 2011, and those held by Chen Ximin decreased by 85,248 on June 30th, 2011. From July 20th to 21st, 2011, shares held by Wang Yongfeng decreased by 1,010,000 and those held by Wang Li cut down by 120,000 on December 27th, 2011.

Note 3: The data shows the changes in shareholdings from one's commencement of service to the end of the reporting period.

Note 4: The data indicates the changes in shareholdings within six months from the beginning of the reporting period to one's termination of service.

Present directors, supervisors and senior management's working experience in the past five years

(1) Liu Jiren

Dr. Liu has been Chairman & CEO at Neusoft since August 1999. As one of the founders of Neusoft, which was established in 1991,

Dr. Liu has successfully transformed a small college business into a leading IT solutions & services provider in China with his exceptional academic record and unparalleled industry insight. Dr. Liu also holds the positions of Vice President of Northeastern University of China, Vice-chairman of the China Software Industry Association (CSIA) and Director of Harman International Industries Inc. Prior to this, he served as Director and General Manager of Neusoft from June 1993 to August 1999.

After completing the research on his doctoral thesis at the American National Standards Institute (ANSI) from 1986 to 1987, Dr. Liu returned to China in 1987. He then earned his doctorate degree in computer applications at the Northeastern University, China, thus becoming the first person in China to receive a doctorate degree in computer applications.

Dr. Liu has received a number of awards, such as 6th CNBC Asia Business Leaders Awards - Innovator of the Year, 2009 CCTV Economic Person of the Year, Ernst & Young Entrepreneur of the Year 2010 China Awards, and 2011 China Software Industry Leaders in the Past Decade.

(2) Wang Yongfeng

Mr. Wang serves as Vice Chairman & President at Neusoft. He joined Neusoft in May 1992 and served as Vice General Manager from Feb. 1998 to Aug. 1999.

Mr. Wang received his master's degree in artificial intelligence of computer applications from Jilin University, China.

(3) Wang Li

Ms. Wang has served as Senior Vice President & CFO at Neusoft since June 2008. As a senior certified public accountant, she joined Neusoft in Feb 1997 and served as Senior Vice President & Financial Director with the company from Feb. 1997 to Aug. 2003.

Ms. Wang received her master's degree in management engineering from Northeastern University, China and an EMBA degree from China European International Business School.

(4) Seizo Ishiguro

Mr. Seizo Ishiguro has been President of Alpine Electronics Inc. since June 2010. Having successively held a number of positions including Manager of Operations Division, Managing Director and Vice General Manager, Mr. Seizo served as General Manager of the company from 1997 to June 2010. He joined Alpine in 1978.

Mr. Seizo Ishiguro graduated from the Law School of Waseda University, Japan.

(5) Klaus Michael Zimmer

Mr. Klaus Michael Zimmer is Director and Senior Vice President at Neusoft and President of Neusoft Europe. Prior to joining Neusoft in 2009, Mr. Zimmer was with SAP, where he served as Chairman & CEO SAP, North Asia.

Mr. Zimmer received his master's degree from the University of Trier, Germany.

(6) Akira Kasano

Mr. Akira Kasano is Director at Neusoft. He also serves as Director and Executive Quality Leader at Toshiba Solutions Corporation.

Mr. Akira Kasano received his bachelor's degree from the Faculty of Science, University of Tokyo, Japan.

(7) Fang Hongxing

Dr. Fang is President of the Accountant Institute of Northeastern University of Finance & Economics, Director of MPAcc Education Center, Vice-President and General Manager of Northeastern University of Finance & Economics Press. Currently, he also serves as consulting expert for the Accounting Standards Committee of the Ministry of Finance & China Internal Control Standards Committee, Director of Accounting Society of China, Deputy Director of Chinese Institute of Finance and Cost for Young and Mid-career Professionals, member of the Technological Guidance Committee of the Chinese Institute of Certified Public Accountants and expert of Accounting and Auditing Standards Panel. Besides, Dr. Fang is a professor and doctoral tutor and has a special government allowance granted by the State Coun-

cil of People's Republic of China whilst serving as Independent Director at Shenyang Machine Tool Co., Ltd. and Dalian Zhangzidao Fishery Group Co., Ltd..

Dr. Fang received his doctorate degree in accounting from Northeastern University of Finance & Economics, China.

(8) Xue Lan

Dr. Xue holds three titles with Tsinghua University, China, namely, Dean of School for Public Policy and Management, Deputy President of Chinese Institute of Engineering Development Strategies and Director of China Institute for Science and Technology Policy. He is also a member of the Emergency Rescue Plan Group under the Office of the State Council, Vice President of the China Administration Society, Vice General Director of Chinese Association for Science of Science and S&T Policy, Vice President of Society of Management Science of China, Vice Director of National MPA Education Steering Committee, Director of International Development and Research Center (IDRC), non-permanent senior researcher of Brookings Institution, member of Advisory Committee of John F. Kennedy School of Government (KSG), visiting Professor at Carnegie-Mellon University, doctoral tutor and specially employed professor for Cheung Kong Scholars Program.

Dr. Xue received his doctorate degree in engineering and public policy from Carnegie-Mellon University, the United States.

(9) Gao Wen

Dr. Gao is currently a professor at the School of Electronic Engineering and Computer Science, Peking University as well as a member of Chinese Academy of Engineering. He also maintains an active presence in the industry, currently serving as Dean of the National Engineering Laboratory for Video Technology, President of Audio Video Coding Standard Group of China, Executive Director of China Computer Association, and Director of Langchao Electronic Information Industry Co. Ltd.

Dr. Gao received his doctorate degree in electronics from the University of Tokyo, Japan.

(10) Tu Ganfeng

Dr. Tu is General Manager of Northeastern University Science & Technology Industry Group Co., Ltd.. He is also Standing Director of Chinese University Industry Association and Director of the China Metallurgical University Industry Association.

Dr. Tu received his doctorate degree in nonferrous metal metallurgy from Northeastern University, China.

(11) Hu Aimin

Mr. Hu currently works as Vice General Manager and Chief Project Manager of Capital Operations Department, Baosteel Group Co. Ltd. After joining Baosteel in 1995, he successively served as Senior Manager of Financial Planning Department and Investment & Merger Manager of Capital Operations Department.

Mr. Hu earned his bachelor's degree in business administration from Jiangxi University of Finance & Economics, China.

(12) Shingo Kurata

Mr. Shingo Kurata is the Legal Manager of Business Planning Department of Alpine Electronics Inc. After joining Alpine in 1999, he served as Legal Manager at the Intellectual Property Rights Department.

Mr. Shingo Kurata received his bachelor's degree in law from Meiji University, Japan and holds a master's degree in law from the Law Center of Georgetown University, the United States.

(13) Ge Shengliu

Mr. Ge is Vice General Manager of IA Business Division at Neusoft. Since his accession in July 1997, he has served as Manager of the 3rd Department of IA Business Division and Embedded Application Development Department of NEU-APN IA Business Division successively.

Mr. Ge received his bachelor's degree in Computer Applications from Northeastern University, China.

(14) Ma Chao

Mr. Ma currently works as Assistant to the General Manager of International Business Development Division at Neusoft. Since his ac-

cession in May 2005, he has served successively as Sales Manager and Senior Sales Manager of Neusoft's International Business Development Division.

Mr. Ma received his bachelor's degree in Computer Applications from Northeastern University, China and master's degree in Information System from the University of Liverpool, England.

(15) Chen Ximin

Dr. Chen is Senior Vice President and Chief Operating Officer at Neusoft as well as General Manager of Embedded Software Division of the Company. Prior to this, he has served successively as Manager of the Intelligent Device Development Department, Deputy General Manager of Neusoft Middleware Technologies, Manager of Embedded Software Division and Vice President with the Company. He joined Neusoft in Jan. 1999.

Dr. Chen received his doctorate degree in automatic control from Tsinghua University, China.

(16) Lu Zhaoxia

Ms. Lu is currently Senior Vice President at Neusoft. She joined Neusoft as Deputy General Manager in 1995 and later served as Deputy General Manager, Marketing and COO successively with the company. Prior to that, she was Director of Management Control Center of Northeastern University, China.

Ms. Lu received her master's degree in computer applications from Northeastern University, China.

(17) Zhang Xia

Dr. Zhang is Senior Vice President, CTO & CKO at Neusoft. She joined Neusoft in Nov. 1994 and has been serving as CTO & CKO since November 2004.

Dr. Zhang received her doctorate degree in computer applications from Northeastern University, China.

(18) Wang Jingxi

Mr. Wang has served as Senior Vice President at Neusoft since Feb. 2002. He joined Neusoft in Mar. 1999 and served as Director of Administrations from 2001.

Mr. Wang received his bachelor's degree in computer applications from Northeastern University, China.

(19) Zhang Xiao'ou

Mr. Zhang has been serving as Senior Vice President and Financial Operating Officer at Neusoft since June 2008. As a senior certified public accountant, Mr. Zhang joined Neusoft in April 2000 and has worked as Financial Director with the company.

Mr. Zhang received his master's degree in accounting from Northeastern University of China, where he also earned a bachelor's degree. He also has an EMBA degree from China European International Business School.

(20) Li Jun

Mr. Li has served as Senior Vice President & CMO at Neusoft since May 2008. Since joining the company in July 1995, he has served successively as General Manager of East China Region and Sales Director of Neusoft.

Mr. Li received his bachelor's degree in computer software from the Northeastern University of China.

(21) Wang Nan

Dr. Wang has been Senior Vice President since May 2011 in addition to holding the position of Secretary of the Board of Directors at Neusoft from December 2011. Also, she is presently General Manager of the Company's International Business Development Division. Prior to this, she has served successively as Manager of Java Application Department of Software Center, Vice General Manager of Middleware Technology Branch, Manager of Mobile Internet Division and Deputy Director of Advanced Automotive Electronic Technology Research Center of the company since her accession in 1995.

Dr. Wang received her doctorate degree in Computer Applications from Northeastern University, China.

5.2 Posts held in shareholding companies

Name	Shareholding company	Title	Compensation/allowance
Liu Jiren	Northeastern University	Vice President	No
Seizo Ishiguro	Alpine Electronics Inc.	Chairman	Yes
Akira Kasano	Toshiba Solutions Corporation	Director, Executive Director, General Manager of Operation Reform, Manager of Reform Promotion Division & General Manager of Solutions and Technologies	Yes
Tu Ganfeng	NEU Science & Technology Industry Group Co., Ltd.	General Manager	Yes
Hu Aimin	Baosteel Group Corporation	Vice General Manager of Capital Operation Division & Chief Project Manager	Yes
Seizo Ishiguro	Alpine Electronics Inc.	Legal Manager of Business Planning Department	Yes

Posts in other organizations excluding wholly-owned subsidiaries, holding subsidiaries and associated shareholders' firms

Name	Company	Title	Compensation/allowance
Liu Jiren	Philips and Neusoft Medical Systems Co., Ltd.	Chairman	No
	Nokia Siemens Networks Neusoft Commtech Company	Director	No
	Dongzhong Commtech Co., Ltd.	Director	No
	Chongqing Guo'ao 100 Years Xikang Health Management Co., Ltd.	Vice Chairman	No
	Liaoning Shengjing Xikang Healthcare Co., Ltd.	Director	No
	Dalian Neusoft Information Services Co., Ltd.	Director	No
	Dalian Kangruidao Investment Co., Ltd.	Chairman	No
	Dalian Neusoft Holdings Co., Ltd.	Chairman	No
	Tianjin Neusoft Ruidao Education Information Technology Co., Ltd.	Chairman	No
	Dalian Neusoft Institute of Information	Chairman	No
	Dalian Neusoft Institute of Information Technology	Chairman	No
	Chengdu Neusoft Institute of Information	Chairman	No
	Neusoft Institute of Information Technology, Nanhai	Chairman	No
	Harman International Industries, Incorporated	Director	Yes
Wang Yongfeng	Nokia Siemens Networks Neusoft Commtech Company	Director	No
	Liaoning Shengjing Xikang Healthcare Co., Ltd.	Director	No
	Shenyang CataData Technology Co., Ltd.	Director	No
	Dalian Kangruidao Investment Co., Ltd.	Director	No
Wang Li	Dalian Neusoft Holdings Co., Ltd.	Director	No
	Chongqing Guo'ao 100 Years Xikang Health Management Co., Ltd.	Supervisor	No
	Dalian Kangruidao Investment Co., Ltd.	Supervisor	No

Continued table

Name	Company	Title	Compensation/allowance
Klaus Michael Zimmer	Aerotel Medical Systems (1998) Ltd.	Director	No
Fang Hongxing	School of Accounting, Dongbei University of Finance and Economics	President	Yes
	Dongbei University of Finance and Economics Press Co., Ltd.	Vice Chairman & President	Yes
Xue Lan	School of Public Policy and Management, Tsinghua University	Dean	Yes
	China Institute for Science and Technology Policy, Tsinghua University	President	Yes
Gao Wen	School of Electronic Engineering and Computer Science, Peking University	Professor	Yes
	National Engineering Laboratory for Video Technology	Director	Yes
Tu Ganfeng	Dalian Neusoft Holdings Co., Ltd.	Director	No
Lu Zhaoxia	Chongqing Guo'ao 100 Years Xikang Health Management Co., Ltd.	Director	No
Li Jun	Shenyang Toshiba Neusoft Information Systems Co., Ltd.	Director	No
	NEC Neusoft Information Technology Co., Ltd.	Director	No

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5.3 Compensation for directors, supervisors and senior management

Decision-making process of compensation for directors, supervisors and senior management: The Company shall pay compensation to the directors, supervisors and senior management who hold administrative positions at the Company while those taking no administrative posts will receive no payments from the Company. In accordance with the decision of the Shareholders' Meeting, the Company shall pay an allowance of RMB 80,000 Yuan (before tax) to each independent director every year since 2010; other expenses arising from presence at the meeting shall be paid on an incurred basis.

Decision basis of compensation for directors, supervisors and senior management: Compensation for the directors, supervisors and senior management holding administrative positions at the Company shall be determined by the Board of Directors after the review by its compensation & evaluation committee based on business performance and industry reference in accordance with the Company's general compensation policies and standards.

Actual payment of compensation for directors, supervisors and senior management: The Company has paid off the compensation for the directors, supervisors and senior management holding administrative positions as well as allowance for independent directors.

5.4 Changes in directors, supervisors and senior management

At the 2010 Shareholders' Meeting held on May 25th, 2011, Liu Jiren, Wang Yongfeng, Wang Li, Seizo Ishiguro, Klaus Michael Zimmer and Akira Kasano were elected as non-independent directors of the 6th Board of Directors, Fang Hongxing, Xue Lan and Gao Wen as independent directors of the Board, Tu Ganfeng, Hu Aimin and Seizo Ishiguro as supervisors of the 6th Board of Supervisors, and Ge Shengliu and Ma Chao as members of the Board on behalf of employees, each having a term of service of three years.

At the 6th Board Meeting on May 25th, 2011, Liu Jiren was appointed as the Chairman of the 6th Board of Directors as well as CEO while Wang Yongfeng was elected as Vice Chairman of the Board and President, Chen Ximin as Senior Vice President and COO, Lu Zhaoxia as Senior Vice President, Wang Li as Senior Vice President, CTO and CKO, Wang Jingxi as Senior Vice President, Zhang Xiao'ou

as Senior Vice President and CFO, Li Jun as Senior Vice President and CMO, and Klaus Michael Zimmer and Wang Nan as Senior Vice President, each having a term of service of three years.

At the first meeting held by the 6th Board of Supervisors on May 25th, 2011, Tu Ganfeng was appointed as Chairman of the Board with a term of service of three years.

At the seventh meeting held by the 6th Board of Directors on December 21st, 2011, Wang Nan was appointed to service as Secretary of the Board prior to the expiry of the Board in addition to holding the positions of Senior Vice President concurrently.

5.5 Employees

By the end of the reporting period, the Company has a total number of 20,121 employees, none of which are retirees whose expenses are undertaken by the Company. The staff structure is listed as follows:

(1) Employee functions

Category	No. of employees
Technology development	16,813
Marketing	1,435
Administration	1,686
Logistics	187
Total	20,121

(2) Geographical distribution

Country/city	No. of employees
Shenyang	7,356
Dalian	5,132
Other cities in China	6,993
Japan	230
Europe/America	410
Total	20,121

(3) Education

Education	No. of employees
Master and above	2,305
Bachelor	15,374
College (3-year)	2,177
Others	265
Total	20,121

(VI) Corporate Governance

6.1 Corporate governance

To ensure its smooth operation, the Company has been devoted to developing and improving its corporate governance system in accordance with the *Company Law of the People's Republic of China*, *Securities Law of the People's Republic of China*, and relevant regulations formulated by China Securities Regulatory Commission and stock exchanges in China. By revising the *Articles of Association* according to the *Guidelines for Articles of Association of Listed Companies* and the *Code of Corporate Governance for Listed Companies*, formulating and improving the *Rules of Procedure for the Shareholders' Meeting*, *Rules of Procedure for the Board of Directors*, *Rules of Procedure for the Board of Supervisors*, *Investors Relations Management System*, and *Information Disclosure Management System*, the Company has defined the authorities and procedures for decision making to make scientific reasonable decisions. Prior to the *Guidelines on Establishment of Independent Director System of Listed Companies* issued by China Securities Regulatory Commission, the Company has developed its independent director system and organized various committees for the Board of Directors to promote standard development and corporate governance under the *Code of Corporate Governance for Listed Companies in China*. Also, it is a constituent stock of SSE Corporate Governance Index.

026 | In accordance with the *Notice on the Matters concerning Carrying out a Special Campaign to Strengthen the Corporate Governance of Listed Companies* (No.28 [2007] of China Securities Regulatory Commission) issued by China Securities Regulatory Commission, the Company initiated a dedicated campaign involving the establishment and implementation of a series of reforming measures and actions, which helped further enhance the Company's corporate governance. Consequently, the Company received the Best Board of Directors Award granted by the *Board of Directors* in both 2007 and 2010. In 2010, it also received the 2010 Best Board of Directors Award at the 9th China Corporate Governance Forum hosted by Shanghai Stock Exchange, demonstrating its efforts and achievements in corporate governance.

In 2011, the Company continued its actions relating to corporate governance for further optimized and improved governance. During the reporting period, the Company further improved the systems related to corporate governance by formulating the *Related transaction Management System*, *Donation Management System* and *Working System for Secretary of the Board of Directors*. Furthermore, the Company also worked harder in building the Board of Directors, managing investor relations and perfecting a series of systems covering incentives, monitoring, internal control and training of directors, supervisors and senior management, including:

(1) Strengthen the construction of the Board of Directors

At the 2010 Shareholders' Meeting held on May 25th, 2011, the 6th Board of Directors was set up, which was made of 9 members from China, Japan and Europe, including experienced professionals in the fields of IT, management and finance, well-known scholars as independent directors and outside directors with an absolute majority. With the help of the Board of Directors, the Company made continuous improvements in corporate governance as well as innovations to both management and business models to move towards international development at a faster pace. Also, it provided the Company with valuable experience and support for global deployment of business and effective implementation of international merge & acquisition strategies.

All directors fulfilled their duties diligently and faithfully, attended the meetings of the Board of Directors actively, and provided professional opinions on a wide range of topics, including strategic planning, business plans, internal management optimization and risk management, thus helping the Company make scientific and reasonable decisions. Also, they protected the interests of the Company and its shareholders through strict oversight and evaluation on business affairs. As a special committee for decision making, nomination, auditing, compensation and evaluation, they played an essential role in decision making for important issues.

(2) Enhance investor relations management

With an always focus on minority investors, the Company used its best efforts to provide them with easy access to company information, making them more confident in their shareholdings. Relying on the *Information Disclosure Management System* and the *Investor Relations Management System*, the Company was able to make integral accurate disclosure of information on an instant, effective and equitable basis and give investors a good understanding of its status, thereby winning great trust and high recognitions from them.

The Company made good preparation for each session of Shareholders' Meeting, offered detailed introduction of both business and development strategies, and responded to the questions and views of investors seriously. In addition, it also provided them with opportunities to visit and understand relevant projects, making them really owners of the Company. During the reporting period, the Company invited these investors to the events relating to the 20th anniversary and gave them a better understanding of future vision and development strategies. Moreover, the Company carried out in-depth communications with investors on relevant services during visit to Tangshan Xikang Digital Health Management System. The Company received a total number of 100 investors throughout 2011.

(3) Build up incentive/monitoring systems

Up to now, no equity incentive plans have been made available. As a high-tech company focusing on computer software, the Company has a number of high-quality talents who are important to its survival and development. Due to inadequate senior talents and fast talent turnover existing in China's computer software industry, the Company will, in accordance with the regulations of competent authorities, develop equity incentive plans based on actual conditions to protect the interests of the Company and its shareholders and employees, thus perfecting corporate governance and promoting normal operation and sustainable development.

(4) Optimize internal control system

The Company always values internal control. With its rapid business expansion and globalization, the Company continued to complete and implement internal control system effectively. During the reporting period, the Company helped the Board of Directors strengthen the auditing and guidance of internal control system and further completed the system through comprehensive systematic streamlining and evaluation on the system as well as in-depth assessment of risks.

(5) Reinforce the training of directors, supervisors and senior management

In May 2011, the Company established the new term of the Board of Directors, Board of Supervisors and senior management. By collating and issuing the *Manual for Directors, Supervisors and Senior Management of Listed Companies* compiled by Shanghai Stock Exchange, the Company gave directors, supervisors and senior management a good understanding of applicable laws and regulations as well as securities market rules. During the reporting period, the Company helped the directors, supervisors and senior management enforce self-discipline by causing them to learn the laws, regulations and rules formulated by competent authorities in order to promote normal operation and improve corporate governance.

In addition to continuous consolidation and perfection of corporate governance, the Company will further enhance the development of corporate management and internal control systems accordingly, standardize the operation of the Shareholders' Meeting, Board of Directors and Board of Supervisors, and continually improve the directors, supervisors and senior management's knowledge and understanding of standard operation in good faith in accordance with applicable laws and regulations as well as relevant regulatory documents such as the *Company Law of the People's Republic of China*, *Securities Law of the People's Republic of China*, *Administrative Measures for*

the *Disclosure of Information of Listed Companies and Stock Listing Rules* to promote standard operation and corporate governance.

6.2 Directors' performance of duties and responsibilities

(1) Attendance to the meetings of the Board of Directors

During the reporting period, the Board of Directors held 12 sessions of meeting in total, including 3 in-person meetings and 9 tele/video conferences. The content below shows the attendance of directors in such meetings.

Name of Director	Independent director	Number of attendance to meetings of the Board of Directors in 2011	Number of personal attendance	Number of attendance by telephone/video means	Number of delegate attendance	Number of absence	Failure to attend the meeting of the Board of Directors for two consecutive years
Liu Jiren	No	12	12	9	0	0	No
Wang Yongfeng	No	12	12	9	0	0	No
Wang Li	No	12	12	9	0	0	No
Seizo Ishiguro	No	12	11	9	1	0	No
Klaus Michael Zimmer	No	7	6	5	1	0	No
Akira Kasano	No	7	7	5	0	0	No
Fang Hongxing	Yes	12	11	9	1	0	No
Xue Lan	Yes	12	11	9	1	0	No
Gao Wen	Yes	12	12	9	0	0	No

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(2) Dissidence to items relevant to the Company from independent directors

During the reporting period, no independent directors raise any objection against the resolutions and other items of the Board of Directors.

(3) Development, improvement and main contents of relevant working systems for independent directors and their performance of duties and responsibilities

The Company formulated the Working System for Annual Reports of Independent Directors which provided the independent directors' duties/responsibilities in annual report preparation, financial report auditing and information disclosure. In addition, the Articles of Association states the appointment, nomination, election and replacement of independent directors as well as their rights and obligations.

During the reporting period, no independent directors raised any objection against the matters related to the Company. Independent directors fulfilled their duties and responsibilities in accordance with applicable laws and regulations as well as the Company's Articles of Association. When these meetings were not in session, they were active in understanding the operation and management as well as studying and analyzing basic information of the Company and paid close attention to the decision making related to business. At the

meetings of the Board of Directors and the Shareholders' Meeting, they offered a number of advices based on the interests of the Company and its shareholders to help the Board of Directors make smart and legal decisions, thus protecting the interests of minority shareholders and advancing the development of the Company's modern enterprise systems.

During the reporting period, independent directors protected the interests of the Company and its shareholders effectively by making objective and equitable judgment and giving independent opinions on the Company's acquisitions, investments, external guaranties, related transactions, election of non-independent directors, and appointment/removal of senior management.

6.3 The Company's business, staff, assets, organization and finance separation from holding shareholders

By the end of the reporting period, no holding shareholders have been found in the Company.

6.4 Development and improvement of internal control system

(1) General planning of internal control system

In order to maintain a sound operation, protect the legal rights of investors and promote the implementation of development strategies, the Company strengthened the management of service procedures, enhanced risk management for major services and accelerated the construction and implementation of internal control system based on the characteristics of the industry in accordance with applicable laws and regulations such as the Company Law of the People's Republic of China, Securities Law of the People's Republic of China, Basic Standards of Enterprise Internal Control and Guidelines for Enterprise Internal Control while implementing all systems relating to internal control effectively during the reporting period.

The purposes of internal control include: a) maintain a normal operation in accordance with the laws of China and implement all management systems effectively; b) build and perfect corporate governance and organization structure in line with modern management requirements and develop scientific systems covering decision making, execution and supervision to achieve the objectives of operation and management; c) develop effective systems for risk management, keep financial reports and relevant information authentic, accurate and complete and avoid and correct wrongful practices in a timely manner to protect the property of the Company.

In 2011, the Company was selected as a pilot enterprise for the implementation of internal control by Liaoning Provincial Securities Regulatory Bureau. Setting this process on a high priority, the Board of Directors approved the proposal of making the Plan for Implementation of Internal Control Rules and made relevant plans and preparations. The Company established an internal control team to direct and manage the implementation of internal control. The team consists of the Company's Chairman, CEO & President as team leader, Vice President & CFO as deputy leader & chief-coordinator, three Senior Vice Presidents as deputy leaders and division heads as team members. Also, the Company appointed Ernst & Young (China) Business Consulting Co., Ltd. to provide consulting services relating to internal control, facilitating the implementation of the plan for internal control rules.

(2) Plan for development and improvement of internal control system and its implementation

With respect to management decision making, the Company not only improved the systems related to corporate governance by issuing the Working System for Secretary of the Board of Directors and normalizing the appointment and performance of the Secretary of the Board of Directors, but also revised the Working Rules for Infrastructure Committee to further define the responsibilities of the Infrastructure Committee and its divisions. In order to further standardize the donations of the Company, reinforce the management of donation events and protect the interests of shareholders, creditors and employees, the Company formulated the Donation Management Sys-

tem which provided the principles, targets, scope and procedures for making donations in 2011.

In terms of operation and management, the Company has developed a complete effective internal control system covering various aspects, especially human resource and information security and made amendments and improvements to the internal control system based on changes in services and management model. In addition, the Company also intensified the development of internal control system through detailed management at a higher level. During the reporting period, the Company built the procedures and systems for investment, mergers & acquisitions through innovation, prepared a series of documents such as Merger & Acquisition Service Procedures and Merger & Acquisition Implementation Guide, optimized the management of 14 control procedures including proposal, valuation, feasibility analysis, due diligence, decision making, implementation, management, benefits sharing and disposal of projects and enhanced the risk management for mergers and acquisitions, thus greatly reducing the risks existing in mergers and acquisitions. The newly-issued Sales Management Procedures and Customer Manager Specifications strengthens the standard control of sales process while the Requirements on Review and Approval of Contracting Procedures further stating the deadline, key points and necessary materials of each procedure for the review of various contracts creates a more standard and transparent operation system that is easy to monitor. During the reporting period, the Company finished the draft of infrastructure management system by specifying every part of the procedure for infrastructure projects from proposal to evaluation, optimized the Rules on Approval Power for Infrastructure Management, defined the authority and power for managing infrastructure at the level of the Company and its divisions and worked out the principles of infrastructure management focusing on comprehensive management, key points and process control. The Company also issued a complete administrative system which provided the standards for the implementation of each administrative procedure.

All of these systems helped the Company define the responsibilities of related parties and optimize relevant procedures so that it maintained an orderly operation and management and kept authentic, accurate and complete financial data, thereby protecting the property of the Company and the interests of investors as well as paving the way for normal operation and long-term healthy development.

(3) Supervision of internal control

The Company established an internal control team to plan, conduct and direct the evaluation of internal control. Under the leadership of the Financial Operation Division, the internal control team carried out the evaluation on internal control by joining hands with other divisions and business teams of the Company.

Also, the Company set up the Investment Auditing Division to supervise the implementation of internal control systems by the Company and its holding subsidiaries and the Supervision Division to audit and supervise the Company's officers through independent exercise of supervision power.

(4) Self-evaluation of internal supervision and control

The Company performed evaluation on the design and operation of internal control through daily and special supervision in accordance with applicable laws and regulations such as the Basic Standards of Enterprise Internal Control and Guidelines for Evaluation of Enterprise Internal Control by integrating internal control system and relevant evaluation measures.

Internal control evaluation is divided into three parts covering preparation, implementation and reporting. Its main procedures include: a) make schedules and plans for internal control evaluation and define its principles, items, measures and reporting to the Board of Directors for approval; b) establish an internal control team to direct the evaluation of internal control; c) conduct internal control evaluation across the Company and ensure the internal control team to have a good understanding of each internal control procedure to be evaluated, identify key points, determine the number of to-be-checked samples based on specific services and record the results of

evaluation; and d) summarize the results of evaluation and analyze the problems existing in internal control in accordance with the identification standards for defects of internal control to prepare on-site evaluation reports. The on-site evaluation reports confirmed by the evaluated targets shall be reported to the internal control team for the purpose of preparing internal control evaluation reports which will be filed to the Board of Directors, Board of Supervisors and senior management and disclosed following the approval of the Board of Directors.

Based on internal environment risk assessment, control events/information/communication and internal supervision, internal control evaluation covers the design and operation of internal control on all services and items relating to the Company and its business focusing on organization structure, development strategies, human resources, social responsibility, corporate culture, capital management, purchasing, assets management, sales, R&D, projects, guarantee, financial reports, overall budget, contract management, internal information communication and information systems. These services and items are the main contents of internal control without material omissions.

During evaluation, the Company collected evidences related to the design and implement of internal control such as accurate evaluation drafts by means of individual interview, system review, walk-through testing, on-site inspection, comparative analysis and topic discussion. These measures and evidences have proved to be effective and appropriate. The consulting agency who offered assistance in the evaluation of internal control gave high recognition on our internal control as no material defects, omissions or conflicts were found. According to it, our internal control was better compared with our counterparts in China.

In accordance with the Annual Auditing Plan, the Investment Auditing Division performed both routine and special audits on the financial results, internal control and operations of each service to promote effective implementation of the Company's systems and rules and avoid risks existing in operation and management. In 2011, the Company, with a focus on management and risk control, enhanced the audit of business development, investments and M&A projects, helping reduce the risks in operation and M&A. In 2011, the Supervision Division successfully completed the audit for 32 official posts. With a 100% rate of off-office audit for senior executives as well as report response and acceptance, it played an important role in the supervision and checking the corruptibility of officers.

(5) Actions of the Board of Directors concerning internal control

The Company built a complete structure of corporate governance involving shareholders, Board of Directors, Board of Supervisors and senior management in accordance with the Company Law of the People's Republic of China, Securities Laws of the People's Republic of China as well as its Articles of Association. With the supreme power and authority, the Shareholders are entitled to legal rights under application laws and regulations and the Company's Articles of Association and they exercise the right to vote on important matters such as business policies, financing, investment and profit distribution. As a standing body of decision making, the Board of Directors consisting of 9 members, including 6 outside directors and 3 independent directors, is dedicated to making decisions on long-term development strategies, important investments and financial affairs of the Company. As the supreme decision-making body, its main responsibilities are to build and monitor internal control systems, develop corrective measures for material defects in internal control as well as risk management policies and review self-evaluation reports and auditing reports on internal control. The Board of Supervisors, as the supervisory body of the Company is under liability to the Shareholders' body and is responsible for supervising directors, senior management and financial affairs of the Company.

The Board of Directors has four special committees including the Strategy/Decision Making Committee, Nomination Committee, Auditing Committee and Compensation & Evaluation Committee. The Auditing Committee is made up of 4 members including 3 independent directors, one of whom serves as Chairman of the Committee and is responsible for auditing internal control, supervising the implementation and self-evaluation of internal control and offer coordination in internal control and other related matters.

(6) Perfection of internal control systems for financial reports

Based on actual conditions, the Company developed a series of internal control systems related to financial reports and made modifications and improvements to such systems in accordance with applicable laws and regulations in 2011. The newly-formulated Capital Rolling Budget Management Standards aiming to enhance mid/long-term planning and monthly rolling estimation of capital helped the Company build a more secure and efficient environment for capital. As foreign exchange tends to be complicated and ever-changing, the Company revised the Foreign Exchange Management System to reinforce integrated management of foreign exchange, further improved the management model for exposure of foreign exchange risks for application into practices and controlled these risks with financial tools like sale and purchase of forward foreign currencies against the RMB. In 2011, the Company enacted the Related Transaction Management System to define the policies for the management of related transactions and revised the Related Transaction Reconciliation Procedures to complete reconciliation operations in accordance with applicable laws and regulations as well as listing requirements. Along with completion of the integration and upgrading of information systems, the Company not only revised the Financial Information System Management Rules to optimize the processes of relevant services, but also made modifications to a series of systems including Financial Reports Preparation Procedures, Consolidated Statements System and Financial Information Disclosure System to standardize the preparation of financial reports and further increase the authenticity, accuracy and security of financial information.

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(7) Problems and corrective measures of internal control

During the reporting period, the Company performed comprehensive integration and evaluation of internal control, further completed internal control systems and improved the knowledge and capability of internal control teams through close partnership with consulting service providers. Through self-evaluation of internal control, no material or important defects in connection with the design and operation of internal control as specified in rules for identifying defects in internal control were found during the reporting period. The current internal control systems considered reasonable and complete can meet the Company's requirements of management as well as needs of development. Allowing for effective management of various risks, these systems not only promoted business development and target achievement, but also protected the interests of the Company, creditors and investors. Through a wide range of internal summary and evaluation, the Company made the procedures of internal control more systemic and standard by adding measures for risk management and further perfecting internal control processes, thus improving the overall quality of internal control.

6.5 Evaluation and incentives for senior management

In order to protect the interests of the Company and its shareholders, the Company has to deal with the challenges existing in world economy and exploit opportunities found in the industry. It has to maintain a steady development during globalization with an effectively motivated senior management. At Neusoft, senior management strives to keep abreast of developments in industry and market trends and company conditions. Neusoft has perfected the competency model of senior management, kept evaluation by means of balanced score card and 360° feedback, continuously aroused the attention from senior management to business performance and long-term development targets, set great value on leadership improvement and contribution to corporate development and heightened senior management's responsibility and created pride in their posts, thus achieving better results in the stability and development of senior management. Based on the good momentum in globalized and enlarged development, the Company will continue to develop more complete and effective incentive and control systems for senior management in order to achieve continuous improvements in business performance and operation quality.

6.6 Report related to the disclosure of internal control

When announcing this Report, the Company shall disclose the Internal Control Evaluation Report 2011 as well as the Internal Control Auditing Report 2011 issued by BDO China Sun Lun Pan Certified Public Accountants LLP. For more information, please visit the official website of Shanghai Stock Exchange (<http://www.sse.com.cn>).

6.7 Report relating to social responsibility

When announcing this Report, the Company shall disclose the Annual Social Responsibility Report 2011 concurrently. For more information, please visit the official website of Shanghai Stock Exchange (<http://www.sse.com.cn>).

6.8 Responsibility system for material errors in information disclosure of annual report

The Company developed the *Responsibility System for Material Errors in Information Disclosure of Annual Reports*, defining the body that shall be reliable for material errors in information disclosure of annual reports and relevant punishments.

During the reporting period, no correction of material accounting errors, supplementation of material omissions or rectification of performance prediction was made by the Company.

(VII) Shareholders' Meeting

7.1 Annual Shareholders' Meeting

On May 25th, 2011, the Company held a session of Annual Shareholders' Meeting. For more information, please refer to China Securities Journal and Shanghai Securities News on May 26th, 2011.

7.2 Interim Shareholders' Meeting

On December 22nd, 2011, the Company held the first session of Interim Shareholders' Meeting. For more information, please refer to China Securities Journal and Shanghai Securities News on December 23rd, 2011.

(VIII) Reports of the Board of Directors

8.1 Discussion and analysis of senior management

8.1.1 Discussion and analysis on overall operation during the reporting period

The year 2011 not only saw the 20th anniversary of Neusoft but was also a milestone for the Company. During the reporting period, as the economy was in a complicated ever-changing state, the Company kept enhancing the layout of global market and the building of a marketing system oriented to accounts, optimized the distributed delivery model, implemented effective market competition strategies, expanded its orientation to high-profile customers, promoted inter-industry mergers and acquisitions, embarked on the improvement plan for outstanding operation, improved resource allocation and strengthened the building of organizational functionalities for sustainable development. During the reporting period, the Company gained an operating income of RMB 5,751,250,000 Yuan increasing by 16.5% over the previous year, net profit (attributable to shareholders of listed companies) of RMB 417.07 million Yuan and net profit after deducting non-recurring profits/losses of RMB 286.81 million Yuan decreasing by 19.7% with an earning per share of RMB 0.34 Yuan reducing by 13.9% over the previous year.

During the reporting period, the Company strengthened its leading position in various industries and markets of existing services and promoted continuous expansion of business scale by innovating business model and developing new services. In addition, for the purpose of maintaining sustainable development, the Company suffered a profit drop as a result of greater inputs into market expansion, technology research & development and human resources, including: (1) more resources used for platform building and international market development during the layout of globalized development; (2) increasing input into R&D and market relating to cloud computing/Internet of thing, in-car information technologies, healthcare services, medical systems and smart grid; and (3) higher labor cost arising from staff size growth, continuous implementation of compensation improvement plan and high-quality talents acquisition. During the reporting period, the Company kept an assets liability rate of 26.7% to a reasonable extent. The net cash flow arising from business operation amounted to RMB 300 million Yuan, decreasing by RMB 80 million Yuan as a result of rise in purchase expenditure and labor cost.

With respect to international services, affected by a number of factors such as weak economic recovery in developed countries, Japan's Earthquake, Fukushima's Nuclear Crisis and changes in major customers' strategies, the Company made strategic adjustment actively, reinforced the layout of global services, tried to get a deeper understanding of customer needs, optimized onshore/nearshore/offshore distributed delivery models, enhanced the interaction between services provided in China and abroad and promoted innovation of business model by leveraging competence and experience in major services to shift business up the value chain and further intensify the multi-point layout of major services to achieve blistering growth. During the reporting period, the Company made capital contribution to Aerotel and Appconomy to develop channels for international cooperation.

In the aspect of domestic solutions, the Company, targeting high-profit customers, further improved its competence in major services oriented to the industries of government, medical IT, telecommunication and finance with boosting of business sale and market position. Besides, the Company strengthened the adjustment of organization structure and integration of business units to optimize resource allocation aiming to promote the development of competitive services. During the reporting period, the Company enhanced its power in the products, technologies and talents related to hospital information and public health by acquiring Beijing Viewhigh Technology Co., Ltd. In order to speed up the development of Xikang management service, the Company invested to open up a subsidiary of Neusoft Xikang Holdings Co., Ltd. and introduced Neusoft Xikang Cloud Strategy and Xikang-branded products including Xikang Healthy Watch and Xikang Healthy Terminal, paving the way for the development of innovative services in the future.

In the field of medical systems, the Company made advances to the research and development of new products through the launch

of NeuPioneer Dr and clinical testing of 64-slice CT R&D project. During the reporting period, the Company strived to address the troubles and stresses caused by rising prices of raw material and strengthened cost control and inventory management for continuous development. In addition, the Company set up international parts centers in the United States and Dubai as well as service centers in Germany and Vietnam to constantly optimize the layout of global sales and services network.

During the reporting period, the Company was well recognized for its management, innovation and competence. “Neusoft 东软” was regarded as a well-know brand in China by the State Administration for Industry and Commerce of the People’s Republic of China, benefiting the communication of the Company’s brand and the internationalized development of business. Moreover, the Company became the first PCMM Level 15 certified Chinese enterprise. This reflected that Neusoft’s process improvement and human capital management had been at a leading level around the world. Also, the Company was named as the Best Employer in Asia and the Pacific 2011, ranking first among the Best Employers in China 2011. The Company was listed among the Global Services 100 and the Best IT Outsourcing Providers by the Global Services Magazine for the seventh time. During the reporting period, the Company was included in the First Model Enterprise Developing by Innovation in Modern Service Industry accredited by the Ministry of Science and Technology of the People’s Republic of China. The Company was again crowned as the Most Globally Competitive Chinese Enterprise by Roland Berger Strategy Consultants and Global Entrepreneur.

8.1.2 Business Operations

(1) Software and system integration

During the reporting period, the software and system integration services developed at a good pace, generating an income (after deducting inter-industry off-set) of RMB 4,830,520,000 Yuan, increasing by 24.6% over the same period of the previous year and accounting for 84.0% of the Company’s total income.

In the telecommunication industry, the Company maintained a robust growth in major services such as business support system (BBS), operation support system (OSS), business intelligence (BI) and network management thanks to its partnership with three leading service providers in China. In addition, being the strategic partner of China’s cloud computing, the Company won bids for the construction of public cloud support platform and resource pool management platform for China Mobile’s Southern Base. Playing an active part in the building of cloud and application platforms for China Unicom and China Telecom, the Company became the only successful software enterprise among the national-wide strategic partners of China Unicom. Furthermore, the Company made outstanding breakthroughs in new services, such as pilot operation of paperless office system for China Mobile Limited (Hainan Branch) as well as official operation of the Internet of Car-based platform and school car management platform for Zhengzhou Yutong Bus Group Co., Ltd.

In the field of government information, as the “new rural cooperative medical service” was shaping up well and bringing in fast income growth, the Company continued to lead China’s social insurance industry. During the reporting period, the Company acquired a number of customers in the “golden social security service” in Liaoning, Jiangxi and Ningxia. In the e-government field, the Company won a bid floated by the Ministry of Construction. In the environmental protection industry, the Company continued to promote services involving vehicles and solid wastes, making even and sustained progress. By furthering its reach into new services, the Company developed the service of water resources survey successfully and signed relevant agreements with a number of water resources departments and related survey bodies. In the field of agriculture product sourcing, the Company was listed among the first-class suppliers for food sourcing pilot cities and won the bid for the project for the quality tracing system of meat and vegetables in Kunming.

In the public health and medical IT industry, the Company won a higher market share with its better performance. In the field of healthcare and government affairs, the Company held a competitive position in the markets of Hunan, Anhui, Luoyang and Qingdao by

perfecting and expanding its business into these markets. In the medical IT field, the Company played an active role in the formulation of the Ministry of Health's standards and criteria concerning electronic medical records acquisition and hospital information platforms as well as the introduction of new systems covering generation of electronic medical records and in-surgery anesthesia into the market. Also, it concluded agreements with many 3A hospitals such as Wuhan University Zhongnan Hospital, Northern Jiangsu People's Hospital and Shandong Cancer Hospital. In the field of healthcare services, the Company launched a series of healthcare products including healthcare watch and healthcare terminal in addition to the services provided by data center and call center to improve the quality of healthcare services.

In the energy industry, the Company promoted the expansion of the model of whole industry chain actively. As the State Grid SG186 Project, a sales business application system of the State Grid Corporation was completed and accepted, new opportunities in the market were made available to the Company. The Company worked actively on the standard design of China Southern Power Grid's marketing system as well as billing and assets management solutions for Dalian Port and Karamay. In the smart grid industry, the Company signed contracts with regard to power information collection and relevant matters in Liaoning and Henan. In the industries of power generation, petroleum and petrochemicals, the Company strengthened technical reserves and market-related education, mapping out a favorable layout of the whole industry chain oriented to the future.

In the business & e-commerce industry, the Company helped customers upgrade business systems, thus increasing the number of important clients. In the tobacco industry, as several customers at provincial level were added to the customer list, the Company maintained powerful competence and dominance in the market. In the ERP industry, the Company deepened the partnership with customers such as SAP and Haier, helping increase the proportion of ERP operation/maintenance/technology service in existing services.

In the financial industry, the Company expanded service sale by helping leading customers including ICBC, SPD Bank, Industrial Bank (China) and the State Administration of Foreign Exchange. During the reporting period, the Company provided China Financial Futures Exchange with consulting service for its first generation information system, thus enhancing its competitive power in this industry.

In the education industry, the Company maintained close partnership with the Ministry of Education to promote vertical business model. During the reporting period, the Company helped Beijing Foreign Studies University launch a community platform successfully in addition to concluding a contract with Communication University of China with regard to the digital campus platform.

In the transportation industry, the Company with great attention to leading customers in the industry, continued to optimize business structure. In the intelligent logistics industry, the Company moved ahead steadily in the projects of Hainan Airlines Freight and Zhoushan Port Logistics. In the field of intelligent transportation, it finished the Project I of China Air Transportation Association and made it available to the users.

In the field of software products, the Company maintained a good momentum. In the network security field, the Company kept a leading position and high market share due to active part in the research, development and formulation of China's national network security standards. In the E-HR field, the Company made more inputs into the research and development of new products as well as market layout in important industries such as banking, insurance and real estate for a higher market share. In the field of records management, the Company successfully completed the E-document-enabled Platform Project II of the State Archives Administration of the People's Republic of China and acquired a series of high-profile customers including Beijing Municipal Archives Bureau and Hangzhou Archives Bureau.

In the BPO field, the Company focusing on market development, provided customers from various industries in different areas with a diversity of one-stop services in multiple languages and integrated services covering SME information service platform and information management platform for enterprises engaged in retail business. During the reporting period, the Company received the certificate of per-

sonal information protection from PIPAP-MARK and a number of awards such as the Best Outsourcing Information Center in China in addition to contracting with key accounts, thus promoting business growth.

In the field of international software, the Company further improved its deployment in global market and promoted the innovation and restructuring of business model to make major services competitive. In the Japan market, the Company helped important customers such as Alpine and Toshiba maintain a growth with restoration and furthered the partnership with Sony, DENSO and Panasonic through better understanding of their needs for IT services. In the European market, with changes in the strategies of major customers like Harman and Intel, the Company made strategic adjustments and developed new services to help them maintain a blistering growth and promoted the interaction of services in China and abroad to establish closer partnership with international automotive manufacturers. During the reporting period, the income from international software service amounted to RMB 309.71 million Yuan, increasing by 23.0% over the same period of the previous year. Income from international sources accounted to 34.5% of the Company's total income.

(2) Medical systems

In 2011, the Company further enhanced the sales and services network of medical systems, completed the deployment of Global Service Parts Center, continually optimized the facilities for global direct marketing and distribution team and expanded into international markets for continuous growth in the sale of medical systems. During the reporting period, the Company began the clinical testing of R&D project for 64-slice CTs, which would help enhance its leading position in the medical imaging market. During the reporting period, the income from medical systems amounted to RMB 803.44 million Yuan, increasing by 1.2% over the same period of the previous year and accounting for 14.0% of the Company's total income. Also, export income reached 25.59 million US dollars, decreasing by 2.1% over the same period of the previous year.

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8.1.3 Problems and challenges existing in operation and management

In 2011, with continuous expansion of business scale, the Company encountered many problems and challenges.

With the slow pace of recovery of the world economy and the international financial crisis, sovereign-debt crisis continues to be a major issue in some countries, leading to insufficient impetus driving economic growth. Also, China's economy is facing inflationary pressure, losing more growth momentum, which has resulted in a rise in labor cost and in RMB appreciation. Consequently, the cycle of inputs into the information industry and IT demands of the community and businesses are influenced, bringing in increasingly fierce competition.

Therefore, the Company adjusted market strategies, promoted existing services, consolidated its position in the industry and enhanced its partnership with key customers to have a better understanding of their needs and advance the continuous growth of business. Moreover, the Company took greater efforts in business and R&D planning and provided more inputs for the research and development of major services to make innovations in the business model and develop new services. During the reporting period, the Company embarked on the improvement plan for outstanding operation to optimize business structure and reformed the compensation systems for major services to acquire more high-quality talents and enhance core competences. In addition, the Company paid greater attention to the management and utilization of operation capital as well as the allocation of resources to maintain a robust business growth.

8.1.4 Technological innovation

As an enterprise focusing on software technology, the Company places high priority on the strategy of "open innovation". Ever since establishment, it has made generous inputs into the research and development of new services/products, technologies and approaches to promote business innovation. In 2011, with the booming of Internet, mobile Internet and Internet of Things as well as rapid development

of relevant technologies, the Company invested its energies in building a corporate-level R&D team and set up an advanced technology study and application innovation center to do prospective research. The center strives to make application innovations relating to commercial value and generic technology in various emerging fields such as cloud computing, Internet of Things and mobile Internet with a view to improve the ability of sustainable innovation. In order to support the building of B2B2C applications, the Company not only carried out research and development of new network application reference structures and products covering ACAP (agile cloud application-enabled platform), ACAP-SNAP (social network application platform), ACAP-AppMart (application mart platform), Aclome (agile cloud application management environment) and Xikang intelligent health management system, but also embarked on the research and development of next generation in-car electronics products.

As market opportunities such as China's 12th Five-year Plan, new policy of "mode transfer and internal demands increase", new medical system reform, 3G development, smart grid, Internet of thing, tri-networks integration and China-made upgrading and shift arose, the Company increased inputs into market research, improved the planning ability of new organization-level services and products and developed a series of R&D portfolio in line with overall development strategy. Through research and development of platforms for core services covering healthcare affairs, digital hospitals, smart grids, IOT in-car teleservices, 3G, tri-networks integration and mobile Internet, the Company promoted integrated innovations in the aspects of industry solutions and product engineering, hence increasing the competence and advantages in core services.

The Company further implemented NeuSA™, an efficient strategy designed for Neusoft solutions to promote open and cooperative innovations and improve integrated competences. In 2011, the Company worked on the building of architect team and software product line as well as R&D of UniEAP v4, a basic service platform enabling software product line and other platforms built upon UniEAP v4, making application solutions competitive. It was also active in standard organizations in China and abroad and played a leading role in the development of various industry standards. By advancing the building of State Key Library of Software Architecture and developing the systems for Competence Center with partners, the Company introduced a number of cutting-edge technologies to improve the ability of continuous innovation through open cooperation.

The Company took an active part in protecting technological innovations with intellectual rights. As of the end of 2011, it has applied for 218 patents, has been granted 111 patents and registered 354 software rights. This has not only helped the Company protect core technologies and maintain a leading position in China market but also facilitated development of international markets and core competencies. In 2011, as another 6 subsidiaries received the certificate of high-tech enterprise, the Company had a total number of 18 subsidiaries certified high-tech enterprises covering its major services.

8.1.5 Future vision

As China's first listed software enterprise (listing done in 1996), Neusoft has now become the largest IT solutions and services provider in China. With 20,121 employees, it boasts of 6 software R&D bases, 8 regional headoffices, 16 software R&D and technical centers across China as well as marketing and service networks in 40-plus cities. Focusing on software technologies, the Company provides a number of offerings including industry solutions, product engineering solutions and relevant software products, platforms and services by integrating software with service provision and production.

With the implementation of China's 12th Five-year Plan as well as policies favorable for the development of China's software industry, investments into the information field of China have been growing at a rapid pace and the software industry has been restructuring rapidly. Emerging sectors like cloud computing and mobile Internet have also been developing quickly. Moreover, the global software industry is also changing, propelling China's software industry to develop towards the trend of R&D, design and full lifecycle solutions with

the industry chain moving from low end to high end solutions. This creates a benign market environment and brings a lot of development opportunities for China's software businesses.

In the coming years, China's software and information service industry will be globalized at an even faster pace. Therefore, Neusoft will strive to adapt to the ever-changing market and business environment, thus building a mature emerging multinational enterprise, rather than one based in China by replacing people-based growth with knowledge assets-driven growth, technology-focused business model with customer value-centered model and China-based growth with global market-guided development. Besides, the Company will keep improving core competence through innovation and restructuring to create a best-in-class IT solutions and services providers all over the world.

In addition to opportunities, we also encounter a series of difficulties and challenges.

a) As the world economy develops with increasing uncertainties, the driving force behind the economic growth of developed countries has reduced and the rate of foreign exchange tends to fluctuate greatly, bringing a number of challenges to us in the aspect of developing international markets.

b) Due to its complex status, China's economy is growing at a slower pace. This may result in a reduction in IT demand as well as severe market competition in China.

c) Outstanding talents are crucial to the sustainable development of a labor-intensive enterprise. With increasing competition in the IT market, we spend more on human resources, which causes strain on our bottom-line.

d) To maintain sustainable development, the Company will make attempts to restructure its business model with greater inputs into R&D and market development. Given the time aspect of business development and promotion, we are likely to be under severe market pressure during business expansion.

For these reasons, the Company has worked out the following plans for sustainable development in 2012:

a) Make innovations and implement the strategy of globalized development, promote the planning and development of new services based on customer value and build a business model powered by innovation and services to maintain sustainable development.

b) Continue to build an organization-level service support system designed for globalization and efficient development, implement the improvement plan for excellence in operations and improve the overall management quality and operation efficiency.

c) In the field of solutions, we will maintain and strengthen the leading position in the market of existing services, develop services for high-profile clients, map out future services for customers, enhance the ability of development driven by technology and consulting service and reinforce the general planning of market development and the construction of distributed delivery organization to speed up the growth of solution services in China.

d) In the international markets, we plan to intensify the development of markets in Japan, Europe and North America, continually increase our ability for upstream projects covering planning, consulting and system design, enhance the construction of key knowledge assets, develop strategic partners and further the integration and interaction of services in China and abroad to accelerate the development of international software.

e) In the field of medical systems, we will make greater inputs into R&D, boost the construction of organizational ability, increase the general value of products and full lifecycle services, promote the planning of globalized marketing, expand the sales team, improve the ability of organization-level market development and develop Chinese and global markets through optimizing direct marketing and distribution.

In 2012, our operating income is expected to hit RMB 6.9 billion Yuan, operating cost would amount to RMB 4.8 billion Yuan and period cost is estimated to be RMB 1.6 billion Yuan. In order to achieve these planning targets mentioned above, it is estimated that an

amount of RMB 2.2 billion Yuan, mainly sourced from self-owned funds, bank loans and bond financing will be required for purpose of daily operation, infrastructure and equity investments.

8.1.6 Major operations

a) Related industries

Unit: RMB Yuan

Industry	Operating income	Operating cost	Operating profit (%)	Year-on-year change in operating income (%)	Year-on-year change in operating cost (%)	Year-on-year change in the rate of operating income (%)
Software and system integration	4,830,519,072	3,476,555,703	28.03	24.59	27.61	-1.70
Medical systems	803,436,708	486,024,807	39.51	1.21	-1.89	+1.91
Including: related transactions	692,501,476	525,886,032	24.06	24.54	38.44	-17.62
Pricing basis for related transactions	Subject to market price agreements					

Details of changes in operating income:

i) During the reporting period, operating income from software and system integration reduced by 1.70 percent over the previous year due to rise in labor cost;

ii) During the reporting period, operating income from medical systems increased by 1.91 percent over the previous years as a result of product restructuring.

b) Distribution of main business

Unit: RMB Yuan

Country/city	Operating income	Year-on-year change in operating income (%)
China	3,897,770,840	15.81
Foreign countries	1,853,478,490	17.90

Details of changes in operating income:

During the reporting period, the Company's operating income from overseas sources increased by 17% over the previous year which is mainly attributed to international software business. At the same time, the operating income from China increased by 15.81% as a result of business expansion.

c) Invested companies with effects on 10% net profit of the Company

Unit: RMB Yuan

Invested company	Scope of business	Registered capital	Proportion of shares directly held by the Company	Total assets at the end of 2011	Net assets at the end of 2011	Operating income	Operating profit	Current net profit
Shenyang Neusoft Medical Systems Co., Ltd.	Medical systems	78,000,000	100%	1,422,937,977	804,382,313	889,512,382	34,319,203	58,494,719
Neusoft Group (Dalian) Co., Ltd.	Computer software and hardware	300,000,000	100%	765,827,435	456,685,151	737,038,510	70,779,034	75,430,505

d) Other companies

Unit: RMB Yuan

Invested company	Scope of business	Registered capital	Proportion of shares directly held by the Company	Total assets at the end of 2011	Net assets at the end of 2011	Operating income	Current net profit
Shenyang Neusoft Information Technology Co., Ltd.	Computer software and hardware	310,000,000	100%	838,452,813	429,291,565	179,844,465	20,944,312
Neusoft (Japan) Co., Ltd.		187,750,000 Yen	100%	240,511,864	83,686,375	760,828,661	3,385,691
Neusoft (Europe) Co., Ltd.	Computer software, technical consulting and services	CHF	100%	239,403,494	204,996,898	257,912,149	-16,247,176
Neusoft Technology Co., Ltd.		1,000 US Dollars	100%	35,576,819	30,417,876	13,702,816	-20,671,860
Neusoft (Hong Kong) Co., Ltd.	Development, sales and consulting of computer software	850,000 US Dollars	100%	130,598,204	83,070,439	56,594,335	-8,915,930

Note: During the reporting period, there was no income from investments into a single shareholding company equaling to no less than 10% of the Company's net profit.

e) Major suppliers and clients

Unit: RMB Yuan

Total payment for top 5 suppliers	579,596,457	Percentage in total purchase expenses (%)	38.53
Total payment from top 5 clients	1,163,204,403	Percentage in total sales amount (%)	20.22

8.1.7 Internal control system relating to the measurement of fair value

In accordance with the *Accounting Standards for Business Enterprises* and *Basic Standards for Enterprise Internal Control*, the Company worked out the internal control system related to fair value to specify the utilization, acquisition, measurement and disclosure of fair value. In the aspect of financial accounting, the Company conducted financial accounting and disclosure pursuant to applicable provisions of *Accounting Standards for Business Enterprises* while for internal control, it designated professional staff to check the utilization and acquisition of fair value in addition to supervising the implementation of the system.

Items relating to the measurement of fair value:

Unit: RMB '0,000 Yuan

Item	Amount at the beginning of reporting period	Gains/losses from changes in current fair value	Changes in fair value listed in equity	Current provision for depreciation	Amount at the end of reporting period
Financial assets					
Include: Financial assets measured by fair value with changes accounted into current profit and loss	97	-11			86
Include: a) Derivative financial assets					
b) Available-for-sale financial assets					
Sub-total	97	-11			86
Financial liabilities	123	106			17
Investment property					
Productive biological assets					
Others					

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8.1.8 Financial assets and liabilities denominated in foreign currency

During the reporting period, financial assets denominated in foreign currency held by the Company was in forward foreign exchange contracts.

8.2 Analysis of financial and business performance during the reporting period

(1) Analysis of financial and business performance during the reporting period

Unit: RMB Yuan

Item	Dec. 31, 2011/ Jan. 1-Dec. 31, 2011	Dec. 31, 2010/ Jan. 1-Dec. 31, 2010	Change	Rate of change (%)	No.
Total assets	7,925,285,114	6,858,879,805	1,066,405,309	15.55	(1)
Total liabilities	2,910,161,846	2,273,667,334	636,494,512	27.99	(2)
Ownership equity attributable to shareholders of listed companies	4,674,677,555	4,280,208,312	394,469,243	9.22	(3)
Operating profit	310,300,179	407,491,880	-97,191,701	-23.85	(4)
Net profit attributable to shareholders of listed companies	417,068,980	484,675,178	-67,606,198	-13.95	(5)
Net cash flow from operating activities	300,196,604	381,889,530	-81,692,926	-21.39	(6)
Net increase in cash and cash equivalents	48,727,823	71,990,061	-23,262,238	-32.31	(7)

Details of change:

a) With a growth of 15.55%, total assets at the end of 2011 increased by RMB 1,066,410,000 Yuan over the last year as a result of increase in both current assets such as receivables and inventory and non-current assets like under-construction projects and held-to-maturity investments;

b) With a growth of 27.99%, total liabilities at the end of 2011 increased by RMB 636.49 million Yuan over the year 2010 as a result of rise in short-term borrowings, bonds payable and taxes payable;

c) With a growth of 9.22%, the ownership equity attributable to shareholders of listed companies at the end of 2011 increased by RMB 394 million Yuan over the last year as a result of rise in net profit attributable to shareholders of listed companies by RMB 417.07 million Yuan during the reporting period;

d) With a decline of 23.85%, operating profit reduced by RMB 97.19 million Yuan over the same period of the previous year as a result of decrease in gross profit margin as well as increase in labor cost, market/R&D inputs and expenses on sales and management during the reporting period;

e) With a decline of 13.95%, net profit attributable to shareholders of listed companies reduced by RMB 67.61 million Yuan over the same period of the previous year as a result of decrease in operating profit by RMB 97.19 million Yuan and increase in non-operating income by RMB 27.26 million Yuan during the reporting period;

f) With a decline of 21.39%, net cash flow from operating activities decreased by RMB 81.69 million Yuan over the same period of the previous year as a result of larger increase in purchase expenditure and labor cost than payments received;

g) With a decline of 32.31%, net increase in cash and cash equivalents decreased by RMB 23.26 million Yuan over the same period of the previous year as a result of decrease in net cash flow from operating activities, including respective decline in net cash flows from operating activities and investment activities by RMB 81.69 million Yuan and 544.69 million Yuan and increase in net cash flow from fi-

ancing activities by RMB 616.97 million Yuan.

According to the above analysis on financial and business performance, the Company kept a robust growth in income from main business; nevertheless, with a rise in both labor cost and market/R&D inputs into core business, operating profit declined, resulting in decline in overall profitability and cash inflow;

(2) Comparative analysis on indicators of business performance

Unit: RMB Yuan

Item	Dec. 31, 2011/ Jan. 1-Dec. 31, 2011	Dec. 31, 2010/ Jan. 1-Dec. 31, 2010	Change	Rate of change (%)	No.
Operating income	5,751,249,330	4,937,696,440	813,552,890	16.48	(1)
Operating costs	4,004,998,405	3,383,628,845	621,369,560	18.36	(2)
Selling expense	497,920,161	391,904,135	106,016,026	27.05	(3)
Administrative expense	819,957,825	713,916,675	106,041,150	14.85	(4)
Financing cost	23,649,196	-356,749	24,005,945	6,729.09	(5)
Investment income	42,136,578	46,121,940	-3,985,362	-8.64	(6)
Net non-operating income/expenses	182,586,481	152,613,448	29,973,033	19.64	(7)
Income tax expense	69,341,108	52,802,832	16,538,276	31.32	(8)

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Details of change:

a) With a growth of 16.48%, operating income increased by RMB 813.55 million Yuan over the same period of the previous year as a result of rise in income from domestic solutions service and international services during the reporting period;

b) With a growth of 18.36%, operating costs increased by RMB 621.37 million Yuan over the same period of the previous year as a result of rise in both operating income and labor cost during the reporting period;

c) With a growth of 27.05%, selling expenses increased by RMB 106.02 million Yuan over the same period of the previous year as a result of expansion in sales and rise in market input costs;

d) With a growth of 14.85%, administrative expenses increased by RMB 106.04 million Yuan over the same period of the previous year as a result of rise in labor cost and R&D expenses;

e) With a growth of 6,729.09%, financing cost increased by RMB 24.01 million Yuan over the same period of the previous year as a result of increasing bank loans based on capital position and interest provisions for outstanding medium term note and payments for underwriting fee at the end of year in addition to rise in interest expense and service fee expense included in financing cost by RMB 20.07 million Yuan during the reporting period;

f) With a decline of 8.64%, investment income reduced by RMB 3.99 million Yuan over the same period of the previous year as a result of decrease in income on investments into associated companies during the reporting period;

g) With a growth of 19.64%, net non-operating income/expenses increased by RMB 29.97 million Yuan over the same period of the previous year as a result of non-operating income amounting to RMB 24.93 million Yuan recognized by the equity of Appconomy, Inc. that was acquired by the Company through contribution with technology use right during the reporting period;

h) With a growth of 31.32%, tax income expense increased by RMB 16.54 million Yuan over the same period of the previous year as a result of rise in tax income expense of Neusoft Group (Dalian) Co., Ltd., a subsidiary of the Company ("Dalian Subsidiary") by RMB 9.48 million Yuan due to the payment of enterprise income tax based on 10% taxable income upon the expiration of tax holiday during the reporting period in addition to increase in taxable income of the Company and its subsidiaries capturing the gains.

(3) Comparative analysis on indicators of financial performance

Unit: RMB Yuan

Item	Dec. 31, 2011/ Jan. 1-Dec. 31, 2011	Dec. 31, 2010/ Jan. 1-Dec. 31, 2010	Change	Rate of change (%)	Reason for change
Notes receivable	36,215,245	12,798,400	23,416,845	182.97	(1)
Other current assets	14,262,836	10,313,513	3,949,323	38.29	(2)
Held-to-maturity investments	401,931,507		401,931,507	—	(3)
Long-term receivables	150,710,187	283,406,306	-132,696,119	-46.82	(4)
Under-construction projects	307,799,158	84,731,103	223,068,055	263.27	(5)
Goodwill	227,376,502	144,880,456	82,496,046	56.94	(6)
Short-term borrowings	470,000,000	160,000,000	310,000,000	193.75	(7)
Held-for-trading financial liabilities	170,567	1,227,304	-1,056,737	-86.10	(8)
Notes payable	83,204,957	145,564,320	-62,359,363	-42.84	(9)
Taxes payable	67,567,092	685,326	66,881,766	9759.12	(10)
Other current liabilities	71,666	21,336	50,330	235.89	(11)
Non-current liabilities due within one year		136,060,526	-136,060,526	-100.00	(12)
Bonds payable	403,658,667		403,658,667	—	(13)
Retained profits	2,536,698,174	2,171,819,047	364,879,127	16.80	(14)
Foreign currency translation reserve	-48,565,779	-26,721,620	-21,844,159	-81.75	(15)
Operating income	5,751,249,330	4,937,696,440	813,552,890	16.48	(16)
Operating costs	4,004,998,405	3,383,628,845	621,369,560	18.36	(17)
Selling expense	497,920,161	391,904,135	106,016,026	27.05	(18)
Administrative expense	819,957,825	713,916,675	106,041,150	14.85	(19)
Financing cost	23,649,196	-356,749	24,005,945	6729.09	(20)
Losses from assets depreciation	41,405,012	5,344,100	36,060,912	674.78	(21)
Profits from changes in fair value	950,557	-694,314	1,644,871	236.91	(22)
Non-operating income	188,085,954	160,821,056	27,264,898	16.95	(23)
Non-operating expenses	5,499,473	8,207,608	-2,708,135	-33.00	(24)
Income tax expense	69,341,108	52,802,832	16,538,276	31.32	(25)
Minority interest income	6,476,572	22,627,318	-16,150,746	-71.38	(26)

Details of change:

a) With a growth of 182.97%, notes receivables increased by RMB 23.42 million Yuan over the year 2010 as a result of rise in payments by bank acceptance received from customers during the reporting period;

b) With a growth of 38.29%, other current assets increased by RMB 3.95 million Yuan as a result of rise in unamortized expenses;

c) Held-to-maturity investments increased by RMB 401.93 million Yuan over last year due to purchase of wealth investment products and income from such products amounting to RMB 1.93 million Yuan;

d) With a decline of 46.82%, long-term receivables reduced by RMB 132.70 million Yuan over last year as a result of payments for assets transfer in the previous years received from Chengdu Neusoft Institute of Information Technology ("Chengdu Neusoft Institute") during the reporting period;

e) With a growth of 263.27%, under-construction projects increased by RMB 223.07 million Yuan over the year 2010 caused by new construction of Beijing Neusoft Park as well as continued construction of Shanghai and Guangzhou Neusoft Parks;

f) With a growth of 56.94%, goodwill increased by RMB 82.50 million Yuan over last year as a result of a goodwill of RMB 99.95 million Yuan arising due to the payments for the purchase of Neusoft Corporation (Beijing) Co., Ltd. operating as a subsidiary of the Company for 73.14% equity from Beijing Viewhigh Technology Co., Ltd. (later known as Beijing Neusoft Viewhigh Technology Co., Ltd.) being larger than fair value of net identifiable assets. This was in addition to losses in goodwill amounting to RMB 8.98 million Yuan caused by provisions for mergers & acquisitions in Europe and America as well as changes in foreign exchange rates;

g) With a growth of 193.75%, short-term borrowings increased by RMB 310 million Yuan over the year 2010 as a result of increase in such borrowings of the Company and Shenyang Neusoft Medical Systems Co., Ltd., a subsidiary of the Company ("Neusoft Medical") by RMB 120 million Yuan and 190 million Yuan respectively;

h) With a decline of 86.1%, held-for-trading financial liabilities reduced by RMB 1.06 million Yuan as compared to last year as an increase in estimated floating loss by RMB 1.06 million Yuan which, in accordance with the forward foreign exchange contracts signed by the Company, was accounted by different foreign currencies based on open market exchange rates during the reporting period was listed into the gains/losses from changes in fair value for the purpose of lowering held-for-trading financial assets;

i) With a decline of 42.84%, notes payable reduced by RMB 62.36 million Yuan over last year as a result of payment for bank acceptances due within the reporting period;

j) Taxes payable increased by RMB 66.88 million Yuan over last year as a result of rise in value-added tax and income tax payable;

k) With a growth of 235.89%, other current liabilities increased by RMB 50,000 Yuan as a result of rise in provisions;

l) With a decline of 100%, non-current liabilities due within one year reduced by RMB 136.06 million Yuan over last year as a result of the payment by Chengdu Neusoft Information Technology Development Co., Ltd. ("Chengdu Neusoft Development") for government loans with no interest for the purpose of the construction of Phase III, Chengdu Software Park;

m) Bonds payable increased by RMB 403.66 million Yuan over the year 2010 as a result of issuance of medium term notes valuing RMB 400 million Yuan as well as provision for interest amounting to RMB 3.66 million Yuan during the reporting period;

n) With a growth of 16.80%, retained profits increased by RMB 364.88 million Yuan over the last year as a result of net profit amounting to RMB 417.07 million Yuan during the reporting period;

o) With a decline of 81.75%, foreign currency translation reserve reduced by RMB 21.84 million Yuan over the beginning of 2011 as a result of decrease in the reserve by RMB 16.63 million Yuan caused by a big gap between annual average exchange rate (9.0230) and year-end exchange rate (8.1625) used by Neusoft (Europe) Co., Ltd., a subsidiary wholly owned by the Company ("Neusoft Europe") for the purpose of translation of foreign currency statements due to fast appreciation of the Renminbi against the Euro;

p) With a growth of 16.48%, operating income increased by RMB 813.55 million Yuan over the same period of the previous year as a result of rise in income from the domestic solutions business and international software during the reporting period;

q) With a growth of 18.36%, operating costs increased by RMB 621.37 million Yuan over the same period of the previous year as a result of increases in both operating income and labor cost during the reporting period;

r) With a growth of 27.05%, selling expense increased by RMB 106.02 million Yuan over the same period of the previous year as a result of increase in sales and rise in market input costs;

s) With a growth of 14.85%, administrative expenses increased by RMB 106.04 million Yuan over the same period of the previous year as a result of rise in labor cost and R&D expenses;

t) With a growth of 6,729.09%, financing cost increased by RMB 24.01 million Yuan over the same period of the previous year as a result of increasing bank loans based on capital position and interest provisions for outstanding medium term note and payments for underwriting fee at the end of year in addition to rise in interest expense and service fee expense included in financing cost by RMB 20.07 million Yuan;

u) With a growth of 674.78%, losses from assets depreciation increased by RMB 36.06 million Yuan over the same period of the previous year as a result of rise in losses from receivables depreciation estimated based on receivables outstanding and account age in addition to full provision for bad debts of RMB 8.85 million Yuan related to the receivable that was not expected to be paid by Sesca (See the Annual Report 2011 and Semi-annual Report 2011 for other information) as well as provision for bad debts of RMB 6.60 million Yuan related to long-term receivables that was reversed by Chengdu Neusoft Development based on actual conditions;

v) With a growth of 236.91%, profits from changes in fair value increased by RMB 1.64 million Yuan over the same period of the previous year as a result of changes in fair value of forward foreign exchange contract;

w) With a growth of 16.95%, net non-operating income/expenses increased by RMB 27.26 million Yuan as over the same period of the previous year a result of non-operating income amounting to RMB 24.93 million Yuan recognized by the equity of Appconomy, Inc. that was acquired by the Company through contribution with the right to use technology during the reporting period;

x) With a decline of 33%, non-operating expenses reduced by RMB 2.71 million Yuan over the same period of the previous year a result of Neusoft Medical's payment of RMB 2.36 million Yuan for an indemnity arising from legal proceedings;

y) With a growth of 31.32%, tax income expense increased by RMB 16.54 million Yuan over the same period of the previous year as a result of rise in tax income expense of Neusoft Group (Dalian) Co., Ltd., a subsidiary of the Company by RMB 9.48 million Yuan due to the payment of enterprise income tax based on 10% taxable income upon the expiration of tax holiday during the reporting period in addition to increase in taxable income of the Company and its subsidiaries capturing the gains;

z) With a decline of 71.38%, minority interest income reduced by RMB 16.15 million Yuan over the same period of the previous year caused by current profit that was impaired by Chengdu Neusoft Development's transfer of investment property to Chengdu Neusoft Institute during the report period.

(4) Comparative analysis on indicators of cash flow

Unit: RMB Yuan

Item	2011	2010	Change	Rate of change	Remarks
Net cash flows from operating activities	300,196,604	381,889,530	-81,692,926	-21.39%	(1)
Net cash flows from investment activities	-769,257,253	-224,563,973	-544,693,280	-242.56%	(2)
Net cash flows from financing activities	529,377,797	-87,587,228	616,965,025	704.40%	(3)

Details of change:

a) With a decline of 21.39%, net cash flow from operating activities decreased by RMB 81.69 million Yuan over the same period of the previous year as a result of rise in purchase expenditure and labor cost during the reporting period;

b) With a decline of 242.56%, net cash flow from investment activities reduced by RMB 544.69 million Yuan over the same period of the previous year as a result of the company's purchase of wealth management products amounting to RMB 400 million Yuan following the issue of medium term notes for the purpose of minimizing the cost of bond financing. The rise in cash flow was also due to purchase/ construction of fixed assets and other long-term assets and acquisition of its subsidiary and other organizations by RMB 216.59 million Yuan in addition to Chengdu Neusoft Development's receipt of payment from Chengdu Neusoft Institute for assets transfer in the previous years up to RMB 107.75 million Yuan;

c) With a growth of 704.40%, net cash flow from financing activities increased by RMB 616.97 million Yuan over the same period of the previous year as a result of the Company's receipt of the principal of outstanding medium term notes amounting to RMB 400 million Yuan as well as decrease in both distributed dividends and interest expenses by RMB 151.95 million Yuan due to payment for cash dividends during the reporting period.

8.3 Analysis of reasons for material changes in business performance and profit structure; Analysis of reasons for material changes in financial performance

Unit: RMB Yuan

Item	2011		2010	
	Amount	Percentage in total profit (%)	Amount	Percentage in total profit (%)
Operating income	5,751,249,330	1166.85	4,937,696,440	881.57
Operating cost	4,004,998,405	812.56	3,383,628,845	604.11
Period cost	1,341,527,182	272.18	1,105,464,061	197.37
Operating profit	310,300,179	62.96	407,491,880	72.75
Investment income	42,136,578	8.55	46,121,940	8.23
Net non-operation income/expenses	182,586,481	37.04	152,613,448	27.25
Total profit	492,886,660	100.00	560,105,328	100.00

Compared with 2010, changes in operating costs and period costs in 2011 are attributed to higher labor cost caused by continued implementation of compensation improvement plan and expansion of business scale in addition to greater market/R&D inputs into major services. Increase in net non-operating income/expenses resulted from an non-operating income of RMB 24.93 million Yuan recognized by the equity of Appconomy, Inc. that was acquired by the Company through capital infusion with the right to use technology during the reporting period.

Unit: RMB Yuan

Item	December 31 st , 2011		December 31 st , 2010	
	Amount	Percent in total assets (%)	Amount	Percent in total profit (%)
Receivables	1,161,288,549	14.65	959,725,130	13.99
Inventory	585,158,868	7.38	486,823,705	7.10
Held-to-maturity investments	401,931,507	5.07	—	—
Investment property	438,134,937	5.53	437,011,923	6.37
Long-term equity investments	703,226,389	8.87	614,836,497	8.96
Fixed assets	1,395,400,942	17.61	1,429,649,069	20.84
Under-construction projects	307,799,158	3.88	84,731,103	1.24
Long-term borrowings	104,000,000	1.31	129,000,000	1.88
Bonds payable	403,658,667	5.09	—	—
Total assets	7,925,285,114	100.00	6,858,879,805	100.00

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During the reporting period, bonds payable increased by RMB 400 million Yuan owing to the issue of medium term notes; wealth investment products purchased by the Company based on capital position were added into the held-to-maturity investments; the proportion of under-construction projects increased as a series of projects including Beijing Neusoft Park, Shanghai Neusoft Park and Guangzhou Neusoft Park are underway.

8.4 Notes on reasons for material changes in portability (gross profit margin) of main business

Compared with 2010, no material changes have taken place in the profitability of main business in 2011.

8.5 Investment profile

Unit: RMB '0,000 Yuan

Amount of investment during the reporting period	147,129
Change in the amount of investment	106,955
Amount of investment in the previous year	40,174
Rate of change in the amount of investment (%)	266.23

(1) Information about invested companies

Unit: RMB '0,000 Yuan

No.	Invested company	Main business	Amount of investment	Percent of equity held by the Company	Remarks
(1)	Neusoft Group (Wuhu) Co., Ltd.	Computer software/hardware, technical consulting and services	1,000	100.00%	Newly-incorporated wholly owned subsidiary
(2)	Neusoft Medical (U.S.A.) Co., Ltd.	Product R&D/ manufacturing and related technical consulting/services	1.725 million US Dollars	100.00%	Capital increase
(3)	Neusoft Group (Beijing) Co., Ltd.	Technology development/ consulting/services	18,500	100.00%	Capital increase
(4)	Chongqing Guo'ao 100 Years Xikang Health Management Co., Ltd.	Xikang management services (excluding treatment), development of Xikang technology projects	40	20.00%	Share participation
(5)	Neusoft Medical (MEFTA) Co., Ltd.	Medical systems and relevant technical consulting and services	730,000 US Dollars	100.00%	Capital increase
(6)	Guangdong Neufashion Digital Technology Co., Ltd.	Computer software/hardware, protection devices for medical purpose	2,250	60.00%	Newly-incorporated holding subsidiary
(7)	Nanchang Biotech A&C Biotechnical Industry Incorporated Company	In-vitro diagnostic products for medical purpose, medical systems, software development	2,760	9.01%	Subscription of newly-added registered capital
(8)	Beijing Neusoft Yuetong Software Technology Co., Ltd.	Computer software/hardware/services	350	70.00%	Capital increase
(9)	Neusoft (Europe) Co., Ltd.	Computer software/hardware, technical consulting and services	7.4849 million Euro	100.00%	Capital increase
(10)	Shenyang Neusoft Transportation Information Technology Co., Ltd.	Computer services	353.5	50.5%	Newly-incorporated holding subsidiary

Continued table

No.	Invested company	Main business	Amount of investment	Percent of equity held by the Company	Remarks
(11)	Neusoft Group (Nanjing) Co., Ltd.	Computer software/hardware and its development, sales and technical consulting	1,200	100.00%	Newly-incorporated wholly owned subsidiary
(12)	Neusoft Xikang Holdings Co., Ltd.	IT and related consulting services	35,000 US Dollars	70.00%	Newly-incorporated holding subsidiary
(13)	Neusoft Xikang International Co., Ltd.	IT and related consulting services	1 million HK Dollars	100.00%	Merge & acquisition, capital increase
(14)	Neusoft Xikang Healthcare Technology Co., Ltd.	Computer software/hardware, electronics product development, corporate investment management & consulting	8 million US Dollars	100.00%	Newly-incorporated indirectly-holding subsidiary
(15)	Aerotel Medical Systems (1998) Ltd.	Tele-diagnosis/healthcare/wellness solutions	1.777 million US Dollars	30.77%	Subscription of newly-issued common stocks
(16)	Shenyang Toshiba Neusoft Information Systems Co., Ltd.	Development of software products, wholesale and retail of software/hardware products	905.1	40.00%	Share participation
(17)	NEC Neusoft Information Technology Co., Ltd.	Computer software system integration, computer software/hardware development	450	30.00%	Share participation
(18)	Beijing LBS Social Insurance Information Technology Co., Ltd.	Technology development/consulting services, product selling	539.03	61.67%	Acquisition, shareholding
(19)	Beijing Neusoft Viewhigh Technology Co., Ltd.	Computer software development/production, self-made product sales, technical support	11,410	73.14%	Acquisition, indirect shareholding
(20)	Liaoning Neusoft Xikang Healthcare Co., Ltd.	Health information management/consulting, management services, management system development	3,000	100.00%	Newly-incorporated indirectly-holding subsidiary

Continued table

No.	Invested company	Main business	Amount of investment	Percent of equity held by the Company	Remarks
(21)	Appconomy, Inc.	Application software for mobile Internet	2,493.44	13.32%	Subscription of newly-issued referred stocks
(22)	Neusoft Group (Zhengzhou) Co., Ltd.	Sales and development of computer software/hardware	1,000	100.00%	Newly-incorporated wholly owned subsidiary
(23)	Shenyang Neusoft Xikang Medical Systems Co., Ltd.	Computer software/hardware development for medical systems, healthcare consulting services	1,000	100.00%	Newly-incorporated indirectly-holding subsidiary
(24)	Neusoft Group (Nanchang) Co., Ltd.	Computer hardware development/production, technical consulting and other services	2,000	100.00%	Newly-incorporated wholly owned subsidiary
(25)	Shenzhen Neufashion Digital Technology Co., Ltd.	Design/R&D/production/sales of watch mobiles, technology development/sales of computer software/hardware	100	100.00%	Newly-incorporated indirectly-holding subsidiary
(26)	Neusoft Group (Dalian) Co., Ltd.	Computer software/hardware	20,000	100.00%	Capital increase
(27)	Tianjin Xikang Healthcare Technology Co., Ltd.	Computer software/hardware, electronics product development, corporate investment management & consulting	450	100.00%	Newly-incorporated indirectly-holding subsidiary

a) In March 2011, the Company established Neusoft Group (Wuhu) Co., Ltd. by making a contribution of RMB 10 million Yuan and held 100% of its shares, which has been recorded in the consolidated financial statements from the said month.

b) In March 2011, Shenyang Neusoft Medical Systems Co., Ltd., a subsidiary wholly owned by the Company, made a decision to infuse an additional 3 million US Dollars into the registered capital of Neusoft Medical (U.S.A.) Co., Ltd. With this infusion, the total registered capital of the US entity reached 4 million US dollars. Till date, an accumulative contribution of 2.5 million US dollars has been made as an amount of 1.725 million US dollars was paid during the reporting period.

c) In March 2011, the Company infused RMB 185 million Yuan into the registered capital of Neusoft Group (Dalian) Co., Ltd., a subsidiary wholly owned by it, achieving a total investment of RMB 249.94 million Yuan.

d) In April 2011, Shenyang Neusoft Medical Systems Co., Ltd., a subsidiary wholly owned by the Company established Chongqing Guo'ao 100 Years Xikang Health Management Co., Ltd. and held 20% of its shares by paying a contribution of RMB 400,000 Yuan.

e) In May 2011, Shenyang Neusoft Medical Systems Co., Ltd., a subsidiary wholly owned by the Company, made a decision on an

increase of 2.5 million US dollars into the registered capital of Neusoft Medical (Middle East) Co., Ltd., thus taking its registered capital to 3.5 million US dollars. Till date, an accumulative contribution of 1.4 million US dollars has been made as an amount of 730,000 US dollars was paid during the reporting period.

f) In May 2011, the Company, by contributing RMB 22.5 million Yuan, established Neusoft Group (Nanchang) Co., Ltd. and held 60% of its shares, which was recorded in the consolidated financial statements from the said month.

g) In June 2011, Shenyang Neusoft Medical Systems Co., Ltd., a subsidiary wholly owned by the Company, paid an amount of RMB 27.60 million Yuan for an increase in the registered capital of Nanchang Biotech A&C Biotechnical Industry Incorporated Company, increasing its shareholding to 9.01%.

h) In June 2011, Liaoning Neusoft Venture Capital Investment Co., Ltd., a subsidiary controlled by the Company, made an increase of RMB 3.5 million Yuan in the registered capital of its subsidiary Beijing Neusoft Yuetong Software Technology Co., Ltd., total investments till date reach RMB 10.50 million Yuan.

i) In March and October 2011, the Company made a total increase of 7.4849 Euros into the registered capital of its subsidiary Neusoft (Europe) Co., Ltd., total investments amounting to 28.0146 million Euros.

j) In July 2011, the Company set up Shenyang Neusoft Transportation Information Technology Co., Ltd. by investing RMB 3.535 million Yuan and held 50.5% of its shares, which was recorded in the consolidated financial statements from the said month.

054 | k) In July 2011, the Company established Neusoft Group (Nanjing) Co., Ltd. by investing RMB 12 million Yuan and held 100% of its shares, which was recorded in the consolidated financial statements from the said month.

l) In July 2011, Neusoft (Hong Kong) Co., Ltd., a subsidiary wholly owned by the Company, established Neusoft Xikang Holdings Co., Ltd. and held 70% of its shares by contributing 35,000 US dollars, which was recorded in the consolidated financial statements from the said month.

m) In July 2011, Neusoft Xikang Holdings Co., Ltd., a subsidiary indirectly controlled by the Company, acquired Neusoft Xikang International Co., Ltd. with a shareholding percentage of 100% and increased its registered capital to 1 million HK dollars, which was recorded in the consolidated financial statements from the said month.

n) In July 2011, Neusoft Xikang Healthcare Technology Co., Ltd., a subsidiary indirectly controlled by the Company, established Neusoft Xikang Healthcare Technology Co., Ltd. and held 100% of its shares by investing 8 million US dollars, which was listed in the consolidated financial statements from the said month.

o) In July 2011, Neusoft (Europe) Co., Ltd., a subsidiary of the Company acquired 26,915 ordinary shares newly issued by Aerotel Medical Systems (1998) Ltd. at the price of 66.02 US dollars per share, taking its shareholding percentage to 30.77% and investments amounting to a total of 1.777 million US dollars.

p) In July 2011, the Company set up Shenyang Toshiba Neusoft Information Systems Co., Ltd. and held 40% of its shares by investing RMB 9.051 million Yuan.

q) In July 2011, Shenyang Neusoft Information Technology Services Co., Ltd., a subsidiary wholly owned by the Company set up NEC Neusoft Information Technology Co., Ltd. and held 30% of its shares by investing RMB 4.50 million Yuan.

r) In August 2011, the Company acquired 28.33% equity of Beijing LBS Social Insurance Information Technology Co., Ltd., taking its shareholding to 61.67%, which was recorded in the consolidated financial statements from the said month.

s) In August 2011, Neusoft Group (Beijing) Co., Ltd., a subsidiary wholly owned by the Company, acquired Beijing Viewhigh Technology Co., Ltd. (later known as Beijing Neusoft Viewhigh Technology Co., Ltd.) and held 73.14% of its shares by contributing RMB 114.10 million Yuan, which was recorded in the consolidated financial statements from the said month.

t) In October 2011, Neusoft Xikang Healthcare Technology Co., Ltd., a subsidiary indirectly controlled by the Company, established Shenyang Neusoft Medical Systems Co., Ltd. and held 100% of its shares by investing RMB 30 million Yuan, which was recorded in the consolidated financial statements from the said month.

u) In October 2011, the Company subscribed for 6,903,220 preferred shares newly issued by Appconomy, Inc. with technology use right, a kind of intangible asset with an estimated value of RMB 24,934,400 Yuan. As of date, the Company holds 13.32% of the shares of Appconomy, Inc.

v) In October 2011, the Company established Neusoft Group (Zhengzhou) Co., Ltd. and held 100% of its shares by investing RMB 10 million Yuan, which was recorded in the consolidated financial statements from the said month.

w) In November 2011, Neusoft Xikang Healthcare Technology Co., Ltd., a subsidiary indirectly controlled by the Company, established Shenyang Neusoft Xikang Medical Systems Co., Ltd. and held 100% of its shares by contributing RMB 10 million Yuan, which was recorded in the consolidated financial statements from the said month.

x) In November 2011, the Company, with a total investment of RMB 20 million Yuan, established Neusoft Group (Nanchang) Co., Ltd. and held 100% of its shares, which was recorded in the consolidated financial statements from the said month.

y) In December 2011, Guangdong Neufashion Digital Technology Co., Ltd., a subsidiary controlled by the Company, established Shenzhen Neufashion Digital Technology Co., Ltd. and held 100% of its shares by contributing RMB 1 million Yuan, which was recorded in the consolidated financial statements from the said month.

z) In December 2011, the Company made an increase of RMB 200 million Yuan into the registered capital of Neusoft Group (Dalian) Co., Ltd., taking its investments to RMB 300 million Yuan.

aa) In December 2011, Neusoft Xikang Healthcare Technology Co., Ltd., a subsidiary indirectly controlled by the Company, established Tianjin Xikang Healthcare Technology with a registered capital of RMB 30 million Yuan and held 75% of its shares, by investing RMB 4.50 million Yuan, which was recorded in the consolidated financial statements from the said month.

(2) Wealth management

During the reporting period, the Company purchased the following wealth management products:

Unit: RMB '0,000 Yuan

Agency	Amount	Date of commencement	Date of termination	Compensation mode	Amount of actually retracted principal	Actually gained income	Subject to legal proceedings or not	Amount of depreciation provision	Related transaction or not	Source from financing capital or not	Association relationship or not
Industrial Bank (China)	30,000	Dec. 1, 2011	Feb. 28, 2012	Floating income	—	—	Yes	—	No	No	No
Industrial Bank (China)	10,000	Dec. 23, 2011	Feb. 6, 2012	Floating income	—	—	Yes	—	No	No	No
Total	40,000	—	—	—	—	—	—	—	—	—	—
Accumulative amount of overdue principal and income outstanding (RMB Yuan)									0		

Note: With regard to the wealth management products mentioned above, the Board of Directors has agreed that the management of the Company may, at its discretion, purchase wealth management products amounting to a total amount of RMB 400 million Yuan based on capital position at any time following the bond issuance and use such an amount within two years from the date of the Board of Directors' resolution. This resolution was passed for the purpose of reducing the total interest cost on bonds to the greatest extent in accordance with the Proposal on the Purchase of Wealth Management Products which was approved by the Board of Directors at the 26th session of its meeting. At the end of the reporting period, the principal and income related to the two of the above wealth management products that had not been received as they were under recognized as an investment and an income of RMB 1.93 million Yuan was entered into the balance sheet based on an estimate. The company subsequently received the principal and income of the said products totaling RMB 405.86 million Yuan upon their expiration following the date of balance sheet.

(3) Utilization of raised capital

No raised capital or funds raised from previous offering were in use during the reporting period.

(4) Utilization of non-raised capital

During the reporting period, the Company and its subsidiaries made a total investment of RMB 226.85 million Yuan for the construction of projects including Beijing Neusoft Park and Shanghai Neusoft Park with their own capital:

Unit: RMB '0,000 Yuan

Item	Amount
Beijing Neusoft Park	12,893
Shanghai Neusoft Park	5,527
Guangzhou Neusoft Park (Phase I)	1,690
Renovation of club in Shenyang Neusoft Park	72
Medical information construction system	295
Hainan Neusoft Park (Phase I)	74
Renovation of canteen of Shenyang Neusoft Park	2,134
Total	22,685

8.6 Results of discussion on reasons for and effects of changes in accounting policies/estimates

No material changes have been found in the accounting policies and estimates of the Company during the reporting period.

8.7 Daily work of the Board of Directors

(1) Details and resolutions of meetings of the Board of Directors

Term number of meetings	Date of meeting	Content of resolution	Designated newspaper of information disclosure for publishing resolutions	Date of information disclosure for publishing resolutions
Session 23, Term 5	Jan. 7, 2011		China Securities Journal Shanghai Securities News	Jan. 11, 2011
Session 24, Term 5	Mar. 31, 2011	Proposal of Making the Plan for Implementation of Internal Control Rules		
Session 25, Term 5	Apr. 11, 2011		China Securities Journal Shanghai Securities News	Apr. 14, 2011
Session 26, Term 5	Apr. 25, 2011		China Securities Journal Shanghai Securities News	Apr. 28, 2011
Session 27, Term 5	May 17, 2011		China Securities Journal Shanghai Securities News	May 18, 2011
Session 1, Term 6	May 25, 2011		China Securities Journal Shanghai Securities News	May 26, 2011
Session 2, Term 6	Jul. 25, 2011		China Securities Journal Shanghai Securities News	Jul. 19, 2011
Session 3, Term 6	Aug. 24, 2011		China Securities Journal Shanghai Securities News	Aug. 27, 2011
Session 4, Term 6	Sep. 14, 2011	Resolution on the establishment of a subsidiary: 1. The Board of Directors agreed that Neusoft Xikang Technology Co., Ltd., a subsidiary indirectly controlled by the Company could establish Liaoning Neusoft Xikang Healthcare Co., Ltd. which would operating as its wholly owned subsidiary ("Liaoning Neusoft Xikang") through contributing RMB 30 million Yuan. 2. The Board of Directors agreed that Liaoning Neusoft Xikang, jointly with Shengjing Hospital of China Medical University could establish Liaoning Shengjing Xikang Healthcare Investment Co., Ltd. with a cash contribution of RMB 75 million Yuan, accounting for 75 of its registered capital amounting to RMB 100 million Yuan.		

Continued table

Term number of meetings	Date of meeting	Content of resolution	Designated newspaper of information disclosure for publishing resolutions	Date of information disclosure for publishing resolutions
Session 5, Term 6	Oct. 27, 2011		China Securities Journal Shanghai Securities News	Oct. 29, 2011
Session 6, Term 6	Dec. 5, 2011		China Securities Journal Shanghai Securities News	Dec. 7, 2011
Session 7, Term 6	Dec. 21, 2011		China Securities Journal Shanghai Securities News	Dec. 23, 2011

(2) Execution of the resolutions passed in the Shareholders' Meeting by the Board of Directors

058 | The Board of Directors executes any and/or all resolutions passed in the Shareholders' Meeting in strict compliance with its power and authority.

Partnering with Industrial Bank Co., Ltd., which acted as the lead underwriter, the Company issued the first phase of its three-year fixed-interest bearing medium-term notes (Name: 11 Neusoft MTN1, Code: 1182321) in 2011 that amounted to a total of RMB 400 million Yuan with each note of value RMB 100 Yuan and coupon rate of 6.86%. This offering was done by means of book building and concentrative allotment on November 11th, 2011, in accordance with the Proposal on the Issuance of Short-term Financing Bonds and Medium-term Notes during the reporting period, from which the capital raised was made available on November 14th, 2011.

For documents relating to this issuance of medium-term notes, please visit <http://www.chinamoney.com.cn> or <http://www.chinabond.com.cn>.

(3) Summary of development/improvement and main contents of relevant working system for the Auditing Committee and its performance of duties and responsibilities

The Auditing Committee of the Board of Directors consists of four members, of which, the majority are independent directors (including an expert in accounting) with one serving as Chairman of the Committee.

During the reporting period, the Auditing Committee fulfilled its duties and responsibilities in a diligent and faithful manner. During the auditing of Annual Report 2011, the Committee played the following role:

a) Review financial statements and make a resolution that these financial statements that truly reflect the financial and business performance of the Company can be delivered to BDO China Shu Lun Pan Certified Accountants LLP for auditing;

b) Enhance and maintain communication with the accountant during auditing, review financial statements after the accountant expresses his opinions, make a resolution that the financial statements have truthfully and completely reflected the status of the Company and push the accountant to finish auditing on time;

c) Vote on financial statements and submit them to the Board of Directors after making relevant resolutions prior to the annual meeting of the Board. This will be done in addition to providing a summary report on the auditing of BDO China Shu Lun Pan Certified

Accountants LLP, detailing that the said accountant firm has completed auditing in an independent, objective, fair and timely basis and that the auditor's report issued by it has been verified.

(4) Summary of the Compensation and Evaluation Committee's performance of duties and responsibilities

The Compensation and Evaluation Committee is made up of three members, of which, at least two are independent directors with one serving as Chairman of the Committee. In 2011, the Committee fulfilled its duties and responsibilities actively including reviewing the Company's compensation systems for employees and senior executives for the year 2011.

(5) Development and improvement of the system of management of external information users

The Company has built a System of Management of External Information Users to specify the rules for reporting and use of external information during the compilation, review and disclosure of regular reports and important events.

(6) Declaration of the Board of Directors on responsibility for internal control

Under the supervision of the Board of Supervisors, the Board of Directors is responsible for the development, improvement and effective implementation of internal control with the help of the management directing daily operation of internal control. By developing integrated and effective internal control systems in accordance with applicable laws and regulations, the Company maintains compliant operation and secured assets in addition to keeping authentic, accurate and integral financial statements and information disclosures.

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(7) Development and implementation of the system of management of insider information sources

The Company has developed a System of management of Insider Information Sources to define the scope of insider information and its sources as well as registration, confidentiality, obligation and responsibility of the sources.

During the reporting period, no insider information sources have bought or sold any share of the Company by leveraging the information they possess prior to the disclosure of material sensitive information.

(8) Ensuring absence of the Company and its subsidiaries from the environmental protection authority's list of enterprises causing severe environmental pollution

No problems resulting in severe environmental pollution and other social concerns are found in the Company.

8.8 Cash dividends policy making and implementation

The Articles of Association provides for cash dividends as follows: "The Company may distribute dividends by cash or shares. The Company shall put high value on investors' return on investment and keep the dividends distribution policy running continuously and stably."

The Board of Directors shall work out the dividends distribution plan which shall be approved at the Shareholders Meeting by a resolution in accordance with the operating conditions of the Company.

A company which has made profits and fails to prepare any cash dividends distribution plan shall detail the reasons for such failure and the purpose that such cash dividends are reserved and used for.

During the reporting period, no cash dividend has been distributed by the Company.

8.9 Profit distribution/capital reserve-based capitalization proposal

According to the audit conducted by BDO China Shu Lun Pan Certified Accountants LLP, the Company has made a net profit amounting to RMB 346,932,350 Yuan in 2011. In accordance with the Company Law of the People's Republic of China and the Articles of Association, the Company will provide 10% of the net profit for legal capital reserve amounting to RMB 34,793, 235 Yuan and 10% for optional capital reserve equaling to RMB 17,396,638 Yuan. Therefore, the profit available for shareholders' distribution for the year 2011 works out to RMB 295,742,497 Yuan which, plus the undistributed profit of the previous year amounting to RMB 1,306,861,484 Yuan, results in a total undistributed profit of RMB 1,602,603,981 Yuan at the end of the year 2011.

In line with the future vision of the Company, the Board of Directors has agreed that no dividends will be distributed and no capital reserve will be capitalized in 2011. The undistributed profit will be used for the purposes of R&D and Xikang business expansion in 2012.

The sections mentioned above shall be approved at the Shareholders' Meeting.

8.10 Undistributed dividends or capitalization and dividends distribution from capital reserve in the past three years

Unit: RMB Yuan

Year	Number of bonus shares per 10 ordinary shares	Number of dividends (taxes included) per 10 ordinary shares	Number of shares converted by capital reserve per 10 ordinary shares	Amount of cash dividends (taxes included)	Net profit attributable to shareholders of listed companies recorded in the consolidated financial statements for distribution year	Percentage in net profit attributable to shareholders of listed companies recorded in the consolidated financial statements
2008	2.00	0.25	6.00	13,115,323	490,778,900	2.67
2009	0	2.00	3	188,860,653	640,590,492	29.48
2010	0	0	0	0	484,675,178	0

8.11 Independent directors' special explanations and independent opinions on the security provided by the Company for third parties

In accordance with the rules of China Securities Regulatory Commission relating to the securities provided by listed companies for third parties, independent directors have carried out special audits on the securities provided by the Company to third parties. In 2011, the Company has made decisions on the securities given to third parties subject to applicable laws and regulations of China and the Articles of Association in addition to complete information disclosure.

Independent directors: Fang Hongxing, Xue Lan and Gao Wen

(IX) Reports of the Board of Supervisors

9.1 Operation of the Board of Supervisors

During the reporting period, the Board of Supervisors held 4 sessions of meetings as follows:

(1) At the 16th session of the 5th meeting of the Board of Supervisors, the following reports and proposals were approved:

- a) Annual Report of the Board of Supervisors for 2010;
- b) Proposal on the Election of the Board of Supervisors;
- c) Annual Report for 2010;
- d) First Quarterly Report for 2011;
- e) Annual Financial Report for 2010;
- f) Proposal on Profit Distribution for 2010;
- g) Proposal on Employment of Financial Auditing Agency for 2011;
- h) Proposal on Execution of Route Related Transactions for 2010;
- i) Proposal on Estimate of Route Related Transactions for 2011;
- j) Proposal on Issuance of Short-term Financing Bonds and Medium-term Notes; and
- k) Proposal on Purchase of Wealth Management Products

(2) At the 1st session of the 6th meeting of the Board of Supervisors, the following resolutions were approved:

- a) Proposal on Election of Chairman of the Board of Supervisors
- b) Introduction to Members of the Board of Supervisors on behalf of Employees

(3) At the 2nd session of the 6th meeting of the Board of Supervisors held on August 24th, 2011, the *Full Text and Summary of Semi-annual Report 2011* was approved.

(4) At the 3rd session of the 6th meeting of the Board of Supervisors held on October 27th, 2011, the *Third Quarterly Report 2011* was approved.

9.2 Independent opinions of the Board of Supervisors on the Company's compliant operation

In 2011, the Company maintained compliant operations and decision making and developed complete internal control systems. Being aggressive, its directors and senior management carried on business compliantly and implemented the resolutions of the Shareholders' Meeting diligently without violation of any laws, regulation and the Articles of Association as well as impairment of the interest of shareholders and employees.

9.3 Independent opinions of the Board of Supervisors on the Company's financial performance

According to BDO China Shu Lun Pan Certified Public Accountants LLP, the financial statements for 2011 have indicated the financial and business performance of the Company on an objective and equitable basis.

9.4 Independent opinions of the Board of Supervisors on the Company's Paid-in Input to the Latest Financing

The Company made investments into the latest financing project as promised which played an important role in the development of the Company.

9.5 Independent opinions of the Board of Supervisors on assets acquisition and selling

The Company acquired and sold assets at reasonable prices and no insider transactions impairing the interest of shareholders or resulting in any loss of assets were found.

9.6 Independent opinions of the Board of Supervisors on the Company's related transactions

In 2011, the Company completed related transactions at fair prices, causing no damage to its interest.

9.7 Review and independent opinions of the Board of Supervisors on self-evaluation reports on internal control

062 | The Board of Supervisors reviewed and approved the *Self-evaluation Report on Internal Control*. By building integrated and effective internal control systems, the company developed a series of scientific systems covering decision making, execution and supervision to maintain a secured compliant operation. The Report has reflected the conditions of the company's internal control on a complete, authentic and accurate basis.

(X) Important issues

10.1 Material litigation and arbitration

In 2011, the Company was not involved in any material litigation and arbitration.

10.2 Bankruptcy reorganization and listing suspension or termination

In 2011, the Company has not experienced any bankruptcy reorganization.

10.3 Shareholding in other listed companies and share participation into financial businesses

In 2011, the Company has not received any shareholding from other listed companies nor engaged in any share participation into financial businesses.

10.4 Assets trading

(1) Assets acquisition

Unit: RMB Yuan

Counterparty or ultimate controller	Assets acquired	Date of acquisition	Acquisition price	Net profit contributed to the listed company from the date of acquisition to the end of 2011	Net profit contributed to the listed company from the beginning to the end of 2011 (Applicable to business combination under common control)	Is it a related transaction (Please give an explanation of pricing basis in case of a related transaction)?	Pricing basis for assets acquisition)	Are the property rights of assets involved fully transferred?	Are the claims and liabilities involved fully transferred?	Percentage of net profit contributed to the list company by the purchased assets against total net profit (%)	Is there any relevance?
Beijing Viewhigh Technology Co., Ltd., Intel China Ltd. and natural persons including Guo Xuewen, Duan Chenghui and Zhang Wei (Note)	73.14% of equity in Beijing Viewhigh Technology Co., Ltd. (Latter known as Beijing Neusoft Viewhigh Technology Co., Ltd. following acquisition)	August 2011	No more than RMB 114,101,440 Yuan	1,221,257	N/A	No	Market prices and those as agreed by the parties	Yes	Yes	0.29	No

Continued table

Counterparty or ultimate controller	Assets acquired	Date of acquisition	Acquisition price	Net profit contributed to the listed company from the date of acquisition to the end of 2011	Net profit contributed to the listed company from the beginning to the end of 2011 (Applicable to business combination under common control)	Is it a related transaction (Please give an explanation of pricing basis in case of a related transaction)?	Pricing basis for assets acquisition)	Are the property rights of assets involved fully transferred?	Are the claims and liabilities involved fully transferred?	Percentage of net profit contributed to the list company by the purchased assets gainst total net profit (%)	Is there any relevance?
Natural persons including Yue Liuping and Yin Sheng	All existing physical/intangible asset and partial employees of Shenzhen Lezhiyi Technology Co., Ltd. and Shenzhen Lezhiyuan Communication Co., Ltd.	September 2011	RMB 25 million Yuan	-1,698,703	N/A	No	Market prices and those as agreed by the parties	Yes	Yes	-0.41	No
Sinobest Information Technology Ltd. and Bohai International Trust Co., Ltd.	28.33% of equity in Beijing LBS Social Insurance Information Technology Co., Ltd.	August 2011	RMB 5,390,275 Yuan	-641,235	N/A	No	Market prices and those as agreed by the parties	Yes	Yes	-0.15	No

Note: For more information, please refer to the *Notice of Neusoft Corporation on Acquiring the Equity of Beijing Viewhigh Technology Co., Ltd.* published in China Securities Journal and Shanghai Securities News.

At the 5th session of the 6th meeting of the Board of Directors held on October 27th, 2011, the Proposal on Acquiring Assets in Tianjin was approved. The Board of Directors agreed that Neusoft Corporation (Tianjin) Co., Ltd., a subsidiary wholly owned by the Company will acquire the rights to use a land lot covering an area of 40,003 square meters located in Tianjin Free Trade Zone from Tianjin Port Free Trade Zone Investment Co., Ltd. as well as the ownership of a newly-built R&D office building with a floor area of 31,484 square meters and its facilities on the land lot. Through negotiation by the parties, the land use right was transferred at the rate of RMB 120 Yuan per square meter and the building on the land lot was priced based on project estimates. The total transfer price as agreed by the parties was no more than RMB 150 million Yuan. For more information, please refer to the notice of Neusoft Corporation on Resolutions of the 5th Session of the 6th Meeting of the Board of Directors published in the China Securities Journal and Shanghai Securities News. By the

end of the reporting period, the transfer of land use right has not been achieved as relevant ownership certificate of assets has not been made available.

(2) Sale of assets

Unit: RMB'0,000 Yuan

Counterparty	Sold assets	Date of sale	Selling price	Net profit contributed to the listed company by the sold assets from the beginning of 2011 to the date of sale	Gains/ losses from assets selling	Is it an related transaction (Please give an explanation of pricing basis in case of a related transaction)?	Pricing basis for assets selling	Are the property rights of assets involved fully transferred?	Are the claims and liabilities involved fully transferred?	Percentage of net profit contributed to the list company by the purchased assets against total net profit (%)	Is there any relevance?
Nanchang Biotech A&C Biotechnical Industry Incorporated Company	Intangible asset including design/process data, process data, patented/ non-patented technology, registration certificate, software & software copyright (including source code) and production documents, and fixed assets such as product-related tools, moulds and equipment	May 14, 2011	2,000	N/A	1,966	No	Market prices and those as agreed by the parties	Yes	Yes	4.71	No

10.5 Material related transactions that occurred in the reporting period

(1) Execution of estimated route related transactions for 2011 during the reporting period

Unit: RMB Yuan

Related transaction	Amount incurred in 2011	Total amount estimated in 2011	Percentage against total amount estimated in 2011
Raw material/finished product purchase	371,450,925	460,000,000	80.75%
Product/commodity selling	666,991,819	605,000,000	110.25%
Labor service receiving	5,210,855	2,000,000	260.54%
Labor service rendering	45,136,950	47,000,000	96.04%

(2) Related transactions in connection with normal business

Unit: RMB Yuan

Counterparty	Relevance	Related transaction	Pricing basis for related transaction	Amount	Rate of change over the previous year (%)	Percentage to the amount of similar transaction	Settling method of related transaction	Cause for material difference between transaction price and market reference price
Alpine Electronics Inc. and its subsidiaries (collectively referred to as "Alpine")	Hold more than 5% of the Company's equity	System integration/software selling	Market price	109,640,721	9.16	2.27	Cash settlement	N/A
Harman International Industries, Incorporated and its subsidiaries (collectively referred to as "Harman")	The Company's Chairman serves as director in Harman	System integration/software selling	Market price	206,724,653	116.78	4.28	Cash settlement	N/A
Toshiba Corporation and its subsidiaries (collectively referred to as "Toshiba")	Hold more than 5% of the Company's equity	System integration/software selling	Market price	164,878,360	5.20	3.41	Cash settlement	N/A

Continued table

Counterparty	Relevance	Related transaction	Pricing basis for related transaction	Amount	Rate of change over the previous year (%)	Percentage to the amount of similar transaction	Settling method of related transaction	Cause for material difference between transaction price and market reference price
Nokia Siemens Networks Neusoft Commtech Company ("Nokia Siemens Neusoft")	The Company's Chairman serves as its Vice Chairman	System integration/ software selling	Market price	132,531,471	13.19	2.74	Cash settlement	N/A
Philips and Neusoft Medical Systems Co., Ltd. ("Neusoft Philips")	The Company's Chairman serves as its Chairman	Raw material, finished product/ service purchase	Market price	363,490,009	-18.61	67.39	Cash settlement	N/A
Total	—	—	—	977,265,214	—	—	—	—

The amount of transactions with Alpine, Harman, Toshiba and Nokia Siemens Neusoft was equivalent to the accumulative amount of related transactions in its kind. By leveraging the advantages in software development, the Company provides Alpine, Harman, Toshiba and Nokia Siemens Neusoft with software products in the fields of in-car audio, navigation and industry solutions, thus generating stable and continuous income and promoting the development of its international software business.

The amount of related transactions with Neusoft Philips, mainly focusing on acquiring medical imaging systems including CT, MRI, X-ray and B-mode ultrasound systems from Neusoft Philips which was the production base for such medical imaging systems was equivalent to the accumulative amount of such transactions in 2011. By selling these products through its own channels, the Company helped the medical systems business develop on a scaled basis continuously.

(3) Related transactions caused by assets acquisition and selling

At the first interim Shareholders' Meeting 2011 held on December 22nd, 2011, the proposal on selling equity and other related educational assets of subsidiaries indirectly controlled by Neusoft Corporation was approved. According to this, the Company and Shenyang Neusoft Information Technology Services Co., Ltd., a subsidiary wholly owned by the Company (collectively referred to as the "Transferor") agreed to conclude the Transfer Agreement with Dalian Neusoft Holdings Co., Ltd. (the "Transferee"). In accordance with the Transfer Agreement, Shenyang Neusoft Information Technology Services Co., Ltd. will transfer its equity relating to educational assets and the Company will assign its contribution to Chengdu Neusoft Institute of Information, Nanhai Neusoft Institute of Information Technology, Dalian Neusoft Institute of Information and Dalian Neusoft Institute of Information Technology to Dalian Neusoft Holdings Co., Ltd. or any subsidiary assigned by it. In accordance with the assessment report issued by China Enterprise Appraisals Co., Ltd., the total appraisal

value of the said equity and contribution amounted to RMB 424,171,800 Yuan. Through negotiation, the Transferor and Transferee reached an agreement on the transfer price of RMB 442,343,800 Yuan, increasing the total appraisal value by 4.28%. For more information, please refer to the notice of Neusoft Corporation on the related transaction concerning the sale of equity and other related educational assets of its indirectly controlled subsidiaries as well as the notice of Neusoft Corporation on Resolutions of the First Interim Shareholders' Meeting 2011 published in China Securities Journal and Shanghai Securities News on December 7th and 23rd, 2011 respectively. By the end of the reporting period, the transfer of assets has not been achieved.

10.6 Major contracts and their performance

(1) Custody, contracting and leasing services generating profits accounting for 10% or more in current profit

a) Custody

The Company did not provide any custodian in 2011.

b) Contracting

The Company was not engaged in any contracting service in 2011.

c) Leasing

The Company was not engaged in any leasing service in 2011.

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(2) Security

Unit: RMB '0,000 Yuan

Security provided by the Company for third parties (Excluding the subsidiaries controlled by the Company)													
Guarantor	Relationship between the guarantor and listed company	Guarantee	Amount of the security	Date of security (Date of agreement)	Commencement date	Expiry date	Security type	Has the security been fulfilled?	Is the security overdue?	Default penalty for security	Is there any counter security	Is the security for the related party?	Relevance
Neusoft Corporation	Headquarters of the Company	Dalian Neusoft Institute of Information	5,000	2011.10.19	2012.03.19	2014.3.19	Joint and several liability security	No	No	0	No	Yes	The Company's Chairman serves as its Chairman
Neusoft Corporation	Headquarters of the Company	Dalian Neusoft Institute of Information	5,000	2011.11.07	2012.11.07	2014.04.20	Joint and several liability security	No	No	0	No	Yes	The Company's Chairman serves as its Chairman
Neusoft Corporation	Headquarters of the Company	Dalian Neusoft Institute of Information	5,000	2011.12.15	2012.12.14	2014.12.13	Joint and several liability security	No	No	0	No	Yes	The Company's Chairman serves as its Chairman

Continued table

Security provided by the Company for third parties (Excluding the subsidiaries controlled by the Company)													
Guarantor	Relationship between the guarantor and listed company	Guarantee	Amount of the security	Date of security (Date of agreement)	Commencement date	Expiry date	Security type	Has the security been fulfilled?	Is the security overdue?	Default penalty for security	Is there any counter security	Is the security for the related party?	Relevance
Neusoft Mobile Solutions Oy	A subsidiary indirectly wholly owned by the Company	Euler Hermes Luotto-vakuutus	4,500 European dollars	—	—	2012.03.15	Joint and several liability security	No	No	0	No	No	—
Total amount of security occurred in the reporting period (excluding that for the Company's subsidiaries)													-1,376
Total balance of security occurred the reporting period (excluding that for the Company's subsidiaries)													15,004
Security provided by the Company for its controlled subsidiaries													
Total amount of security for the Company's subsidiaries during the reporting period													0
Total balance of security for the Company's subsidiaries during the reporting period (B)													0
Total security provided by the Company (Excluding that for its controlled subsidiaries)													
Total security (A+B)													15,004
Percentage of total security to the Company's net assets (%)													3.21
Include:													
Amount of security for shareholders, ultimate controllers and their associates (C)													0
Amount of security directly or indirectly provided for guarantees whose asset/liability ration is more than 70% (D)													0
Amount of security amount exceeding 50% of net assets (E)													0
Total amount of security mentioned above (C+D+E)													0

a) The first three security items mentioned above refer to the proposal on the amount of security for bank loans of Dalian Neusoft Institute of Information that was approved at the 2009 Annual Shareholders' Meeting on June 3rd, 2010. In the said meeting, it was agreed that the company would provide a total amount of RMB 160 million Yuan as security for bank loans of Dalian Neusoft Institute of Information for two years from the approval date of the proposal.

b) For more information about the four security items mentioned above, please refer to the Important Notes provided in the Company's Semi-annual Report 2011. During the reporting period, Neusoft Mobile Solutions Oy fulfilled its obligation of counter-security amounting to 19,800 Euros.

(3) Other service

The dispute incurred by Neusoft (Europe) Co., Ltd. ("Neusoft Europe") and the bankruptcy curator of Sesca Group Oy ("SESCA") arising out of or in connection with the equity acquisition agreement and the purchase price (See the Important Issues or Events in the Annual Report 2010 and Semi-Annual Report 2011 of the Company) was filed at the Arbitration Court of Central Chamber of Commerce of Finland for settlement on May 20th, 2011. On January 9th, 2012, the parties entered into a dispute resolution agreement. According to the agreement, Neusoft Europe will pay 990,000 Euros to the bankruptcy curator of SESCO and it will have no obligation to pay

the remaining transaction price amounting to 1.8 million Euros provided that the parties shall, at their own cost, pay any expense arising from the dispute respectively incurred by them as well as the arbitration fees shared by them. This agreement shall not affect Neusoft's continuous role in the bankruptcy liquidation of SESCO as well as its relevant claims. The arbitration came to an end when Neusoft Europe paid 990,000 Euros to the bankruptcy curator of SESCO on January 19th, 2012.

(4) Other important contracts

During the reporting period, no other important contracts have been entered into by the Company.

10.7 Fulfillment of undertakings

Undertakings of listed company and shareholders that occurred or continued in the reporting period

The shareholders of the Company holding floating shares with trading restrictions have made the following undertakings upon stock acquisition:

No.	Undertaker	Undertaking	Fulfillment
1	Previous 10 shareholders who held floating shares with trading restrictions including NEU Science & Technology Industry Group Co., Ltd.	They will not transfer the issuers' shares they hold within three years from March 13 th , 2008 until the expiry of trading restrictions for such shares.	As the undertaking expires on the date of this report, these issuers' shares have been listed on the stock market.
2	NEU Science & Technology Industry Group Co., Ltd.	Undertaking with regard to the eight premises and one land lot for which the Company has not received any property right certificate as of September 30 th , 2007: In the event that the Company fails to receive the property right certificate for any of the said land lot or premises as of December 31 st , 2008 following the merge, NEU Science & Technology Industry Group Co., Ltd. will pay the Company in cash equivalent to the net assessable value of premises or land lot without a property right certificate (from December 31 st , 2006). The said payment in cash (excluding interest) will be refunded to NEU Science & Technology Industry Group Co., Ltd. provided that the property right certificates are made available for all of the said premises and land lot.	NEU Science & Technology Industry Group Co., Ltd. has paid the Company RMB 12,975,375 Yuan in cash as it undertook. At present, the Company is going through relevant procedures and it will refund the said payment (excluding any and/or all interest thereof) to NEU Science & Technology Industry Group Co., Ltd. following receipt of the said property right certificates.
3	NEU Science & Technology Industry Group Co., Ltd.	NEU Science & Technology Industry Group Co., Ltd. shall indemnify the Company for any and/or all economic losses against the issuers as a result of the security provided by the Company for third parties on the day prior to the emerge of the previous Neusoft Corporation following April 28 th , 2008 on incurred basis.	The said security provided by the Company has terminated upon the date of this report and the Company has suffered from no losses caused thereby. Thus, NEU Science & Technology Industry Group Co., Ltd. is under no obligation of the said undertaking.

Continued table

No.	Undertaker	Undertaking	Fulfillment
4	NEU Science & Technology Industry Group Co., Ltd.	In the event that any educational assets result in any loss against the issuers within five years from April 28 th , 2008, NEU Science & Technology Industry Group Co., Ltd. will acquire such assets in accordance with the Assessment Report (No.28 [2007] of CEA) issued by China Enterprise Appraisals Co., Ltd.	According to the resolution of the 1 st Interim Shareholders' Meeting 2011 held on December 22 nd , 2011, all educational assets would be sold at the price that is higher than the original contribution made by sponsors, causing no economic losses to the Company. Therefore, NEU Science & Technology Industry Group Co., Ltd. is under no obligation of the said undertaking. The sale of such assets has not been closed.

10.8 Employment and dismissal of CPA firm

At the 2010 Annual Shareholders' Meeting held on May 25th, 2011, the *Proposal on Employment of Financial Auditing Agency for 2011* was approved and the resolution relating to the appointment of BDO China Shu Lun Pan Certified Accountants LLP to perform financial auditing for 2011 was made. The service term was fixed from the date of approval at the 2010 Annual Shareholders' Meeting till the date of holding the 2011 Annual Shareholders' Meeting.

In 2011, BDO China Shu Lun Pan Certified Accountants LLP audited the Annual Report 2011 of the Company, for which the Company paid an amount of RMB 1.3 million Yuan. Till the end of the reporting period, BDO China Shu Lun Pan Certified Accountants LLP has performed auditing service for the Company for four years. Li Chen and Jiang Lijun, public certified accountants of BDO China Shu Lun Pan Certified Accountants were the authorized signatories on the relevant auditors' reports.

10.9 Punishments and rectifications received by the listed company, its directors, supervisors, senior management, shareholders and ultimate controllers

In 2011, the Company, its directors, supervisors, senior management and shareholders have not received any inspection orders, administrative punishment and public reprimand or censure from the China Securities Regulatory Commission or any stock exchange and have not engaged in any illegal dealings in shares.

10.10 Description of other important issues

No other important issues were encountered by the Company in 2011.

10.11 Index of information disclosure

Item	Newspaper and page for publishing index of information disclosure	Date of publication	Website and path for disclosing index of information disclosure
Notice of Neusoft Corporation on Acquiring the Equity of Beijing Viewhigh Technology Co., Ltd.	B008, China Securities Journal B22, Shanghai Securities News	January 1 st , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Listing of Floating Shares with Trading Restrictions	B004, China Securities Journal 48, Shanghai Securities News	March 5 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Changes in Shareholders' Equity	B004, China Securities Journal 20, Shanghai Securities News	March 21 st , 2011	www.sse.com.cn
Short Report of Neusoft Corporation on Changes in Equity	B004, China Securities Journal 20, Shanghai Securities News	March 21 st , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Judicial Freezing of Shareholders' Equity	B004, China Securities Journal 20, Shanghai Securities News	March 21 st , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Changes in and Transfer of Shareholders' Equity	A08, China Securities Journal B64, Shanghai Securities News	April 1 st , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Resolutions Made at the 25 th Session of Meeting of the 5 th Board of Directors	A24, China Securities Journal B16, Shanghai Securities News	April 14 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Capital Contribution of Neusoft (Europe) Co., Ltd. to Aerotel Medical Systems (1998) Ltd	A24, China Securities Journal B16, Shanghai Securities News	April 14 th , 2011	www.sse.com.cn
Annual Report of Neusoft Corporation 2010	B081, China Securities Journal B129, Shanghai Securities News	April 28 th , 2011	www.sse.com.cn
First Quarterly Report of Neusoft Corporation 2011	B081, China Securities Journal B129, Shanghai Securities News	April 28 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Resolutions Made at the 26 th Session of Meeting of the 5 th Board of Directors	B083, China Securities Journal B129, Shanghai Securities News	April 28 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Resolutions Made at the 16 th Session of Meeting of the 5 th Board of Supervisors	B083, China Securities Journal B130, Shanghai Securities News	April 28 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Estimates for Route Related Transactions Occurred in 2011	B083, China Securities Journal B130, Shanghai Securities News	April 28 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Shareholders' Meeting 2010	B083, China Securities Journal B130, Shanghai Securities News	April 28 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Resolutions Made at the 27 th Session of Meeting of the 5 th Board of Directors	B005, China Securities Journal B16, Shanghai Securities News	May 18 th , 2011	www.sse.com.cn

Continued table

Item	Newspaper and page for publishing index of information disclosure	Date of publication	Website and path for disclosing index of information disclosure
Notice of Neusoft Corporation on Resolutions of Shareholders' Meeting 2010	B005, China Securities Journal B11, Shanghai Securities News	May 26 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Resolutions Made at the 1 st Session of Meeting of the 6 th Board of Directors	B005, China Securities Journal B11, Shanghai Securities News	May 26 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Resolutions Made at the 1 st Session of Meeting of the 6 th Board of Supervisors	B005, China Securities Journal B11, Shanghai Securities News	May 26 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Resolutions Made at the 2 nd Session of Meeting of the 6 th Board of Directors	B005, China Securities Journal B16, Shanghai Securities News	July 19 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Related Transaction Concerning Establishment of and Financial Aid to Neusoft Xikang Holdings Co., Ltd. and Its Subsidiary	B005, China Securities Journal B16, Shanghai Securities News	July 19 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Resolutions Made at the 3 rd Session of Meeting of the 6 th Board of Directors	B162, China Securities Journal 171, Shanghai Securities News	August 27 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Amount of Security for Bank Loans of Neusoft (Europe) Co., Ltd., Neusoft (Japan) Co., Ltd. and Neusoft Corporation (Hong Kong) Co., Ltd.	B162, China Securities Journal 171, Shanghai Securities News	August 27 th , 2011	www.sse.com.cn
Summary of Semi-annual Report of Neusoft Corporation 2011	B162, China Securities Journal 171, Shanghai Securities News	August 27 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Approval for Issuing Short-term Financing Bonds and Medium-term Notes	B008, China Securities Journal 44, Shanghai Securities News	October 10 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Resolutions Made at the 5 th Session of Meeting of the 6 th Board of Directors	B022, China Securities Journal 17, Shanghai Securities News	October 29 th , 2011	www.sse.com.cn
Third Quarterly Report of Neusoft Corporation 2011	B022, China Securities Journal 17, Shanghai Securities News	October 29 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Resolutions Made at the 6 th Session of Meeting of the 6 th Board of Directors	B004, China Securities Journal B24, Shanghai Securities News	December 7 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Related Transaction Concerning the Sale of Its Indirectly Controlled Subsidiary and Other Related Educational assets	B004, China Securities Journal B24, Shanghai Securities News	December 7 th , 2011	www.sse.com.cn
Notice of Neusoft Corporation on the 1 st Session of Interim Shareholders' Meeting in 2011	B004, China Securities Journal B24, Shanghai Securities News	December 7 th , 2011	www.sse.com.cn

Continued table

Item	Newspaper and page for publishing index of information disclosure	Date of publication	Website and path for disclosing index of information disclosure
Notice of Neusoft Corporation on Resolutions Made at the 7 th Session of Meeting of the 6 th Board of Directors	B005, China Securities Journal B25, Shanghai Securities News	December 23 rd , 2011	www.sse.com.cn
Notice of Neusoft Corporation on Resolutions of the 1 st Session of Shareholders' Meeting in 2011	B005, China Securities Journal B25, Shanghai Securities News	December 23 rd , 2011	www.sse.com.cn

(XI) Financial Report

AUDITORS' REPORT TO SHAREHOLDERS OF NEUSOFT CORPORATION

Report No.: BDO [2012] 111331

We have audited the accompanying financial statements of Neusoft Corporation ("the Company"), which comprise the balance sheet/consolidated balance sheet as at December 31, 2011, the income statement/consolidated income statement, the cash flow statement/consolidated cash flow statement, the statement of changes in equity/the consolidated statement of changes in equity and the notes thereto for the year then ended.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements. This responsibility include: selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances; and designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Chinese Certified Public Accountants Auditing Standards. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of the financial statements 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 Company'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 financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises.

Li Chen/Jiang Lijun, Chinese Certified Accountants,
BDO CHINA SHU LUN PAN Certified Public Accountants LLP
Shanghai China
Date: March 29th, 2012

Neusoft Corporation
Balance Sheet at December 31
(Expressed in Renminbi unless otherwise indicated)

Assets	Note 13	Year-end balance	Year-begin balance
Current assets:			
Monetary capital		831,393,669	932,706,502
Trading financial assets		863,170	969,350
Notes receivable		3,042,407	4,172,400
Accounts receivable	13.1	512,545,772	352,624,613
Prepayments		42,660,634	36,230,144
Interest receivable		304,676	231,575
Dividend receivable			
Other receivables	13.2	231,779,851	476,272,599
Inventories		234,673,448	174,878,414
Non-current assets due within one year			
Other current assets		168,595,350	156,641,652
Subtotal		2,025,858,977	2,134,727,249
Non-current assets:			
Available-for-sale financial assets			
Held-to-maturity investment	13.3	401,931,507	
Long-term accounts receivable			
Long-term equity investment	13.4	2,149,288,869	1,574,164,020
Investment properties		305,082,712	298,593,107
Fixed assets		675,191,398	680,133,686
Construction in progress		9,967,715	2,270,340
Construction supplies			
Disposal of fixed assets			
Capitalized biological assets			
Oil & gas assets			
Intangible asset		141,016,756	136,049,697
Development expenditures			
Goodwill			
Long-term deferred expenses		11,667,429	11,762,482
Deferred tax assets		31,162,641	23,290,105
Other non-current assets			
Subtotal		3,725,309,027	2,726,263,437
Total		5,751,168,004	4,860,990,686

The accompanying Notes are integral part of these financial statements.

Neusoft's legal representative: Liu Jiren Neusoft's accounting principal: Wang Li Accounting body's principal: Chen Lei

Neusoft Corporation
Balance Sheet at December 31 (Continued)
(Expressed in Renminbi unless otherwise indicated)

Liabilities and owners' (shareholders') equity	Note 13	Year-end balance	Year-begin balance
Current liabilities			
Short-term borrowings		250,000,000	130,000,000
Trading financial liabilities		170,567	1,227,304
Notes payable		83,204,957	145,564,320
Accounts payable		367,795,074	341,416,967
Advance receipts		325,614,892	347,289,078
Employee pays payable		132,562,557	112,903,711
Taxes payable		28,775,208	-21,261,484
Interests payable			
Dividends payable			
Other payables		114,428,677	145,833,565
Non-current liabilities due within one year			
Other current liabilities			
Subtotal		1,302,551,932	1,202,973,461
Non-current liabilities:			
Long-term borrowings			
Bonds payable	13.5	403,658,667	
Long-term accounts payable		134,501,075	134,501,075
Special accounts payable			
Estimated liabilities		11,890,630	10,162,649
Deferred tax liabilities		86,317	96,935
Other non-current liabilities		126,805,810	89,515,343
Subtotal		676,942,499	234,276,002
Total		1,979,494,431	1,437,249,463
Owners' (shareholders') equity			
Paid-in capital (share capital)		1,227,594,245	1,227,594,245
Capital reserves		353,061,885	353,061,885
Less: treasury stocks			
Special reserves			
Surplus reserves		588,413,462	536,223,609
General risk provisions			
Undistributed profits		1,602,603,981	1,306,861,484
Subtotal		3,771,673,573	3,423,741,223
Total		5,751,168,004	4,860,990,686

The accompanying Notes are integral part of these financial statements.

Neusoft's legal representative: Liu Jiren Neusoft's accounting principal: Wang Li Accounting body's principal: Chen Lei

Neusoft Corporation
Consolidated Balance Sheet at December 31
(Expressed in Renminbi unless otherwise indicated)

Assets	Note 5	Year-end balance	Year-begin balance
Current assets:			
Monetary capital	5.1	1,738,515,965	1,690,979,107
Deposit reservation for balance			
Lendings to banks and other financial institutions			
Trading financial assets	5.2	863,170	969,350
Notes receivable	5.3	36,215,245	12,798,400
Accounts receivable	5.4	1,161,288,549	959,725,130
Prepayments	5.6	57,312,087	51,875,861
Premiums receivable			
Cession premiums receivable			
Provision of cession receivable			
Interests receivable			
Dividends receivable			
Other receivables	5.5	179,486,463	172,339,920
Securities purchased under resale agreements			
Inventories	5.7	585,158,868	486,823,705
Non-current assets due within one year			
Other current assets	5.8	14,262,836	10,313,513
Subtotal		3,773,103,183	3,385,824,986
Non-current assets:			
Disbursement of entrusted loans and advances			
Available-for-sale financial assets			
Held-to-maturity investment	5.9	401,931,507	
Long-term accounts receivable	5.10	150,710,187	283,406,306
Long-term equity	5.12	703,226,389	614,836,497
Investment properties	5.13	438,134,937	437,011,923
Fixed assets	5.14	1,395,400,942	1,429,649,069
Construction in progress	5.15	307,799,158	84,731,103
Construction supplies			
Disposal of fixed assets			
Capitalized biological assets			
Oil & gas assets			
Intangible asset	5.16	428,316,641	388,855,100
Development expenditures			
Goodwill	5.17	227,376,502	144,880,456
Long-term deferred expenses	5.18	53,694,146	54,917,207
Deferred tax assets	5.19	45,591,522	34,767,158
Other non-current assets			
Subtotal		4,152,181,931	3,473,054,819
Total		7,925,285,114	6,858,879,805

The accompanying Notes are integral part of these financial statements.

Neusoft's legal representative: Liu Jiren Neusoft's accounting principal: Wang Li Accounting body's principal: Chen Lei

Neusoft Corporation
Consolidated Balance Sheet at December 31 (Continued)
(Expressed in Renminbi unless otherwise indicated)

Liabilities and owners' (shareholders') equity	Note 5	Year-end balance	Year-begin balance
Current liabilities:			
Short-term borrowings	5.21	470,000,000	160,000,000
Borrowings from central bank			
Customers and interbank deposits			
Borrowings from bank and other financial institutions			
Trading financial liabilities	5.22	170,567	1,227,304
Notes payable	5.23	83,204,957	145,564,320
Accounts payable	5.24	543,996,141	566,932,526
Advance receipts	5.25	452,920,955	437,504,595
Securities sold under repurchase agreements			
Fees and commissions payable			
Employee pays payable	5.26	292,042,551	229,463,755
Taxes payable	5.27	67,567,092	685,326
Interest payable		205,724	280,005
Dividend payable			
Other payables	5.28	149,882,015	160,184,537
Cession insurance premiums payable			
Provision for insurance contracts			
Acting trading securities			
Acting underwriting securities			
Non-current liabilities due within one year	5.30		136,060,526
Other current liabilities		71,666	21,336
Subtotal		2,060,061,668	1,837,924,230
Non-current liabilities:			
Long-term borrowings	5.31	104,000,000	129,000,000
Bonds payable	5.32	403,658,667	
Long-term accounts payable	5.33	134,609,431	134,609,431
Special accounts payable			
Estimated liabilities	5.29	15,686,425	13,631,955
Deferred tax liabilities	5.19	2,409,781	2,629,393
Other non-current liabilities	5.34	189,735,874	155,872,325
Subtotal		850,100,178	435,743,104
Total		2,910,161,846	2,273,667,334

Continued table

Liabilities and owners' (shareholders') equity	Note 5	Year-end balance	Year-begin balance
Owners' (shareholders') equity			
Paid-in capital (share capital)	5.35	1,227,594,245	1,227,594,245
Capital reserves	5.36	362,247,201	363,002,779
Less: treasury stocks			
Special reserves			
Surplus reserves	5.37	596,703,714	544,513,861
General risk provisions			
Undistributed profits	5.38	2,536,698,174	2,171,819,047
Converted difference in foreign currency statements		-48,565,779	-26,721,620
Total owners' equity attributable to parent company		4,674,677,555	4,280,208,312
Minority interest		340,445,713	305,004,159
Subtotal		5,015,123,268	4,585,212,471
Total		7,925,285,114	6,858,879,805

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The accompanying Notes are integral part of these financial statements.

Neusoft's legal representative: Liu Jiren Neusoft's accounting principal: Wang Li Accounting body's principal: Chen Lei

Neusoft Corporation
Income Statement 2011

(Expressed in Renminbi unless otherwise indicated)

Item	Note 13	Amount in this period	Amount in previous period
1. Revenue from operations	13.6	3,027,330,275	2,660,986,880
Less: operating costs	13.6	2,193,319,213	1,962,554,694
Business taxes and surtaxes		55,114,928	45,005,550
Sales expenses		153,527,526	123,679,115
Administrative expenses		354,954,095	311,935,243
Financial expenses		5,338,347	-9,855,196
Impairment loss on assets		12,104,692	-5,822,840
Add: Income from change in fair value ("-" for loss)		950,557	-694,314
Investment income ("-" for loss)	13.7	14,018,085	-9,218,107
Including: Income from investment on associates and joint ventures		6,038,618	7,719,289
2. Operating profit ("-" for loss)		267,940,116	223,577,893
Add: Non-operating incomes		115,768,235	99,196,479
Less: Non-operating expenses		3,391,560	1,609,671
Including: Loss on disposal of non-current assets		1,594,749	418,598
3. Total profit ("-" for loss)		380,316,791	321,164,701
Less: Income tax		32,384,441	28,508,127
4. Net profit ("-" for loss)		347,932,350	292,656,574
5. Earning per share (EPS):			
(1) Basic EPS			
(2) Diluted EPS			
6. Other composite income			
7. Total composite income		347,932,350	292,656,574

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The accompanying Notes are integral part of these financial statements.

Neusoft's legal representative: Liu Jiren Neusoft's accounting principal: Wang Li Accounting body's principal: Chen Lei

Neusoft Corporation
Consolidated Income Statement 2011
(Expressed in Renminbi unless otherwise indicated)

Item	Note 5	Amount in this period	Amount in previous period
1. Revenue from operations		5,751,249,330	4,937,696,440
Including: Operating income	5.39	5,751,249,330	4,937,696,440
Interest income			
Earned premium			
Fee and commission income			
2. Total cost of operations		5,484,036,286	4,575,632,186
Including: Operating costs	5.39	4,004,998,405	3,383,628,845
Interest expenses			
Fee and commission expenses			
Retirement pension			
Net compensation expenses			
Net reserves for reinsurance contract			
Policy dividend expenses			
Reinsurance expenses			
Business taxes and surtaxes	5.40	96,105,687	81,195,180
Sales expenses	5.41	497,920,161	391,904,135
Administrative expenses	5.42	819,957,825	713,916,675
Financial expenses	5.43	23,649,196	-356,749
Impairment loss on assets	5.46	41,405,012	5,344,100
Add: Income from change in fair value ("-" for loss)	5.44	950,557	-694,314
Investment income ("-" for loss)	5.45	42,136,578	46,121,940
Including: Income from investment on associates and joint ventures		39,714,198	46,038,503
Exchange income ("-" for loss)			
3. Operating profit ("-" for loss)		310,300,179	407,491,880
Add: Non-operating incomes	5.47	188,085,954	160,821,056
Less: Non-operating expenses	5.48	5,499,473	8,207,608
Including: Loss on disposal of non-current assets		2,748,601	2,540,307
4. Total profit ("-" for loss)		492,886,660	560,105,328
Less: Income tax	5.49	69,341,108	52,802,832
5. Net profit ("-" for loss)		423,545,552	507,302,496
Including: Net profit of the merged party which has been realized prior to the combination			
Net profit attributable to the shareholders of the parent company		417,068,980	484,675,178
Minority interest		6,476,572	22,627,318
6. EPS:			
(1) Basic EPS	5.50	0.34	0.39
(2) Diluted EPS	5.50	0.34	0.39
7. Other composite income	5.51	-22,413,285	-7,899,412
8. Total composite income		401,132,267	499,403,084
Total composite income attributable to the shareholders of the parent company		394,468,919	476,775,766
Total composite income attributable to minority shareholders		6,663,348	22,627,318

The accompanying Notes are integral part of these financial statements.

Neusoft's legal representative: Liu Jiren Neusoft's accounting principal: Wang Li Accounting body's principal: Chen Lei

Neusoft Corporation
Cash Flow Statement 2011

(Expressed in Renminbi unless otherwise indicated)

Item	Amount in this period	Amount in previous period
1. Cash flow from operating activities		
Cash received from the sales of products or provision of labor services	3,015,281,197	2,857,963,512
Tax refund	58,520,232	27,667,471
Other cash receipts relating to operating activities	1,325,930,211	719,099,113
Subtotal	4,399,731,640	3,604,730,096
Cash paid for goods and labor services	3,048,007,907	2,407,717,254
Cash paid to and for employees	607,331,520	546,872,113
Payments for taxes	144,833,142	163,672,616
Other cash payments relating to operating activities	183,083,465	168,163,985
Subtotal	3,983,256,034	3,286,425,968
Net cash flow from operating activities	416,475,606	318,304,128
2. Cash flow from investment activities		
Cash received from disinvestment		
Cash received from investment income	6,047,960	1,390,458
Net cash received from disposal of fixed assets, intangible asset and other long-lived assets	25,126,894	387,866
Net cash received from disposal of subsidiaries and other operating units		
Other cash received relating to investment activities	126,446,883	142,366,194
Subtotal	157,621,737	144,144,518
Cash paid for purchase/construction of fixed assets, intangible asset and other long-lived assets	123,858,787	68,487,171
Cash paid for investment	400,000,000	
Net cash received from subsidiaries and other operating units	544,151,832	222,282,520
Other cash payments relating to investment activities	109,149,331	183,299,046
Subtotal	1,177,159,950	474,068,737
Net cash flow from investment activities	-1,019,538,213	-329,924,219
3. Cash flow from financing activities		
Cash received from investors		
Cash received from borrowings	300,000,000	130,000,000
Cash received from issuing bonds	400,000,000	

Continued table

Item	Amount in this period	Amount in previous period
Other cash received relating to financing activities		
Subtotal	700,000,000	130,000,000
Cash paid for borrowings	180,000,000	
Cash paid for dividends, profit distribution or interest expenses	14,325,313	176,224,398
Other cash paid relating to financing activities	1,242,000	
Subtotal	195,567,313	176,224,398
Net cash flow from financing activities	504,432,687	-46,224,398
4. Effect of change in exchange rate on cash and cash equivalents	-2,682,913	-1,524,827
5. Net increase of cash and cash equivalents	-101,312,833	-59,369,316
Add: Year-begin cash and cash equivalent balance	932,706,502	992,075,818
6. Year-end cash and cash equivalent balance	831,393,669	932,706,502

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The accompanying Notes are integral part of these financial statements.

Neusoft's legal representative: Liu Jiren Neusoft's accounting principal: Wang Li Accounting body's principal: Chen Lei

Neusoft Corporation
Consolidated Cash Flow Statement 2011
(Expressed in Renminbi unless otherwise indicated)

Item	Note 5	Amount in this period	Amount in previous period
1. Cash flow from operating activities			
Cash received from the sales of products or provision of labor services		5,904,584,629	4,981,750,925
Net increase of customer deposits and inter-bank deposits			
Net increase of loans from central bank			
Net increase of borrowings from other financial institutions			
Cash received from primary insurance premium			
Net cash received from reinsurance business			
Net increase of policy holder reserve and investment fund			
Net increase of disposal of trading financial assets			
Cash received from interests, fees and commissions			
Net increase of borrowings from banks and other financial institutions			
Net increase of repurchase business fund			
Tax refund		91,508,307	47,906,852
Other cash receipts relating to operating activities	5.52	341,055,750	215,378,655
Subtotal		6,337,148,686	5,245,036,432
Cash paid for goods and labor services		2,888,590,902	2,166,788,694
Net increase of loans and advances to customers			
Net increase of deposits in central bank and other banks			
Cash paid for primary insurance indemnity			
Cash paid for interests, fees and commissions			
Cash paid for policy dividend			
Cash paid to and for employees		2,327,332,220	1,944,537,687
Payments for taxes		337,820,086	319,780,146
Other cash payments relating to operating activities	5.52	483,208,874	432,040,375
Subtotal		6,036,952,082	4,863,146,902
Net cash flow from operating activities		300,196,604	381,889,530
2. Cash flow from investment activities			
Cash received from disinvestment			57,143
Cash received from investment income		24,010,000	24,010,000
Net cash received from disposal of fixed assets, intangible asset and other long-lived assets		158,526,740	81,113,246

Continued table

Item	Note 5	Amount in this period	Amount in previous period
Net cash received from disposal of subsidiaries and other operating units			12,920,000
Other cash received relating to investment activities	5.52	15,905,244	24,670,000
Subtotal		198,441,984	142,770,389
Cash paid for purchase/construction of fixed assets, intangible asset and other long-lived assets		412,253,867	333,603,072
Cash paid for investment		400,000,000	
Net increase of pledged loan			
Net cash received from subsidiaries and other operating units		153,044,444	15,100,935
Other cash payments relating to investment activities	5.52	2,400,926	18,630,355
Subtotal		967,699,237	367,334,362
Net cash flow from investment activities		-769,257,253	-224,563,973
3. Cash flow from financing activities			
Cash received from investors		21,561,981	2,025,000
Including: cash received from investment absorption of minority shareholders by subsidiaries		21,561,981	2,025,000
Cash received from borrowings		677,000,000	190,000,000
Cash received from issuing bonds		400,000,000	
Other cash received relating to financing activities			
Subtotal		1,098,561,981	192,025,000
Cash paid for borrowings		533,277,160	93,000,000
Cash paid for dividends, profit distribution or interest expenses		34,665,024	186,612,228
Including: Dividends & profits paid to minority shareholders by subsidiaries		3,244,741	702,246
Other cash paid relating to financing activities	5.52	1,242,000	
Subtotal		569,184,184	279,612,228
Net cash flow from financing activities		529,377,797	-87,587,228
4. Effect of change in exchange rate on cash and cash equivalents		-11,589,325	2,251,732
5. Net increase of cash and cash equivalents		48,727,823	71,990,061
Add: Year-begin cash and cash equivalent balance		1,687,979,107	1,615,989,046
6. Year-end cash and cash equivalent balance		1,736,706,930	1,687,979,107

The accompanying Notes are integral part of these financial statements.

Neusoft's legal representative: Liu Jiren Neusoft's accounting principal: Wang Li Accounting body's principal: Chen Lei

Neusoft Corporation

Statement of Changes in Equity 2011

(Expressed in Renminbi unless otherwise indicated)

Item	Amount in this period						Total	
	Paid-in capital (share capital)	Capital reserves	Less: Treasury shares	Special reserves	Surplus reserves	General risk provisions		Undistributed profits
1. Balance at the end of 2010	1,227,594,245	353,061,885			536,223,609		1,306,861,484	3,423,741,223
Add: Change in accounting policies								
Prior-period error correction								
Other								
2. Balance at the beginning of 2011	1,227,594,245	353,061,885			536,223,609		1,306,861,484	3,423,741,223
3. Change through 2011 ("-" for decrease)					52,189,853		295,742,497	347,932,350
(1) Net profit							347,932,350	347,932,350
(2) Other composite income								
Subtotal of (1) & (2)								
(3) Capital paid in and reduced by owners								
1) Capital paid in by owners								
2) Amounts of share-based payments recognized in owners' equity								
3) Other								
(4) Dividends					52,189,853		-52,189,853	
1) Appropriation of surplus reserves					52,189,853		-52,189,853	
2) Appropriation of general risk provisions								
3) Dividends to owners (shareholders)								
4) Other								
(5) Internal carry-over of shareholders' equities								
1) Capitalized capital reserves								
2) Capitalized surplus reserves								
3) Surplus reserves for making up losses								
4) Other								
(6) Special reserves								
1) Appropriation								
2) Use								
3) Other								
4. Balance at the end of 2011	1,227,594,245	353,061,885			588,413,462		1,602,603,981	3,771,673,573

The accompanying Notes are integral part of these financial statements.

Neusoft's legal representative: Liu Jiren Neusoft's accounting principal: Wang Li Accounting body's principal: Chen Lei

Neusoft Corporation

Statement of Changes in Equity 2011 (Continued)

(Expressed in Renminbi unless otherwise indicated)

Item	Amount in previous period								Total
	Paid-in capital (share capital)	Capital reserves	Less: Treasury shares	Special reserves	Surplus reserves	Genera risk provisions	Undistributed profits		
1. Balance at the end of 2010	944,303,265	636,352,865			492,325,123		1,246,964,049	3,319,945,302	
Add: Changes in accounting policies									
Prior-period error correction									
Other									
2. Balance at the beginning of 2011	944,303,265	636,352,865			492,325,123		1,246,964,049	3,319,945,302	
3. Changes through 2011 (“-” for decrease)	283,290,980	-283,290,980			43,898,486		59,897,435	103,795,921	
(1) Net profit							292,656,574	292,656,574	
(2) Other composite income									
Subtotal of (1) & (2)							292,656,574	292,656,574	
(3) Capital paid in and reduced by owners									
1) Capital paid in by owners									
2) Amounts of share-based payments recognized in owners' equity									
3) Other									
(4) Dividends									
1) Appropriation of surplus reserves					43,898,486		-232,759,139	-188,860,653	
2) Appropriation of general risk provisions					43,898,486		-43,898,486		
3) Dividends to owners (shareholders)									
4) Other									
(5) Internal carry-over of shareholders' equities	283,290,980	-283,290,980							
1) Capitalized capital reserves	283,290,980	-283,290,980							
2) Capitalized surplus reserves									
3) Surplus reserves for making up losses									
4) Other									
(6) Special reserves									
1) Appropriation									
2) Use									
(7) Other									
4. Balance at the end of 2011	1,227,594,245	353,061,885			536,223,609		1,306,861,484	3,423,741,223	

The accompanying Notes are integral part of these financial statements.

Neusoft's legal representative: Liu Jiren Neusoft's accounting principal: Wang Li Accounting body's principal: Chen Lei

Neusoft Corporation

Consolidated Statement of Changes in Equity 2011

(Expressed in Renminbi unless otherwise indicated)

Item	Amount in this period										Total
	Equity attributable to parent company										
	Paid-in capital (share capital)	Capital reserves	Less: Treasury shares	Special reserves	Surplus reserves	General risk provisions	Undistributed profits	Other	Minority interest		
1. Balance at the end of 2010	1,227,594,245	363,002,779			544,513,861		2,171,819,047	-26,721,620	305,004,159	4,585,212,471	
Add: Changes in accounting policies											
Prior-period error correction											
Other											
2. Balance at the beginning of 2011	1,227,594,245	363,002,779			544,513,861		2,171,819,047	-26,721,620	305,004,159	4,585,212,471	
3. Change through 2011 ("-" for decrease)		-755,578			52,189,853		364,879,127	-21,844,159	35,441,554	429,910,797	
(1) Net profit							417,068,980		6,476,572	423,545,552	
(2) Other composite income		-755,902					-21,844,159		186,776	-22,413,285	
Subtotal of (1) & (2)		-755,902					417,068,980	-21,844,159	6,663,348	401,132,267	
(3) Capital paid in and reduced by owners		324							32,022,947	32,023,271	
1) Capital paid in by owners		324							32,925,491	32,925,815	
2) Amounts of share-based payments recognized in owners' equity											
3) Other									-902,544	-902,544	
(4) Dividends									-3,244,741	-3,244,741	
1) Appropriation of surplus reserves					52,189,853		-52,189,853				
2) Appropriation of general risk provisions					52,189,853		-52,189,853				
3) Dividends to owners (shareholders)											
4) Other									-3,244,741	-3,244,741	
(5) Internal carry-over of shareholders' equities											
1) Capitalized capital reserves											
2) Capitalized surplus reserves											
3) Surplus reserves for making up losses											
4) Other											
(6) Special reserves											
1) Appropriation											
2) Use											
(7) Others											
4. Balance at the end of 2011	1,227,594,245	362,247,201			596,703,714		2,536,698,174	-48,565,779	340,445,713	5,015,123,268	

The accompanying Notes are integral part of these financial statements.

Neusoft's legal representative: Liu Jiren Neusoft's accounting principal: Wang Li Accounting body's principal: Chen Lei

Neusoft Corporation
Consolidated Statement of Changes in Equity 2011 (Continued)

(Expressed in Renminbi unless otherwise indicated)

Item	Amount in previous period										Total
	Paid-in capital (share capital)	Capital reserves	Less: Treasury shares	Special reserves	Surplus reserves	General risk provisions	Undistributed profits	Others	Minority interest	Total	
1. Balance at the end of 2010	944,303,265	646,365,703			500,615,375		1,925,100,542	-18,822,208		275,328,049	4,272,890,726
Add: Changes in accounting policies							26,458			-26,458	
Prior-period error correction											
Other											
2. Balance at the beginning of 2011	944,303,265	646,365,703			500,615,375		1,925,127,000	-18,822,208		275,301,591	4,272,890,726
3. Change through 2011 ("-" for decrease)	283,290,980	-283,362,924			43,898,486		246,692,047	-7,899,412		29,702,568	312,321,745
(1) Net profit							484,675,178			22,627,318	507,302,496
(2) Other composite income								-7,899,412		-7,899,412	-7,899,412
Subtotal of (1) & (2)							484,675,178	-7,899,412		22,627,318	499,403,084
(3) Capital paid in and reduced by owners		-71,944					-5,223,992			7,777,496	2,481,560
1) Capital paid in by owners		-71,944					-5,223,992			8,133,230	2,837,294
2) Amounts of share-based payments recognized in owners' equity											
3) Other											
(4) Dividends										-355,734	-355,734
1) Appropriation of surplus reserves							-232,759,139			-702,246	-189,562,899
2) Appropriation of general risk provisions							-43,898,486				
3) Dividends to owners (shareholders)											
4) Other										-702,246	-189,562,899
(5) Internal carry-over of shareholders' equities	283,290,980	-283,290,980									
1) Capitalized capital reserves	283,290,980	-283,290,980									
2) Capitalized surplus reserves											
3) Surplus reserves for making up losses											
4) Other											
(6) Special reserves											
1) Appropriation											
2) Use											
(7) Other											
4. Balance at the end of 2011	1,227,594,245	363,002,779			544,513,861		2,171,819,047	-26,721,620		305,004,159	4,585,212,471

The accompanying Notes are integral part of these financial statements.

Neusoft's legal representative: Liu Jiren Neusoft's accounting principal: Wang Li Accounting body's principal: Chen Lei

Neusoft Corporation

Notes to Financial Statements 2011

Note 1 Company Profile

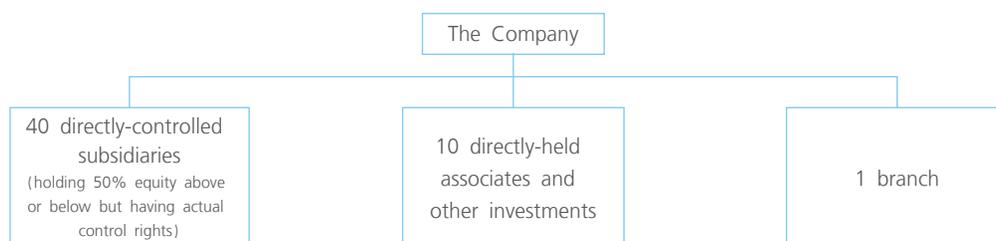
Neusoft Corporation (“the Company”), formerly “Shenyang Neusoft Co., Ltd.”, is a Sino-foreign joint venture duly organized and registered in the People’s Republic of China, under the approval and authorization numbered (1993) 47 by Shenyang Economic System Reform Commission on June 7th, 1993. The registration number of the Company’s Business License is 210100402001491. In June 1996, the Company was listed on Shanghai Stock Exchange in the category of IT.

The company came from two college start-ups of the Northeastern University, OPENSOFTE System Co., Ltd. of Northeast Institute of Technology (“OPENSOFTE System”) and Shenyang Neu-Alpine Software Co., Ltd. (“Neu-Alpine Software”). OPENSOFTE System was incorporated as a high-tech company in Shenyang National New and High-tech Industrial Development Zone, formerly known as Shenyang Nanhua Sci-tech Development Zone, in April 1991; it was also one of the earliest high-tech companies going through ownership restructuring in the Zone. Neu-Alpine Software was a joint venture established in June 1991 with Alpine Electronics Inc. In June 1993, the Company initiated its shareholding reform program. On May 9th, 1996, under the authorization of China Securities Regulatory Commission (“CSRC”), the Company issued 15 million shares of common stocks during its domestic initial public offering; on June 18th, 1996, the Company was listed on the Shanghai Stock Exchange. On February 5th, 2004, Neusoft Group Ltd., the original controlling shareholder of the Company, acquired the foreign legal person’s shares held by Alpine Electronic (China) Co., Ltd., formerly the Company’s second largest shareholder. The Company hereto became a domestic-funded stock corporation after finishing Registration of Change on March 5th, 2004. On March 27th, 2006, the Company’s Meeting of Shareholders approved its Split Share Structure Reform Proposal; further, on April 7th, 2006, Neusoft Group Ltd. completed the payment to shareholders of tradable shares with 28,314,574 shares and cash of RMB 41,339,277 Yuan (2.5 shares and 3.65 Yuan for every 10 tradable shares). With the same total shares as before, the Company’s stock structure was changed after the reform. The Company merged Neusoft Group Ltd. on January 16th, 2008 and finished corresponding share registration and cancellation procedures in Shanghai Branch of China Securities Depository and Clearing Corporation Limited under the authorization of CSRC on March 11th, 2008. After the registration of cancellation on April 28th, 2008, the Company became a Sino-foreign joint venture with 28.62% of shares owned by foreign shareholders. On May 30th, 2008, the Meeting of Shareholders for Year 2007 approved the change of company name from “Shenyang Neusoft Co., Ltd.” to “Neusoft Corporation”. On June 5th, 2008, the Company finished registration of changes in name and domicile. On October 29th, 2008, the Company carried out 2008 Half-yearly Profit Distribution and Share Capital Raise Program, under which, based on total share capital of 524,612,925 shares as at June 30th, 2008, bonus shares were distributed to all shareholders on a 2-for-10 basis, and capital reserves were converted into share capital on a 6-for-10 basis. Total 419,690,340 shares were distributed and converted, increasing the Company’s registered capital to RMB 944,303,265 Yuan. In July 2010, the Company executed 2009 Profit Distribution and Share Capital Raise Program, under which, based on total share capital of 524,612,925 shares as at December 31st, 2009, capital reserves were converted into share capital on a 3-for-10 basis. Total 283,290,980 shares were converted, increasing the Company’s registered capital to RMB 1,227,594,245 Yuan. On March 14th, 2011, 900,294,040 tradable shares held by the Company’s shareholders such as Northeastern University Science & Technology Industry Group Co., Ltd., subject to trading restrictions, were listed. Till then, all the Company’s 1,227,594,245 shares were tradable shares without trading restrictions hereto.

As at December 31st, 2011, the Company and its subsidiaries (“the Group”) have evolved into a high-tech complex specialized in in-

dustry solutions, product engineering solutions related software products/platform and services through seamless integration of software and services, and manufacturing/sales of digital medical systems covering CT, X-ray, Color Doppler Ultrasound and Nuclear Magnetic Resonance, etc. The Company's registered address is at No. 2 Xinxu Street, Hunnan New District, Shenyang, China; and the headquarter is located at Neusoft Software Park, No. 2 Xinxu Street, Hunnan New District, Shenyang, China.

As at December 31st, 2011, the Company's corporate structure is as follows:



Note 2 Principal Accounting Policies, Accounting Estimates and Errors

2.1 Basis of Preparation of the Financial Statements

092 | These Financial Statements have been prepared on the basis of the Company's continuous operations and actually occurred transactions and events in accordance with the Accounting Standards for Business Enterprises, including the Basic Standards and 38 detailed standards issued by the Ministry of Finance of the People's Republic of China on February 15th, 2006 and the subsequently issued application guide, interpretations and other relevant provisions ("hereafter collectively referred to as "Accounting Standards for Business Enterprises"), as well as the Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No.15: General Requirements for Financial Reports (revision 2010) issued by the CSRC.

2.2 Statement of Compliance with the Accounting Standards for Business Enterprises

The Company's Financial Statements have been prepared in accordance with the Accounting Standards for Business Enterprises and give a true and fair view of the Company's financial position, results of operations, cash flows and other relevant information obtained and applied in 2011.

2.3 Accounting Period

The accounting period is from January 1 to December 31, 2011.

2.4 Functional Currency

The functional currency of the Company is Chinese Renminbi (RMB).

The functional currencies of the Company's overseas subsidiaries/units are based on local currencies and translated into RMB when preparing the Financial Statements.

2.5 Accounting Methods for Business Combination

2.5.1 Business combination under common control

The assets and liabilities obtained by the Company through business combination under common control shall be measured on the basis of their book values within the acquiree on the acquisition date. If the accounting policies adopted by the acquiree are different from that of the Company, the Company shall, on the acquisition date, adjust the book values according to its accounting policies and recognize the assets and liabilities based on the book values after the adjustment.

The difference between the book value of the net assets obtained from the acquisition and that of the acquisition consideration (or

the total amount of par value of the shares issued) shall be firstly offset against capital surplus and then debited to retained earnings if the capital surplus is insufficient for offsetting.

The Company's direct costs arising from the business combination, including the expenses for audit, assessment and legal services shall be included in current profit and loss statement (P&L).

The handling fees, commissions and other expenses for the issuance of equity securities for the business combination shall be firstly offset against the surplus revenue from equity securities and then debited to retained earnings if the surplus revenue is insufficient for offsetting.

2.5.2 Business combination under non-common control

The assets paid and liabilities assumed by the Company through business combination not under common control on the acquisition date shall be measured by their fair values. The difference between their fair values and book values shall be included in current P&L.

The Company shall allocate the combination costs on the acquisition date and recognize the fair values of all identifiable assets, liabilities and contingent liabilities obtained from the acquiree.

If the combination cost exceeds the fair value of the identifiable net assets obtained from the acquiree, the difference shall be recognized as goodwill; otherwise, it will be included in current P&L after review.

As for all the other assets excluding intangible asset acquired from the acquiree in the combination (not limited to the assets which have been recognized by the acquiree), if the economic benefit brought by them is likely to flow in the Company and their fair values can be measured reliably, they shall be separately recognized and measured by their fair values; for any intangible asset, if its fair value can be measured reliably, it shall be separately recognized as intangible asset and measured at fair value; for all the other liabilities excluding contingent liabilities, if the performance of the relevant obligations is likely to result in any out-flow of economic benefits from the Company, and their fair values can be measured reliably, they shall be separately recognized and measured at fair value; and for the contingent liabilities, if their fair value can be measured reliably, they shall be separately recognized as liabilities and measured at fair value.

The deductible temporary differences obtained from the acquiree through the combination shall not be recognized if they are not qualified for conditions of recognition of deferred income tax assets on the acquisition date. Within 12 months after the acquisition date, if any new information or further information can prove the relevant situation has existed since the acquisition date and the economic benefit from the deductible temporary differences may be achieved, such deductible temporary differences shall be recognized as deferred income tax assets; Goodwill shall be deducted hereto. If the goodwill is not sufficient for offsetting, the difference shall be included in current P&L. Otherwise the above-mentioned conditions, deferred income tax assets related to business combination shall be recognized and included in current P&L.

In any business combination under non-common control, the acquirer's expenses of audit, legal services, assessment and consulting services, agent fees and other related administrative expenses shall be included in current P&L; the transaction expenses for the issuance of equity securities for the business combination shall be included in the initially recognized amount of equity securities or bonds.

2.6 Preparation of the consolidated financial statements

The scope of consolidated financial statements is confirmed based on the Company's control over its subsidiaries; and all the Company's subsidiaries are included in the consolidated financial statements.

The accounting policies and period adopted by the subsidiaries shall be in accordance with that of the Company; otherwise, they shall be adjusted according to the Company's policies and period when preparing the consolidated financial statements. For any subsidiary acquired from business combination under non-common control, its financial statements shall be adjusted based on the fair value of identifiable net assets on the acquisition date. Based on the financial statements of the Company and subsidiaries and other relevant ma-

terials, the consolidated financial statements have been prepared by the Company after adjusting long-term equity investment on the subsidiaries by equity method.

When consolidating the financial statements, effect of internal transactions between the Company and subsidiaries or among the subsidiaries on the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, and consolidated statement of changes in equity shall be offset.

The equity, profit and loss attributable to the minority shareholders of the subsidiaries shall be separately indicated under the item of owners' equity in the consolidated balance sheet and the item of net profit in the consolidated income statement. The difference by which the current loss assumed by the minority shareholders of the subsidiaries exceeds the share belonging to them at the beginning of the period shall offset against the minority interest.

During the reporting period, if any subsidiary is obtained through business combination under common control, the year-begin balance of the consolidated balance sheet shall be adjusted; the subsidiary's income, expenses, profit from the beginning of the combination period to the end of the reporting period shall be included in the consolidated income statement; and cash flow in the consolidated cash flow statement.

During the reporting period, if any subsidiary is obtained through business combination under non-common control, the year-begin balance of the consolidated balance sheet shall have no change; the subsidiary's income, expenses, profit from the acquisition date to the end of the reporting period shall be included in the consolidated income statement; and cash flow in the consolidated cash flow statement. For subsidiary obtained by stages through business combination under non-common control, equity in the acquiree held by the Company before the acquisition date shall be re-measured based on its fair value on the acquisition date. Difference between the fair value and book value shall be included into current investment income. If other composite income is involved with the foregoing equity, such income shall be converted into current investment income on the acquisition date.

During the reporting period, in case of disposal of a subsidiary, the subsidiary's income, expenses, profit from the beginning of the period to the disposal date shall be included in the consolidated income statement; and the cash flow included in the consolidated cash flow statement. If the Company loses control over a subsidiary it originally owns due to disposal of part of equity investment or other reasons, the remaining equity investment shall be re-measured based on its fair value on the date when the control is lost. Difference by which the sum of the consideration received on the disposal of equity and the fair value of the remaining equity subtracts the amount of attributable net assets calculated from the purchase date on the basis of the original equity ratio shall be included in investment income in the period when the control is lost. Other composite income relevant to the equity investment in the originally owned subsidiary shall be converted into investment income in the period when the control is lost.

The difference between long-term equity investment newly obtained from purchasing minority interest and the subsidiary's identifiable net assets attributable to the Company which is calculated according to newly increased equity ratio, and the difference between disposal price obtained from disposal of equity investment to the subsidiary, without losing control over the subsidiary, and attributable net assets from disposal of long-term equity investment, shall be firstly offset against capital surplus in the consolidated balance sheet and then debited to retained earnings if the capital surplus is insufficient for offsetting.

2.7 Determination of cash and cash equivalents

In the Financial Statements, cash refers to all cash on hand and deposit held at call with banks. Cash equivalents refer to short-term (due in three months after the purchase date), highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

2.8 Foreign currency transactions and translation

2.8.1 Foreign currency transactions

Foreign currency transactions shall be translated into RMB at the spot exchange rate on the transaction date.

The foreign currency-dominated monetary items shall be translated into RMB at the spot exchange rate on the balance sheet date; and the resulting currency translation difference shall be included in current P&L, except for the exchange difference arising from special foreign currency borrowings related to purchase/construction of assets compliant with capitalization conditions, which shall be disposed according to the principles of capitalization of borrowings. The foreign currency-dominated non-monetary items measured at the historical cost shall still be translated at the spot exchange rate on the transaction date, of which the amount of functional currency shall not be changed. The foreign currency-dominated non-monetary items measured at the fair value shall be translated at the spot exchange rate on the date when the fair value is determined; the resulting currency translation differences shall be included in current P&L or capital reserves.

Overseas subsidiaries use their local currencies as the functional currencies. Their foreign currency operations shall be recorded in local currencies at the exchange rate on the operation date. Overseas subsidiaries' monetary assets and liabilities dominated in foreign currencies in the balance sheets shall be translated into local currencies; and the resulting translation difference shall be included in current P&L.

2.8.2 Translation of financial statements represented in foreign currency

Foreign currency-dominated assets and liabilities of overseas subsidiaries included in the Company's financial statements shall be translated into RMB at the spot exchange rate on the balance sheet date; All the other items except for the "Undistributed profits" under the owners' equity shall be translated into RMB at the spot exchange rate on the date of the transactions. Foreign currency-dominated income and expenses in the income statement shall be translated into RMB at the average exchange rate during the reporting period. The resulting translation difference shall be separately indicated under the item of owners' equity in the balance sheet.

When disposing the overseas operations, relevant translation difference indicated under the item of the owners' equity in the balance sheet shall be included in current P&L. If the overseas operations are disposed partially, relevant translation difference based on percentage of the disposal shall be included in current P&L.

2.9 Financial Instruments

Financial instruments include financial asset, financial liability and equity instrument.

2.9.1 Classification

For the purpose of holding financial assets and assuming financial liabilities on a contract basis, the Company's managements classify financial instruments into financial assets measured at fair value through profit or loss, including trading financial assets or liabilities (and directly recognized as financial assets or liabilities measured at fair value through profit or loss); held-to-maturity investment; loans and accounts receivable; available-for-sale financial assets; and other financial liabilities.

2.9.2 Recognition and measurement

(1) Financial assets (liabilities) measured at fair value through profit or loss

Its fair value (deducting cash dividends that have been recognized but not issued or bond interests to be received) upon the acquisition shall be identified as initially recognized amount and the related transaction expenses thereof shall be included in current P&L.

The interests or cash dividends obtained during the holding period shall be recognized as investment income, and change in fair value shall be, at the end of the period, included in current P&L.

On the disposal of the assets, the difference between their fair value and initial book value shall be recognized as investment income,

and the profit or loss of change in fair value shall be accordingly adjusted.

(2) Held-to-maturity investment

The sum of fair value (deducting bond interests to be received) of the assets on the acquisition and relevant transaction expenses shall be identified as initially recognized amount.

During the holding period, the interest income shall be calculated on the basis of amortized cost and real interest rate (coupon rate prevails in case of insignificant difference between real interest rate and coupon rate) and included in the investment income. The real interest rate shall be recognized upon the acquisition and shall have no change during the predicted duration or a shorter applicable term.

On the disposal of the assets, the difference between the sale price and book value shall be included in investment income.

If the Company reclassifies or sells large amount of held-to-maturity investment before maturity (compared with the total amount of such investment before re-classification or sale), the rest of such investment will be re-classified as available-for-sale financial asset; meanwhile, no financial asset shall be classified as a held-to-maturity investment within the current accounting year and the following two complete accounting years. However, the following circumstances shall be excluded:

- a) The date of sale or re-classification is quite near to the maturity date or the repurchase date of the said investment (e.g., within 3 months prior to maturity) that any change of the market interest rate has little impact upon the fair value of the said investment;
- b) After almost all the initial principal of the investment has been drawn back by way of repayment at fixed intervals or repayment ahead of schedule according to the provisions of the contract, the remaining part of the investment will be sold or re-classified; and
- c) The sale or re-classification is caused by any independent event that the Company cannot control, is predicted not to occur again and is hard to be reasonably predicted.

(3) Accounts receivable

The contract price charged to the buyers shall be recognized as initial amount for those receivables which is composed of the Company's accounts receivable by the sale of goods and provision of labor services, and receivables in other companies excluding debt instruments priced in active markets, including accounts receivable, other receivables, notes receivable, prepayments and long-term receivables. Finance receivables shall be initially recognized based on their present value.

On recovery or disposal of accounts receivable, the difference between sale value and book value shall be included in current P&L.

(4) Available-for-sale financial assets

The sum of fair value (deducting cash dividends that have been recognized but not issued or bond interests to be received) and relevant transaction expenses of the assets on the acquisition shall be identified as initially recognized amount.

The interests and cash dividend received during the holding period shall be recognized as investment income and measured at fair value at the end of the period; and change in fair value shall be included in capital reserves (other capital reserves).

On the disposal of the assets, the difference between sale price and book value shall be recognized as investment P&L, and the accumulated amount of changes in fair value caused by the disposal shall be accordingly converted into investment P&L from owners' equity.

(5) Other financial liabilities

The sum of fair value and relevant transaction expenses shall be confirmed as initially recognized amount, and amortized cost shall be used for subsequent measurement.

2.9.3 Recognition and measurement of transfer of financial assets

On the transfer of financial assets, recognition of these assets shall be terminated if nearly all the risks and rewards relating to the ownership have been transferred to the transferee; otherwise, they shall be still recognized as financial assets of the Company.

The principle of "Substance over Form" is adopted in judging the termination or not of recognizing financial assets. The transfer of

financial assets is also divided into two cases: entire transfer and partial transfer. If the transfer of an entire financial asset satisfies the conditions for termination of recognition, the difference between the amounts of the following two items shall be included in current P&L:

- (1) The book value of the transferred financial asset; and
- (2) Sum of the consideration received from the transfer, and the accumulated amount of the changes in fair value originally recorded in the owners' equity (in the event that the financial asset involved in the transfer is available-for-sale financial asset).

If the transfer of partial financial asset satisfies the conditions for termination of recognition, the book value of the entire financial asset transferred shall, between the portion whose recognition has been terminated and the portion whose recognition has not been terminated, be allocated at their respective relative fair value, and the difference between the amounts of the following two items shall be included in current P&L:

- (1) The book value of the portion whose recognition has been terminated; and
- (2) The sum of the consideration of the portion whose recognition has been terminated, and the portion of the accumulated amounts of the changes in fair value originally recorded in the owners' equity which is corresponding to the portion whose recognition has been terminated (in the event that the financial asset involved in the transfer is available-for-sale financial asset). The Company shall continue to recognize the financial assets and recognize the received consideration as a financial liability in case the transfer of these financial assets cannot meet the conditions of termination.

2.9.4 Termination of recognition of financial liabilities

If the existing obligations of the financial liabilities have been removed in whole or in part, recognition of the financial liabilities or a part of them shall be terminated. If the Company enters into an agreement with a creditor so as to substitute the existing financial liabilities by way of any new financial liability, and if the contractual stipulations regarding the new financial liability is substantially different from that regarding the existing financial liability, it shall terminate the recognition of the existing financial liability, and shall at the same time recognize the new financial liability.

Where the Company makes substantial revisions to some or all of the contractual stipulations of the existing financial liability, it shall terminate the recognition of the existing financial liabilities or part of them, and at the same time recognize the financial liability after the revisions as a new financial liability.

If the recognition of financial liabilities is terminated in whole or in part, the difference between the book value and paid consideration (including transferred non-cash assets or newly assumed financial liabilities) shall be included in current P&L.

If the Company buys back part of its financial liabilities, it shall distribute, on the repurchase day, the entire book value of the financial liabilities in light of the comparative fair values of the part that continues to be recognized and the part whose recognition has already been terminated. The difference between the book value which is distributed to the part whose recognition has been terminated and the paid consideration (including transferred non-cash assets or newly assumed financial liabilities) shall be included in current P&L.

2.9.5 Recognition of fair values of financial assets and liabilities

Financial assets and liabilities measured at fair value shall be directly based on quotation price in active market. During the reporting period, if estimated P&L of the long-term foreign exchange contract is not calculated according to the quoted exchange rate, estimated profit shall be included in P&L of change in fair value and trading financial assets; and estimated loss shall be included in P&L of change in fair value and trading financial liabilities.

2.9.6 Appropriation of impairment provision for financial assets (excluding receivables)

The Company carries out an inspection, on the balance sheet date, on the book value of the financial assets other than those measured at fair value through profit and loss. If there is any objective evidence proving that such financial asset has been impaired, an impair-

ment provision shall be made.

(1) Impairment provision for available-for-sale financial assets

At the end of the period, if there is a significant decline in the fair value of an available-for-sale financial asset, or the decline is deemed non-temporary after considering all relevant factors, impairment of such asset shall be recognized; and the accumulated losses as a result of the decline in the fair value that is originally included in the owners' equity shall be removed and recognized as impairment losses.

(2) Held-to-maturity investment

The impairment loss of held-to-maturity investment is calculated in the light of the measurement method of impairment loss on accounts receivable.

2.10 Provision for bad debts in accounts receivable

2.10.1 Appropriation of provision for bad debts in receivables with significant single amount:

Determination of significant single amount	The balance of accounts receivable is above RMB 10 million Yuan and the balance of other receivables is above RMB 2 million Yuan.
Appropriation method	The Company shall take independent impairment test for the accounts receivable with significant single amount at the end of the year, recognize the impairment loss and make provision for bad debts based on difference by which the present value of future cash flow is less than its book value. If the future cash flow is not less than the book value, provision for bad debts shall be appropriated according to aging analysis method.

2.10.2 Appropriation of provision for bad debts in accounts receivable by portfolio:

Basis for determination of the portfolio	
Portfolio	The Company determines the following proportion of provision for bad debts based on the actual loss ratio of the previous periods' receivable accounts with similar credit risk feature and taking the actual situation into consideration.
Appropriation method	
Portfolio	Account receivable aging analysis method

Appropriation of provision for bad debts by aging analysis method in portfolio:

Accounting age	Appropriation ratio of receivables (%)	Appropriation ratio of other receivables (%)
Within 1 year	1	1
1-2 years	2	2
2-3 years	5	5
3-5 years	10	10
Over 5 years	100	100

2.10.3 Single appropriation of provision for bad debts in receivables with insignificant single amount

Reason	The single amount is insignificant but obvious impairment has been shown. Independent impairment loss test indicates that the present value of its future cash flow is less than the book value.
Appropriation method	Specific identification method will be adopted to recognize impairment loss and appropriate provision for bad debts based on the difference by which the present value of its future cash flow is less than the book value.

2.11 Inventories

2.11.1 Classification

Inventories are classified into raw materials, work in process, and finished products.

2.11.2 Valuation of outgoing inventories

Outgoing freight costs on raw materials shall be counted with weighted average method. Costs of work in process and finished products include materials, labor force and manufacturing expenses proportioned according appropriate percentage under normal production capacity.

The cost of work in process, including the contract cost, is calculated as follows:

The start date and finish date of system integration that is customized according to customer's special requirements are usually attributable to different accounting years. The Company therefore adopts principles of construction contracts to calculate the cost.

The contract cost mainly refers to the cost of contracted projects in process, including cost of system hardware that have been delivered to customer's designated location, cost of installation work that is being conducted or system integration cost, direct labor force cost and indirect expenses arising from contract which has been performed and cost occurred by being performing obligations under other contracts.

As of the balance sheet date, if the sum of accumulated cost of contract in process and accumulated gross profit of the contract is more than the sum of settled price and recognized accumulated losses, the difference shall be listed into inventories in the current assets; otherwise, the difference shall be listed into settled but uncompleted items in the current liabilities.

2.11.3 Recognition of net realizable value of inventories and appropriation method of provision for depreciation of inventories

The Company checks up inventory at the end of each accounting period, and makes or adjusts provision for depreciation of inventories based on the cost and net realizable value of inventories, whichever is lower.

During normal production, the net realizable value of inventories directly for sale, such as finished products, inventory products and materials for sale, is calculated by the estimated price less the estimated sales expenses and taxes; and the net realizable value of materials to be processed is calculated by the estimated price of finished products less the estimated cost, sales expenses and taxes. For those inventories held for the purpose of implementing sales contract or labor contract, the net realizable value is based on the contract price; if the inventories held are more than ordered quantities in the contract, the net realizable value of the surplus is calculated based on the market price.

In case the factors causing the write-down of the inventories disappear, the write-down shall be recovered to the original amount; and the depreciation amount shall be recorded as current P&L from the provision.

2.11.4 Inventory system

The Company adopts perpetual inventory system.

2.12 Long-term equity investment

2.12.1 Determination of investment cost

(1) Long-term equity investment through business combination

Business combination under common control: if the consideration of the combination is satisfied by paying cash, transfer of non-cash

assets or assumption of liabilities, the book value of owners' equity obtained from the acquiree on the acquisition date is recognized as initial investment cost of the long-term equity investment. The difference between the initial investment cost and acquisition consideration shall be recorded as capital surplus. If the capital surplus is not sufficient for offsetting, the retained earnings shall be adjusted. The direct costs arising from the business combination, including the expenses for audit, assessment and legal services, shall be included in current P&L. The bonds issued for the business combination or the handling fees, commissions and expenses for assuming other liabilities shall be included in initially measured amount of the bonds or other debts. The handling fees, commissions and expenses for the issuance of equity securities for the business combination shall be credited against the surplus of equity securities; if the surplus is not sufficient, the retained earnings shall be offset.

Business combination under non-common control: The combination cost confirmed on the acquisition date is recognized as initial investment cost of the long-term equity investment. Combination cost refers to paid assets, assumed liabilities and fair value of the issued equity securities for obtaining right of control over the acquiree on the acquisition date. The acquirer's expenses of audit, legal services, assessment and consulting services, agent fee and other related administrative expenses shall be included in current P&L; the transaction expenses for the issuance of equity securities for the business combination shall be included in the initially recognized amount of equity securities or bonds. In business combination under non-common control which is achieved through more than one transaction, the sum of book value of the acquiree's equity held by the Company before the acquisition date and newly increased investment cost on the acquisition date shall be recognized as initial investment cost of the investment. The contingent consideration under the combination agreement is recognized as a part of transferred consideration for the combination and included in combination cost based on its fair value on the acquisition date.

(2) Long-term equity investment through other methods

For long-term equity investment through cash, the actual paid price shall be recognized as initial investment cost.

For long-term equity investment through issuing equity securities, the fair value of issued equity securities shall be recognized as initial investment cost.

For long-term equity investment by investor, the value contracted in the investment contract or agreement (deducting cash dividends or interests that have been recognized but not issued) shall be recognized as initial investment cost, unless it is not stipulated fair in the contract or agreement. Provided that exchange of non-monetary assets has business substance and the fair value of the ingoing assets or outgoing assets can be measured reliably, its initial investment cost shall be determined based on fair value of the outgoing assets, unless there is obvious proof indicating the fair value of the ingoing asset is much more reliable. If the exchange of non-monetary assets can not meet foregoing condition, book value of outgoing asset and payable taxes shall be recognized as initial investment cost of ingoing long-term equity investment.

For long-term equity investment through debt restructuring, its initial investment cost is recognized based on its fair value.

2.12.2 Subsequent measurement and recognition of P&L

(1) Subsequent measurement

The Company's long-term equity investment on subsidiary is measured by cost method and adjusted by equity method when preparing the consolidated financial statements.

For long-term equity investment where the Company does not have joint control or significant influence over the investee, the investment is not quoted in an active market, and its fair value cannot be measured reliably, it shall be measured by cost method.

For long-term equity investment where the Company has joint control or significant influence over the investee, it shall be measured by equity method. If the initial investment cost is more than the fair value of the investee's identifiable net assets attributable to the Com-

pany, the difference shall not be recorded as initial investment cost of the long-term equity investment; Otherwise, the difference shall be included in current P&L.

As for other change in owners' equity of the investee except for net P&L, the Company's attributable P&L calculated based on the shareholding ratio which has no change, shall be recorded as book value of the long-term equity investment; and the capital reserves (other capital reserves) shall be accordingly increased or reduced.

(2) Recognition of P&L

According to the cost method, except for actually paid price or cash dividends or interests that have been recognized but not issued in the consideration, the Company recognizes the investment income according to the cash dividends or interests that have been announced by the investee.

Under the equity method, based on the carrying amount of the investee's net profit, net P&L of the investee attributable to the Company shall be recognized after adjustments to following circumstances: if the accounting policies adopted by the investee are different from that of the Company, the Company, according to its accounting policies, adjusts the relevant items in the financial statements of the investee; depreciation amount or amortized amount that is appropriated based on fair value of the investee's fixed assets, intangible asset upon the investment, and amount of provisions for asset impairment have impact on the investee's net profit; and unfulfilled internal transactions between the Company and associates and joint ventures are offset.

Upon determination of the investee's losses attributable to the Company, book value of the long-term equity investment shall be offset first; If the book value is not sufficient, investment losses shall be further recognized, subject to the long-term equity that materially constitute net investment on the investee, to offset against the book value of long-term receivables. At last, estimated liabilities shall be recognized according to additional attributable obligations under the investment contract or agreement and included in current investment loss. If the investee makes profits in following accounting periods, book balance of estimated liabilities that have been recognized shall be written down, and book values of long-term equity which materially constitutes net investment on the investee and long-term equity investment shall be recovered; investment income shall be recognized.

During the investment period, if the investee can provide consolidated financial statements, the recognition of P&L shall be based on net profit and other change in equity in its consolidated financial statements.

2.12.3 Determination of common control or significant influence over investee

Common control refers to the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. If the investing enterprise and other party exercise common control over the investee, the investee is its joint venture.

Significant influence refers to the investing enterprise's power to participate in decision making of the investee's financial and operating policies, but the investing enterprise cannot control or jointly control over decision making of those policies. If an investing enterprise can exert significant influence on the investee, the investee is its associate.

2.12.4 Impairment test method and appropriation method for impairment provision

As for long-term equity investment that has no significant influence on the investee and no quotation in an active market and whose fair value cannot be measured reliably, its impairment loss is determined according to the difference between its book value and cash value of future cash flow recognized based on current rate of return.

If the measurement result reveals that the recoverable amount of other long-term equity investment (except for goodwill arising from business combination) with impairment signs is lower than its book value, the difference shall be recognized as impairment loss.

Upon recognition, the impairment loss of the long-term equity investment will not be recovered.

2.13 Investment Property

Investment property is a property held to earn rentals, or for capital appreciation or both, including land use right that is leased out, land use right held for transfer upon capital appreciation, and building that is leased out.

The Company adopts cost method for measurement of investment property. As for investment property measured by cost method, the Company adopts the same depreciation policy as that of fixed assets for measurement of building for rental, and the same amortization policy of intangible asset for land use right for rental.

On appearance of evidence for depreciation, the Company estimates the recoverable amount and recognizes the impairment loss if the recoverable amount is lower than its book value.

Upon recognition, the impairment loss of investment property will not be recovered.

2.14 Fixed assets

2.14.1 recognition of fixed assets

Fixed assets refer to as the tangible assets possessed for producing goods, providing labor, lease or operation and management with more than one fiscal year of service life. Fixed assets are recognized when satisfying the following conditions:

- (1) The economic benefits related to such fixed assets can flow into the Company; and
- (2) The cost of such fixed assets can be measured reliably.

2.14.2 Depreciation of fixed assets

The depreciation of fixed assets is made by use of life averaging method. The depreciation rate is determined according to the nature and use of different types of the fixed assets, estimated useful life and estimated net residual value rate.

The depreciation period and annual depreciation rate of fixed assets are as follows:

Category	Depreciation period (Years)	Residual value rate (%)	Annual depreciation rate (%)
Houses and buildings	30-50	5	1.90-3.20
Electronic equipment	3	5	31.70
Transportation equipment	5	5	19.00
Other equipment	3-5	5	19.00-31.70

2.14.3 Impairment test method and appropriation method of provision for fixed assets

The Company reviews whether there are signs indicating impairment of fixed assets at the end of every accounting period.

When such signs do exist, impairment tests will be conducted to recognize the recoverable amount of fixed assets. The recoverable amount of the fixed assets is recognized based on the higher between the net amount of the fair value of the assets after deducting the disposal expenses and the present value of future cash flow of the assets.

If the recoverable amount is lower than the book value of the fixed assets, the book value shall be written down to its recoverable amount; the write-down amount shall be recognized as impairment loss of fixed assets and included in current P&L; and impairment provision for the fixed asset shall be appropriated.

Upon recognition of impairment loss of the fixed assets, depreciation of the fixed assets shall be adjusted in the future periods so that their adjusted book value (deducting estimated net residual value) can be properly apportioned in the remaining service periods.

Once the impairment loss is recognized, it shall not be recovered in subsequent accounting periods.

If there is any sign indicating a fixed asset may have impairment, the Company shall recognize the recoverable amount based on such fixed asset. If recognition of its recoverable amount is not reachable, its recognition shall be based on the asset group it is attribut-

able to.

2.14.4 Other Remarks

In term of the Company's any land-based construction project for own use from January 1st, 2002 to December 31st, 2006, the book value of the land use right constitutes the cost of houses and buildings. As for land use right that has been recorded into the cost of houses and buildings, the Company has removed it from book value of its original asset and recorded it into intangible asset on January 1st, 2007 provided that it has been separately recognized as intangible asset according to relevant standards. Since January 1st, 2007, the cost of land use right was not included in the cost of houses and buildings for any land-based construction project for own use.

2.15 Construction in progress

2.15.1 Classification

Construction in progress is calculated according to project classification.

2.15.2 Criteria and timing for conversion of construction in progress into fixed assets

For construction in progress, the Company shall record all the expenditures for this asset to reach usable condition as the account value of the fixed assets. If the construction in process has been available for intended use but final account is not made, it shall be counted into fixed assets at the estimated value based on construction budget, cost or actual cost upon it is available for intended use; and depreciation of fixed assets shall be made as per the Company's depreciation policy of fixed assets. After the final account, the originally estimated value shall be accordingly adjusted based on actual cost, without changing the appropriated depreciation amount.

2.15.3 Impairment test method and provision appropriation for construction in progress

The Company reviews whether there are signs indicating impairment of construction in progress at the end of every accounting period.

When such signs do exist, impairment tests shall be conducted to recognize the recoverable amount. If there is any sign indicating any construction in progress may have impairment, the Company shall recognize the recoverable amount based on such construction in progress. If recognition of its recoverable amount is not reachable, its recognition shall be based on the asset group it is attributable to.

The recoverable amount of the construction in progress shall be decided based on the higher between the net amount of its fair value after deducting the disposal expenses and its present value of future cash flow.

If the recoverable amount is lower than the book value, the book value shall be written down to its recoverable amount; the write-down amount shall be recognized as impairment loss on construction in progress and included in current P&L; and impairment provision for the construction in progress shall be appropriated.

Once the impairment loss is recognized, it shall not be recovered in subsequent accounting periods.

2.16 Borrowing costs

2.16.1 Recognition of capitalization of borrowing costs

Borrowing costs include interest on borrowings, amortization of discounts or premiums on borrowings, ancillary expenses and exchange balance on foreign currency borrowings.

Where the borrowing costs incurred to the Company can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it shall be capitalized and recorded into the costs of relevant assets. Other borrowing costs shall be recognized as expenses on the basis of the actual amount incurred, and shall be recorded into the current P&L.

The term "assets eligible for capitalization" shall refer to the fixed assets, investment real estate, inventories and other assets, of which the acquisition and construction or production may take quite a long time to get ready for its intended use or for sale.

The borrowing costs shall not be capitalized unless they simultaneously meet the following requirements:

(1) The asset disbursements have already incurred, which shall include the cash, transferred non-cash assets or interest-bearing

debts paid for the acquisition and construction or production activities for preparing assets eligible for capitalization;

(2) The borrowing costs has already incurred; and

(3) The acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.

2.16.2 Capitalization period

Capitalization period refers to the period from the commencement to the termination of the capitalization of borrowing costs, which excludes the suspension period of the borrowing cost capitalization.

When the assets with its purchase and construction or production meeting the capitalization conditions have reached expected purpose for use or sale, the capitalization of borrowing cost shall be stopped.

If part of projects of the assets with its purchase and construction or production meeting the capitalization conditions have been finished respectively and can be used separately, the capitalization of such projects shall be stopped.

If part of projects of the assets with its purchase and construction or production meeting the capitalization conditions have been finished respectively but they are not available for use or sale until the whole assets are finished, the capitalization of such projects shall be stopped upon the whole assets are finished.

2.16.3 Suspension of capitalization

Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended. The borrowing costs incurred during such period shall be recognized as expenses, and shall be recorded into current P&L, till the acquisition and construction or production of the asset re-starts. If the interruption is a necessary step for making the qualified asset under acquisition and construction or production ready for the intended use or sale, the capitalization of the borrowing costs shall continue.

2.16.4 Calculation of capitalized amount of borrowing costs

If the special loan is borrowed for purchase or production of the assets meeting the condition of capitalization, the interest charges of special loan actually occurring in current period deducted by the interest income of the not-used-loan fund in the bank or the income obtained from temporary investment shall be confirmed as the capitalized amount of the interest charge of special loan.

If the Company uses the general loan in order to purchase or produce the assets meeting the conditions of capitalization, it shall use the weighted average (at the end of each month) of the portion by which the total expenditure for assets exceeds the special loan multiplied by the capitalization rate of the occupied general loan to calculate the interest amount of the general loan which should be capitalized. The capitalization rate shall be calculated based on weighted average interest rate of the general loan.

For a borrowing at a discount or premium, the actual interest rate method shall be used to determine amortization for each accounting period and adjust interest amount of each period.

2.17 Intangible asset

2.17.1 Measurement of intangible asset

(1) The company measures its intangible asset initially by cost.

The cost of the purchased intangible asset shall include the purchase price, relevant taxes and other necessary expenditures directly attributable to intangible asset for the expected purpose. Where the payment of purchase price for intangible asset is delayed beyond the normal credit conditions, which is for financing purpose, the cost of intangible asset shall be determined on the basis of the current value of the purchase price.

For intangible asset obtained from the debtor for payment of debts through debt restructuring, its account value shall be recognized

based on its fair value. The difference between the book value of the restructured debts and fair value of the intangible asset for payment of debts shall be included in current P&L.

Provided that exchange of non-monetary assets has business substance and the fair value of the ingoing assets or outgoing assets can be measured reliably, its account value shall be determined based on fair value of the outgoing assets, unless there is obvious proof indicating the fair value of the ingoing asset is much more reliable. If the exchange of non-monetary assets can not meet foregoing condition, book value of outgoing asset and payable taxes shall be recognized as cost of ingoing intangible asset and not recorded into P&L.

For intangible asset obtained through business combination under common control, its account value shall be recognized based on acquiree's book value of the asset; for intangible asset obtained through business combination under non-common control, its account value shall be based on its fair value.

The cost of intangible asset formed during internal development activities consists of the materials, labor cost, register fee, amortization of other patents and franchise right during development period, interests paid for capitalization, and other direct expenses before the intangible asset is available for intended use.

(2) Subsequent measurement

The service life of intangible asset shall be analyzed and judged upon acquisition.

Intangible asset with limited service life shall be amortized by straight-line method within the period when it brings economic benefit to the Company. If it is unable to forecast the period when the intangible asset can bring economic benefit to the Company, it shall be regarded as an intangible asset with uncertain service life and not be amortized.

2.17.2 Estimate of service life of intangible asset:

Item	Estimated service life	Basis
Land use right	40-50 years	Term prescribed in the land use certificate
Property use right	50 years	Term prescribed in the property use contract or agreement
Industrial property right and proprietary technology	10 years	Term prescribed in relevant contract or estimated life
Other intangible asset	5-10 years	Term prescribed in relevant contract or estimated life

Service life and amortization method of the intangible asset with limited service life shall be rechecked at the end of each report year.

The rechecked result in current period shows that there is no difference in the estimate of service life and amortization method.

2.17.3 Appropriation of impairment provision for intangible asset

If there are signs indicating impairment of intangible asset with certain service life, impairment test shall be conducted at the end of the period.

Impairment test on intangible asset with uncertain service life shall be conducted at the end of every period.

Recoverable amount shall be estimated through impairment test on the intangible asset. If there is any sign indicating any intangible asset may have impairment, the enterprise shall recognize the recoverable amount based on single intangible asset. If recognition of its recoverable amount is not reachable, its recognition shall be based on the asset group it is attributable to.

The recoverable amount shall be decided based on the higher between the net amount of its fair value after deducting the disposal expenses and its present value of future cash flow.

If the recoverable amount is lower than the book value, the book value shall be written down to its recoverable amount; the write-down amount shall be recognized as impairment loss on intangible asset and included in current P&L; and impairment provision for the intangible asset shall be appropriated.

Upon recognition of impairment loss on intangible asset, depreciation of the asset or amortization expense shall be adjusted in the future periods so that the adjusted book value (deducting estimated net residual value) can be properly apportioned in the remaining service periods.

Once the impairment loss is recognized, it shall not be recovered in subsequent accounting periods.

2.17.4 Determination of research phase and development phase of internal R&D projects

Expenses of internal R&D projects are divided into expense during research phase and expense during development phase.

Research phase refers to the period when special planned survey and research activities are carried out to obtain and understand any new technology or knowledge.

Development phase refers to the period when research results or other knowledge is applied to specific plan or design, before its commercial production or use, to create new or essentially improved material, device and products, etc.

2.17.5 Capitalization of expense during development phase

The expenditure in development phase which meets the following conditions shall be confirmed as intangible asset:

- (1) Complete this intangible asset and make it usable or salable technically;
- (2) Have the intention of completing this intangible asset and using or selling it;
- (3) The way for generating economic interest by the intangible asset, includes the proof that the products produced with this intangible asset have a market or this intangible asset self has a market, and if the intangible asset is used inside the Company, it can be proved to be useful;
- (4) Have the support with sufficient source of technique and finance and other resources to complete the development of this intangible asset, and the ability to use or sell this intangible asset;
- (5) The expenditure in the development phase of this intangible asset can be measured reliably.

Expenditure during development phase which cannot meet foregoing conditions shall be recorded into current P&L.

Expenditure during research phase shall be recorded into current P&L.

2.17.6 Other Remarks

Fair value of land use right has been included in construction in progress during land-based construction of project for own use from January 1st, 2002 to December 31st, 2006. Land use right is recorded into intangible asset and amortized before the project starts. As for land use right that has been recorded into the cost of houses and buildings, the Company has removed it from book value of its original asset and recorded it into intangible asset on January 1st, 2007 provided that it has been separately recognized as intangible asset according to relevant standards. Since January 1st, 2007, the cost of land use right shall not included in the cost of houses and buildings for any land-based construction project for own use.

2.18 Goodwill

As for good will arising from business combination under non-common control, its initial cost is based on the difference by which the combination cost exceeds the fair value of acquired identifiable net assets.

On disposal of relevant asset group or asset group portfolio, the goodwill shall be removed and included into current P&L.

The Company does not amortize the goodwill. Impairment test on goodwill is conducted at the end of every year.

The Company conducts impairment test on goodwill. Fair value of goodwill arising from business combination is amortized into relevant asset group since the acquisition date by proper method, or into relevant asset group portfolio if it is unable to amortize into the asset group. Amortization of fair value of goodwill shall be based on the proportion of fair value of each asset group or asset group portfolio to the total amount of fair value of relevant asset group or asset group portfolio. If the fair value cannot be measured reliably, the

amortization shall be based on the proportion of book value of each asset group or asset group portfolio to the total amount of fair value of relevant asset group or asset group portfolio.

If asset group or asset group portfolio with respect to goodwill shows signs of impairment, impairment test on asset group or asset group portfolio that does not include goodwill shall be conducted firstly; recoverable amount will be calculated and impairment loss will be recognized after comparison with the book value. Impairment test on asset group or asset group portfolio that included goodwill will be followed. Comparison of its book value (including book value of amortized goodwill) and recoverable amount will be made. If the recoverable amount is less than the book value, the difference shall be recognized as impairment loss of goodwill. The impairment loss will be recorded in current P&L and will not be recovered in following accounting periods.

2.19 Long-term deferred expenses

Long-term deferred expenses refer to all the expenses paid but attributable to the current and subsequent accounting periods.

Long-term deferred expenses include expenses covering decoration fee, expenses of refurbishment of leased fixed assets, etc, of which, the deferred period is over one year (excluding one year). They shall be amortized on average according to estimated profitable period and presented by net amount by which the actual expenses less accumulated amortization. If the long-term deferred expense cannot be profitable in future accounting periods, the amortized value of the expense shall be all counted into current P&L.

2.20 Estimated liabilities

The obligation related to contingencies, if meeting all following conditions, shall be confirmed as estimated liabilities:

- (1) The obligation is the current obligation borne by the Company;
- (2) The fulfillment of the obligation shall most likely cause the economic interest flowing out from the Company; and
- (3) The amount of the obligation can be measured reliably.

The Company's estimated liabilities mainly refer to liabilities caused by product quality warranty. Based on previous experience, certain labor or business travel expense occurred during the warranty period is recorded as estimated liabilities. Hardware quality warranty is generally assumed by OEMs.

2.21 Share-based payments and equity instruments

Share-based payment refers to a transaction in which the Company grants equity instruments or undertakes equity-instrument-based liabilities in return for services from employee or other parties. The share-based payments consist of equity-settled share-based payments and cash-settled share-based payments.

2.21.1 Equity-settled share-based payment and equity instruments

Equity-settled share-based payment in return for employee services shall be measured at the fair value of the equity instruments granted to the employees. As to an equity-settled share-based payment in return for services of employees, if the right may be exercised immediately after the grant, the fair value of the equity instruments shall, on the granting date, be included in the relevant cost or expense and the capital reserves shall be increased accordingly. As to a equity-settled share-based payment in return for employee services, if the right cannot be exercised until the vesting period comes to an end or until the prescribed performance conditions are met, then on each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the number of vested equity instruments, be included in the relevant costs or expenses and the capital reserves at the fair value of the equity instruments on the granting date.

During the period when performance conditions or service term conditions are satisfied, cost or expense of equity-settled share-based payment shall be recognized as capital reserves. Before the vesting date, recognized accumulated amount of equity-settled share-based payment on each balance sheet date reflects the best estimate of expired part and the Company's quantity of actually vested equity in-

struments.

Share-based payment in which the vesting is not performed eventually, its cost or expense shall not be recognized, unless the vesting conditions are involved with market conditions or non-vesting conditions. If so, no matter the market conditions or non-vesting conditions are met or not, vesting shall be recognized as long as all the non-market conditions in the vesting conditions are met.

If provisions of equity-settled share-based payment are modified, obtained service shall be recognized according to the original provisions. Any increase of fair value of the granted equity instruments or change that is beneficial to employees on the modification date shall be recognized as increase of obtained service.

If equity-settled share-based payment is canceled, undetermined amount shall be recognized on the cancellation date to accelerate the vesting. If employees or other party select non-vesting conditions, which are not met during the vesting period, the equity-settled share-based payment shall be deemed canceled. However, if new equity instrument is granted and recognized as substitution of the canceled equity instrument on the granting date, modification methods for the terms and conditions of original equity instrument shall be adopted for the new equity instrument.

2.21.2 Cash-settled share-based payment

Cash-settled share-based payment shall be measured in accordance with the fair value of liability calculated and confirmed based on the shares or other equity instruments undertaken by the Company. As to cash-settled share-based payment instruments, if the right may be exercised immediately after the grant, the fair value of the liability undertaken by the enterprise shall, on the granting date, be included in the relevant costs or expenses, and the liabilities shall be increased accordingly. As to cash-settled share-based payment, if the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, on each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the information about the exercisable right, be included in the relevant costs or expenses and the corresponding liabilities at the fair value of the liability undertaken by the Company. On each balance sheet date and on each account date prior to the settlement of the relevant liabilities, the fair values of the liabilities shall be re-measured and the changes shall be included in current P&L.

2.22 Income

The Company's operating income is mostly from system integration contracts, sales of software products and medical systems, software development and other services, property services, rental, advertising, etc. Business income shall be presented based on the net amount deducting all discounts. Recognition basis of each income item is as follows:

2.22.1 Income from system integration contracts

According to the accounting standards for construction contracts, the Company recognizes income from system integration development projects in process based on percentage-of-completion method. If the project result can be estimated reliably, the Company shall adopt the percentage-of-completion method to confirm the income from the projects on the balance sheet date. The completion progress shall be determined at the proportion of the completed contract work to the expected total contract work.

If the final result of a construction contract can not be estimated reliably, it shall be dealt with as follows:

- (1) If the contract costs can be recovered, the contract revenue shall be recognized based on actually recoverable contract costs; and the contract costs shall be recognized as contract expenses in the current period they are incurred; and
- (2) If the contract costs cannot be recovered, these costs shall be recognized as contract expenses immediately when incurred and no contract revenue shall be recognized.

The current contract revenues in the current period shall, on the balance sheet date, be recognized in accordance with the balance of the total contract revenues multiplied by the schedule of completion then deducting the accumulated revenue recognized in previous

accounting periods. At the same time, the current contract expenses in the current period shall be recognized in accordance with the balance of the expected total contract costs multiplied by the schedule of completion then deducting the accumulated expenses recognized in preceding accounting periods. If the total expected contract costs exceed the total expected contract revenue, the expected loss shall be recognized as current expenses.

2.22.2 Income from sales of software products

Income from sales of software products shall be recognized provided that main risks and rewards related to the ownership of the products have been transferred to the buyers and the products will not be managed and controlled by the Company; economic benefit with respect to the sales transaction may flow into the Company; and relevant income and costs can be measured reliably.

2.22.3 Income from sales of medical systems

Income from sales of medical systems shall be recognized after the installation and debugging have been finished, and main risks and rewards related to them have been transferred to the customers.

2.22.4 Income from labor services

Income from labor services mainly refers to revenue from the provision of customized software, software maintenance/upgrade, training, web page creation, etc.

Income from provision of services of which the start date and finish date are in the same accounting year shall be recognized upon completion of the provision.

If the start date and finish date are attributed to different accounting years, and the transaction results can be measured reliably, the relevant service income shall be recognized on the balance sheet date based on percentage-of-completion method.

The start date and finish date of providing customized software are usually attributed to different accounting years, and the results can be measured reliably. Therefore, the Company adopts percentage-of-completion method to recognize the service income. The percentage of completion is determined at the proportion of labor hour for software production to the total labor hour.

2.22.5 Income from property service and leasing

Income from property service and leasing is recognized by direct method within the leasing term.

2.22.6 Income from advertising

Advertising income is mainly from advertising agency service, which is recognized upon the ad is broadcasted; and advertising production, which is recognized based on production schedule.

2.23 Government Subsidies

2.23.1 Types

Government subsidies refer to monetary or non-monetary assets obtained free from the government. Government subsidies consist of asset-related subsidies and income-related subsidies.

2.23.2 Accounting treatment

Government subsidies related to long-term assets such as purchased or constructed fixed assets and intangible asset shall be recognized as deferred income and included in current non-operating income after being averagely allocated over the useful life of the related assets;

Income-related subsidies used for compensating future expenses or losses of the Company shall be recognized as deferred income and included in current non-operating income during the period when the relevant expenses are recognized; Those subsidies used for compensating the related expenses or losses incurred to the Company shall be directly included in current non-operating income.

2.24 Deferred income tax assets/liabilities

The Company shall recognize the deferred income tax assets arising from a deductible temporary difference to the extent of the

amount of the taxable income which it is most likely to obtain and can be used for offsetting the deductible temporary difference in following accounting period.

Taxable temporary difference shall be recognized as deferred income tax liabilities unless following special circumstances: initial recognition of goodwill; and other transactions or items that have no impact on accounting profits or taxable amount (or deductible loss) .

2.25 Operating lease

Accounting treatment

(1) Lease fee paid by the Company shall be equally amortized by straight-line method based on the whole lease term without deducting rent-free period and be included in current expenses. Initial direct expenses paid by the Company for the transactions related to the lease shall be included in current expenses.

If the asset lessor assumes the related expense that should have been borne by the Company, the Company shall deduct the expense from the total rent. Deducted rent shall be equally amortized based on the lease term and included in current expenses.

(2) Rental fee received by the Company shall be equally amortized by straight-line method based on the whole lease term without deducting rent-free period and be recognized as lease income. Initial direct expense paid by the Company for the leasing transactions shall be included in current expenses; if the amount of the expense is large, it shall be capitalized and included in current income as the same as the recognition of lease income.

110 | If the Company assumes the related expense that should have been borne by the lessee, the Company shall deduct the expense from the total lease income. Deducted lease income shall be equally allocated based on the lease term.

2.26 Related parties

When a party controls, jointly controls or exercises significant influence over another party, or when two or more parties are under the control, joint control or significant influence of the same party, the related party relationships are constituted. Related parties may be individuals or corporate entities. Enterprises shall not be regarded as the Company's related parties if they are all under the control of the state without any other affiliated relationships.

The Company's related parties include, but not limited to:

- (1) The parent company thereof;
- (2) The subsidiaries thereof;
- (3) Other enterprises under the control of the same parent company thereof;
- (4) The investors having joint control over the Company;
- (5) The investors having significant influence thereon;
- (6) The joint ventures thereof, including their subsidiaries;
- (7) The associates thereof, including their subsidiaries;
- (8) The main individual investors and their close family members;
- (9) Key managements of the Company or its parent company and their close family members; and
- (10) Other enterprises that is controlled or jointly controlled by the Company's main individual investors, key managements or their close family members.

2.27 Changes in principal accounting policies and estimates

2.27.1 Change in principal accounting policies

The company has no change in principal accounting policies in this reporting period.

2.27.2 Change in accounting estimates

The company has no change in principal accounting estimates in this reporting period.

2.28 Correction of previous accounting errors

The company doesn't make any correction for previous accounting errors in this reporting period.

Note 3 Taxes

Tax type and rate

Type	Tax basis	Tax rate
VAT	The VAT payable is recognized as the difference between output VAT which is calculated based on income from sales of products and provision of services according to the tax law and deductible input VAT in the current period.	17% (Note 1)
Business tax	Based on taxable business income	5% (Note 2)
Property tax	Leasing property: Based on rental income Own property: Based on the original value of the fixed asset	12% 1.2%
Urban maintenance and construction tax, Educational surtax and local education surtax	Based on actually paid business tax, VAT and consumption tax	7%, 3%, 1%, 1%-7% (Note 3)
Corporate income tax	Based on taxable income amount	10%, 15%, 24%, 25% (Note 4)

Note 1: According to the *Policies to Further Support the Development of Software and Integrated Circuit Industry* issued by the State Council of China (GF [2011] NO. 4), the portion of VAT on software products independently developed by the taxpayers which exceeds 3% of the taxpayers' sales income from such software products will be refunded after the collection at the legal tax rate of 17%.

Note 2: Business tax was paid by 5% of income from software technology development, transfer and service, system integration, leasing, labor service, ad production as well as net income from advertising agency. According to the *Notice about Taxation related to the State Council's Announcement to Advance Technology Innovation, Develop High-tech and Promote Industrialization* issued by the Ministry of Finance and State Taxation Administration (CSZ [1999] No. 273) and executed by Shenyang Bureau of Finance and Shenyang Taxation Bureau (SCYZ [2000] No. 102), income from technology transfer, development, consulting and technology service shall be exempted from business tax. As per the requirements of the Administrative Notice (GSH [2004] NO. 825) given by the State Administration of Taxation, the Company was entitled to the foregoing preferential policy after registration of the approved technology contract and relevant certificates in local tax bureau.

Note 3: Urban maintenance and construction tax, educational surtax and local educational surtax were paid respectively at 7%, 3% and 1% of the sum of taxable VAT, consumption tax and business tax in January 2011. According to the *Notice about Unification of Local Education Surtax Policies* (CZ [2010] NO. 98), the Company shall pay 7%, 3% and 2% of the sum of taxable VAT, consumption tax and business tax respectively for the urban maintenance and construction tax, educational surtax and local educational surtax since February 1st, 2011. Subsidiaries except for overseas ones shall pay 1%-7%, 3% and 2% of the actually paid goods turnover tax respectively for foregoing taxes.

Note 4: According to the *Corporate Income Tax Law of the People's Republic of China* (ZXL [2007] NO. 63), rate of corporate income tax shall be cut off to 15% for high-tech companies that are supported by the State. The Company and its subsidiary Neusoft Group (Dalian) Co., Ltd. ("Dalian Neusoft"), as high-tech companies, were entitled to this preferential policy in 2011. In addition, according to the *Notice about Corporate Income Tax Preferential Policy* (CS [2008] NO.1) given by the State Taxation Administration, rate of corporate income tax shall be cut off to 10% for key software companies under certain national plan. As of the approved reporting date of this financial report, the Company and Dalian Neusoft were not recognized as key software companies in 2011 under certain national plan because the recognition process has not yet begun, but we believe that the companies can meet the recognition conditions. Therefore, the companies' corporate income tax in 2011 was calculated at the rate of 10%.

According to the *Corporate Income Tax Law of the People's Republic of China* (ZXL [2007] NO. 63), corporate income taxes on following high-tech subsidiaries were paid at the rate of 15%: Neusoft Group (Beijing) Co., Ltd., Shenyang Neusoft Medical Systems Co., Ltd., Chengdu Neusoft System Integration Co., Ltd., Xi'an Neusoft System Integration Co., Ltd., Qinhuangdao Neusoft Co., Ltd., Nanjing Neusoft System Integration Co., Ltd., Shenyang Neusoft Information Technology Service Co., Ltd., Shanghai Neusoft Times Digital Technology Co., Ltd., Hunan Neusoft Co., Ltd. and Guangdong Neusoft Co., Ltd..

The Company's subsidiary Shenzhen Neusoft Co., Ltd. paid the corporate income tax at the rate of 24% according to the *Notice about Transitory Preferential Policy on Corporate Income Tax* (GF [2007] NO. 39) issued by the State Council.

112 | According to the *Notice about Corporate Income Tax Preferential Policy* (CS [2008] NO.1) given by the State Council, the Company's subsidiaries including Neusoft Group (Shanghai) Co., Ltd., Neusoft Group (Tianjin) Co., Ltd., Shenyang Neusoft System Integration Technology Co., Ltd., and Neusoft Group (Guangzhou) Co., Ltd. were exempted from corporate income tax in the first two years since the profit-making year and pay the tax by half from the third to fifth year. After recognition by relevant tax bureau, Year 2011 is tax holiday for Neusoft Group (Shanghai) Co., Ltd., Shenyang Neusoft System Integration Technology Co., Ltd., Neusoft Group (Tianjin) Co., Ltd., Neusoft Group (Guangzhou) Co., Ltd..

Other domestic subsidiaries paid the tax at the rate of 25% according to the *Corporate Income Tax Law of the People's Republic of China*.

Note 4 Business Combination and Consolidation of Financial Statements

Monetary unit in following tables is expressed in Renminbi unless otherwise indicated.

4.1 Subsidiaries

4.1.1 Wholly-owned or controlled subsidiaries

Subsidiary	Type	Domicile	Nature	Registered capital	Business scope	Actual investment amount at the end of the period	Balance of other items constituting net investment on the subsidiary	Equity ratio (%)	Voting share (%)	Whether it is included in the consolidated financial statements	Minority interest	Amount of minority interest used to offset minority profit/loss	Balance of the owner's equity of parent company after offsetting the portion by which the loss of current period borne by the minority shareholders of the subsidiary exceeds the beginning balance of owner's equity of the subsidiary shared by the minority shareholders
Shenyang Zhuri Digital Advertising Communications Co., Ltd.	Wholly owned	Shenyang	Limited liability company	1,000,000	Ad production/publicity	1,000,000		100	100	Yes			
Hunan Neusoft Co., Ltd.	Wholly owned	Changsha	Limited liability company	12,000,000	Computer software/hardware	12,000,000		100	100	Yes			
Shenzhen Neusoft Co., Ltd.	Wholly owned	Shenzhen	Limited liability company	5,000,000	Computer software/hardware	5,000,000		100	100	Yes			
Shenyang Neusoft Medical Systems Co., Ltd.	Wholly owned	Shenyang	Limited liability company	78,000,000	Medical systems	87,082,539		100	100	Yes			
Shandong Neusoft System Integration Co., Ltd.	Wholly owned	Qingdao	Limited liability company	15,000,000	Computer software/hardware	15,000,000		100	100	Yes			
Dalian Neusoft Finance Information Technology Co., Ltd.	Wholly owned	Dalian	Limited liability company	USD3,000,000	Computer software/hardware	13,491,850		Direct: 69 Indirect: 31	100	Yes			
Shenyang Neusoft Boan Software Co., Ltd.	Controlled	Shenyang	Limited liability company	USD2,500,000	Computer software/hardware	12,416,895		60	60	Yes	295,462		
Nanjing Neusoft System Integration Co., Ltd.	Wholly owned	Nanjing	Limited liability company	12,000,000	Computer software/hardware	12,000,000		100	100	Yes			

Continued table

Subsidiary	Type	Domicile	Nature	Registered capital	Business scope	Actual investment amount at the end of the period	Balance of other items constituting net investment on the subsidiary	Equity ratio (%)	Voting share (%)	Whether it is included in the consolidated financial statements	Minority interest	Amount of minority interest used to offset minority profit/loss	Balance of the owner's equity of parent company after offsetting the portion by which the loss of current period borne by the minority shareholders of the subsidiary exceeds the beginning balance of owner's equity of the subsidiary shared by the minority shareholders
Neusoft (Hong Kong) Co., Ltd.	Wholly owned	Hong Kong	Limited liability company	USD 850,000	Computer software development/sales/consulting	7,037,915		100	100	Yes			
Chengdu Neusoft System Integration Co., Ltd.	Wholly owned	Chengdu	Limited liability company	20,000,000	Computer software/hardware	20,000,000		100	100	Yes			
Qinhuangdao Neusoft Co., Ltd.	Controlled	Qinhuangdao	Limited liability company	10,000,000	Computer software development & network integration	8,500,000		85	85	Yes	2,096,540		
Neusoft Group (Zhengzhou) Co., Ltd.	Wholly owned	Zhengzhou	Limited liability company	10,000,000	Development and sales of computer software/hardware, etc.	10,000,000		100	100	Yes			
Neusoft Group (Nanjing) Co., Ltd.	Wholly owned	Nanjing	Limited liability company	12,000,000	Development and sales of computer software/hardware, technology consulting, etc.	12,000,000		100	100	Yes			
Shenyang Neusoft Transportation Information Technology Co., Ltd.	Controlled	Shenyang	Limited liability company	7,000,000	Computer service	3,535,000		50.5	50.5	Yes	3,112,163		
Neusoft Group (Nanchang) Co., Ltd.	Wholly owned	Nanchang	Limited liability company	20,000,000	Computer hardware R&D, technology consulting/service	20,000,000		100	100	Yes			
Shanghai Neusoft Times Digital Technology Co., Ltd.	Wholly owned	Shanghai	Limited liability company	20,000,000	Computer software/hardware	20,000,000		100	100	Yes			
Guangdong Neusoft Co., Ltd.	Wholly owned	Guangzhou	Limited liability company	20,000,000	Computer software/hardware	20,000,000		100	100	Yes			

Continued table

Subsidiary	Type	Domicile	Nature	Registered capital	Business scope	Actual investment amount at the end of the period	Balance of other items constituting net investment on the subsidiary	Equity ratio (%)	Voting share (%)	Whether it is included in the consolidated financial statements	Minority interest	Amount of minority interest used to offset minority profit/loss	Balance of the owner's equity of parent company after offsetting the portion by which the loss of current period borne by the minority shareholders of the subsidiary exceeds the beginning balance of owner's equity of the subsidiary shared by the minority shareholders
Xi'an Neusoft System Integration Co., Ltd.	Wholly owned	Xi'an	Limited liability company	25,000,000	Computer software/hardware	22,502,469		100	100	Yes			
Wuhan Neusoft Information Technology Co., Ltd.	Wholly owned	Wuhan	Limited liability company	15,000,000	Computer software/hardware	15,000,000		100	100	Yes			
Neusoft Group (Beijing) Co., Ltd. (Note 1)	Wholly owned	Beijing	Limited liability company	250,000,000	Computer software/hardware, import/export of related goods and technologies	249,396,361		100	100	Yes			
Shenyang Neusoft System Integration Technology Co., Ltd.	Wholly owned	Shenyang	Limited liability company	20,000,000	Computer software/hardware, technology consulting/service	20,000,000		100	100	Yes			
Neusoft Group (Guangzhou) Co., Ltd.	Wholly owned	Guangzhou	Limited liability company	100,000,000	Computer software/hardware, technology consulting/service	100,000,000		100	100	Yes			
Neusoft Group (Shanghai) Co., Ltd.	Wholly owned	Shanghai	Limited liability company	100,000,000	Computer software/hardware, technology consulting/service	100,000,000		100	100	Yes			
Hangzhou Neusoft Co., Ltd.	Wholly owned	Hangzhou	Limited liability company	500,000	Computer software/hardware, technology consulting/service	500,000		100	100	Yes			
Neusoft Group (Tianjin) Co., Ltd.	Wholly owned	Tianjin	Limited liability company	20,000,000	Computer software/hardware	20,000,000		100	100	Yes			

Continued table

Subsidiary	Type	Domicile	Nature	Registered capital	Business scope	Actual investment amount at the end of the period	Balance of other items constituting net investment on the subsidiary	Equity ratio (%)	Voting share (%)	Whether it is included in the consolidated financial statements	Minority interest	Amount of minority interest used to offset minority profit/loss	Balance of the owner's equity of parent company after offsetting the portion by which the loss of current period borne by the minority shareholders of the subsidiary exceeds the beginning balance of owner's equity of the subsidiary shared by the minority shareholders
Neusoft (Europe) Co., Ltd.	Wholly owned	Switzerland	Limited liability company	CHF 37,900,000	Computer software/hardware, technology consulting/service	259,661,002		100	100	Yes			
Neusoft Group (Tangshan) Co., Ltd.	Wholly owned	Tangshan	Limited liability company	30,000,000	Computer software/hardware, technology consulting/service	30,000,000		100	100	Yes			
Neusoft Group (Hannan) Co., Ltd.	Wholly owned	Hannan	Limited liability company	100,000,000	Computer software/hardware, technology consulting/service	100,000,000		100	100	Yes			
Neusoft Group (Wuxi) Co., Ltd.	Wholly owned	Wuxi	Limited liability company	20,000,000	Computer software/hardware, technology consulting/service	20,000,000		100	100	Yes			
Neusoft Group (Wuhu) Co., Ltd.	Wholly owned	Wuhu	Limited liability company	10,000,000	Computer software/hardware development & service	10,000,000		100	100	Yes			
Guangdong Neufashion Digital Technology Co., Ltd.	Controlled	Guangzhou	Limited liability company	37,500,000	Computer software/hardware development & sales	22,500,000		60	60	Yes	13,867,532		
Tianjin Neusoft Technology Co., Ltd. (Note 2)	Wholly owned	Tianjin	Limited liability company	5,000,000	Computer software/hardware, system integration, technology consulting	5,000,000			100	Yes			
Shenyang Neusoft Medical Systems Import & Export Co., Ltd. (Note 3)	Wholly owned	Shenyang	Limited liability company	5,000,000	Import & export of goods and technologies	5,000,000			100	Yes			
Neusoft Medical System U.S.A. Inc. (Note 4)	Wholly owned	U.S.A.	Limited liability company	USD 4,000,000	R&D/manufacturing of medical systems, technology consulting & service	16,525,050			100	Yes			

Continued table

Subsidiary	Type	Domicile	Nature	Registered capital	Business scope	Actual investment amount at the end of the period	Balance of other items constituting net investment on the subsidiary	Equity ratio (%)	Voting share (%)	Whether it is included in the consolidated financial statements	Minority interest	Amount of minority interest used to offset minority profit/loss	Balance of the owner's equity of parent company after offsetting the portion by which the loss of current period borne by the minority shareholders of the subsidiary exceeds the beginning balance of owner's equity of the subsidiary shared by the minority shareholders
Shenyang Neusoft Spectrum MRI Technologies Co., Ltd. (Note 5)	Controlled	Shenyang	Limited liability company	10,000,000	R&D/manufacturing of MRI products, technology consulting	8,000,000			80	Yes	3,092,567		
Neusoft Positron Medical Systems Co., Ltd. (Note 6)	Controlled	Shenyang	Limited liability company	3,500,000 USD	PET-CT development & manufacturing, technology consulting/service	21,150,450			99	Yes	27,612		
Shenzhen Neusoft Mobile Terminal Design Co., Ltd. (Note 7)	Controlled	Shenzhen	Limited liability company	5,000,000	Development & sales of electronics technologies, technology consulting	3,500,000			70	Yes	531,733		
Beijing Neusoft Yuetong software Technology Co., Ltd. (Note 8)	Controlled	Beijing	Limited liability company	15,000,000	Computer software/hardware & service	10,500,000			70	Yes	4,346,376		
Beijing InBridge Consulting Co., Ltd. (Note 9)	Wholly owned	Beijing	Limited liability company	100,000	Recruitment process outsourcing & talent hunting service	100,000			100	Yes			
Dalian Neusoft BPO Service Co., Ltd. (Note 10)	Wholly owned	Dalian	Limited liability company	5,000,000	Computer software/hardware	5,000,000			100	Yes			
Hefei Neusoft Information Technology Co., Ltd. (Note 11)	Wholly owned	Hefei	Limited liability company	500,000	Computer software/hardware, system integration, technology consulting	500,000			100	Yes			
Beijing Neusoft Huiju Information Technology Co., Ltd. (Note 12)	Controlled	Beijing	Limited liability company	26,650,000	Computer software/hardware, technology service	27,265,000			80.28	Yes	5,852,441		
Neusoft Yuetong software Technology (Dalian) Co., Ltd. (Note 13)	Wholly owned	Dalian	Limited liability company	5,000,000	Computer software/hardware, technology consulting	5,000,000			100	Yes			

Continued table													
Subsidiary	Type	Domicile	Nature	Registered capital	Business scope	Actual investment amount at the end of the period	Balance of other items constituting net investment on the subsidiary	Equity ratio (%)	Voting share (%)	Whether it is included in the consolidated financial statements	Minority interest	Amount of minority interest used to offset minority profit/loss	Balance of the owner's equity of parent company after offsetting the portion by which the loss of current period borne by the minority shareholders of the subsidiary exceeds the beginning balance of owner's equity of the subsidiary shared by the minority shareholders
Neusoft Medical Systems Middle East Co., Ltd. (Note 14)	Wholly owned	United Arab Emirates	Limited liability company	USD3,500,000	Medical systems, technology consulting/service	9,236,815			100	Yes			
Neusoft Xikang Holding Co., Ltd. (Note 15)	Controlled	Cayman Islands	Limited liability company	USD50,000	IT and IT consulting	USD 35,000			70	Yes	-4,747,484		
Neusoft Xikang International Co., Ltd. (Note 16)	Wholly owned	Hong Kong	Limited liability company	HKD 1,000,000	IT and IT consulting	HKD 1,000,000			100	Yes			
Neusoft Xikang Healthcare Technology Co., Ltd. (Note 17)	Wholly owned	Beijing	Limited liability company	USD 8,000,000	Computer software/hardware, development of electronics, corporate investment management consulting	USD 8,000,000			100	Yes			
Liaoning Neusoft Xikang Healthcare Co., Ltd. (Note 18)	Wholly owned	Shenyang	Limited liability company	30,000,000	Healthcare information management & consulting; development of management service/system	30,000,000			100	Yes			
Shenyang Neusoft Xikang Medical Systems Co., Ltd. (Note 19)	Wholly owned	Shenyang	Limited liability company	10,000,000	Development of medical software/hardware, healthcare consulting	10,000,000			100	Yes			

Continued table													
Subsidiary	Type	Domicile	Nature	Registered capital	Business scope	Actual investment amount at the end of the period	Balance of other items constituting net investment on the subsidiary	Equity ratio (%)	Voting share (%)	Whether it is included in the consolidated financial statements	Minority interest	Amount of minority interest used to offset minority profit/loss	Balance of the owner's equity of parent company after offsetting the portion by which the loss of current period borne by the minority shareholders of the subsidiary exceeds the beginning balance of owner's equity of the subsidiary shared by the minority shareholders
Shenzhen Neufashion Digital Technology Co., Ltd. (Note 20)	Wholly owned	Shenzhen	Limited liability company	1,000,000	Design/R&D/manufacturing/sales of watch phones; Development /sales of computer software/hardware; import/export of goods and technologies	1,000,000			100	Yes			
Tianjin Xikang Healthcare Technology Co., Ltd. (Note 21)	Controlled	Tianjin	Limited liability company	30,000,000	Computer software/hardware, development of electronics, corporate investment management consulting	4,500,000			75	Yes	1,500,000		

Note 1: This subsidiary is formerly known as Beijing Beyond Technology Co., Ltd.;

Note 2: This subsidiary was invested by another subsidiary Neusoft Group (Beijing) Co., Ltd. with an equity ratio of 100%;

Note 3: This subsidiary was invested by another subsidiary Shenyang Neusoft Medical Systems Co., Ltd. with an equity ratio of 100%;

Note 4: This subsidiary was invested by another subsidiary Shenyang Neusoft Medical Systems Co., Ltd. with an equity ratio of 100%;

Note 5: This subsidiary was invested by another subsidiary Shenyang Neusoft Medical Systems Co., Ltd. with an equity ratio of 80%;

Note 6: This subsidiary was invested by another subsidiary Shenyang Neusoft Medical Systems Co., Ltd. with an equity ratio of 99%;

Note 7: This subsidiary was invested by another subsidiary Liaoning Neusoft Venture Capital Investment Co., Ltd. with an equity ratio of 70%;

Note 8: This subsidiary was invested by another subsidiary Liaoning Neusoft Venture Capital Investment Co., Ltd. with an equity ratio of 70%;

Note 9: This subsidiary was invested by the indirect holding subsidiary Beijing Neusoft Huiju Information Technology Co., Ltd. with an equity ratio of 100%;

Note 10: This subsidiary was invested by another subsidiary Shenyang Neusoft IT Service Co., Ltd. with an equity ratio of 100%;

Note 11: This subsidiary was invested by another subsidiary Shanghai Neusoft Times Digital Technology Co., Ltd. with an equity ratio of 100%;

- Note 12: This subsidiary was invested by another subsidiary Liaoning Neusoft Venture Capital Investment Co., Ltd. with an equity ratio of 80.28%;
- Note 13: This subsidiary was invested by the indirect holding subsidiary Beijing Neusoft Yuetong software Technology Co., Ltd. with an equity ratio of 100%;
- Note 14: This subsidiary was invested by another subsidiary Shenyang Neusoft Medical Systems Co., Ltd. with an equity ratio of 100%;
- Note 15: This subsidiary was invested by another subsidiary Neusoft Group (Hong Kong) Co., Ltd. with an equity ratio of 70%;
- Note 16: This subsidiary was invested by the indirect holding subsidiary Neusoft Xikang Holding Co., Ltd. with an equity ratio of 100%;
- Note 17: This subsidiary was invested by the indirect holding subsidiary Neusoft Xikang International Co., Ltd. with an equity ratio of 100%;
- Note 18: This subsidiary was invested by the indirect holding subsidiary Neusoft Xikang Healthcare Technology Co., Ltd. with an equity ratio of 100%;
- Note 19: This subsidiary was invested by the indirect holding subsidiary Neusoft Xikang Healthcare Technology Co., Ltd. with an equity ratio of 100%;
- Note 20: This subsidiary was invested by another subsidiary Guangdong Neufashion Digital Technology Co., Ltd. with an equity ratio of 100%; and
- Note 21: This subsidiary was invested by the indirect holding subsidiary Neusoft Xikang Healthcare Technology Co., Ltd. with an equity ratio of 75%.

4.1.2. Subsidiaries obtained through business combination under common control

Subsidiary	Type	Domicile	Nature	Registered capital	Business scope	Actual investment amount at the end of the period	Balance of other items constituting net investment on the subsidiary	Equity ratio (%)	Voting share (%)	Whether it is included in the consolidated financial statements	Minority interest	Amount of minority interest used to offset minority profit/loss	Balance of the owner's equity of parent company after offsetting the portion by which the loss of current period borne by the minority shareholders of the subsidiary exceeds the beginning balance of owner's equity of the subsidiary shared by the minority
Shenyang Neusoft Property Management Co., Ltd.	Wholly owned	Shenyang	Limited liability company	1,000,000	Property management & service	1,000,000		100	100	Yes			
Neusoft Group (Chengdu) Co., Ltd.	Wholly owned	Chengdu	Limited liability company	1,000,000	Computer software/hardware	1,000,000		100	100	Yes			
Shenyang Neusoft IT Service Co., Ltd.	Wholly owned	Shenyang	Limited liability company	310,000,000	Computer software/hardware	310,000,000		100	100	Yes			
Neusoft Group (Dalian) Co., Ltd.	Wholly owned	Dalian	Limited liability company	300,000,000	Computer software/hardware	300,000,000		100	100	Yes			
Neusoft Science & Technology Co., Ltd.	Wholly owned	U.S.A.	Limited liability company	USD 1,000	Computer software/hardware, technology consulting & service	63,329,610		100	100	Yes			
Dalian Neusoft Park Industrial Development Co., Ltd. (Note 1)	Controlled	Dalian	Limited liability company	359,000,000	Computer software development and technology consulting; property rental service; property management; import/export of general goods and technologies	299,879,128			60	Yes	248,450,289		
Foshan Nanhai Neusoft Information Technology Development Co., Ltd. (Note 2)	Controlled	Foshan	Limited liability company	60,000,000	Investment/construction/management of Nanhai Neusoft Information Institute; IT, management talent education/training and consulting	59,400,000			99	Yes	657,401		
Chengdu Neusoft Information Technology Development Co., Ltd. (Note 3)	Controlled	Chengdu	Limited liability company	60,000,000	Computer software/hardware, development/rental/sales of education courseware; real estate development and sales; property management; venue rental; IT, management talent training and consulting	59,400,000			99	Yes	1,590,049		

Note 1: This subsidiary was invested by another subsidiary Shenyang Neusoft IT Service Co., Ltd. with an equity ratio of 60%;

Note 2: This subsidiary was invested by another subsidiary Dalian Neusoft Park Industrial Development Co., Ltd. with an equity ratio of 99%; and

Note 3: This subsidiary was invested by another subsidiary Dalian Neusoft Park Industrial Development Co., Ltd. with an equity ratio of 99%.

4.1.3 Subsidiaries obtained through business combination under non-common control

Subsidiary	Type	Domicile	Nature	Registered capital	Business scope	Actual investment amount at the end of the period	Balance of other items constituting net investment on the subsidiary	Equity ratio (%)	Voting share (%)	Whether it is included in the consolidated financial statements	Minority interest	Amount of minority interest used to offset minority profit/loss	Balance of the owner's equity of parent company after offsetting the portion of current period borne by the minority shareholders of the subsidiary exceeds the beginning balance of owner's equity of the subsidiary shared by the minority
Neusoft (Japan) Co., Ltd.	Wholly owned	Japan	Limited liability company	JPY187,750,000	Computer software/hardware	11,826,901		100	100	Yes			
Beijing Lanuisoft Co., Ltd.	Wholly owned	Beijing	Limited liability company	10,000,000	Development/design/production/sales of computer software	9,454,820		100	100	Yes			
Liaoning Neusoft Venture Capital Investment Co., Ltd.	Controlled	Dalian	Limited liability company	105,000,000	SME venture capital investment & management	80,552,833		71.43	71.43	Yes	32,570,571		
Kunming Neusoft Jinsha Information Technology Co., Ltd. (Note 1)	Controlled	Kunming	Limited liability company	29,646,100	Design, development, manufacturing, service and sales of computer equipment and software products	15,119,513			51	Yes	15,788,736		
Neusoft Technology Solutions GmbH (Note 2)	Wholly owned	Germany	Limited liability company	ERU1,025,000	Computer software/hardware, technology consulting/service	ERU 6,029,000			100	Yes			
Neusoft Mobile Solutions Oy (Note 3)	Wholly owned	Finland	Limited liability company	ERU8,578	Computer software/hardware, technology consulting/service	ERU 2,857,600			100	Yes			
Neusoft Mobile Solutions SRL (Note 4)	Wholly owned	Roumania	Limited liability company	ROL 94,000	Computer software/hardware, technology consulting/service	ERU 1,017,600			100	Yes			
Beijing LBS Social Insurance Information Technology Co., Ltd. (Note 5)	Controlled	Beijing	Limited liability company	15,000,000	Technology development, consulting and sales of products	10,390,275		61.67	61.67	Yes	5,769,562		
Beijing Neusoft Viewhigh Technology Co., Ltd. (Note 6)	Controlled	Beijing	Limited liability company	27,790,000	Development/manufacturing of computer software, sales of products; technology support service	114,101,440			73.14	Yes	5,644,163		

Note 1: This subsidiary was acquired by another subsidiary Liaoning Neusoft Venture Capital Investment Co., Ltd. with an equity ratio of 51% ;

Note 2: This subsidiary was acquired by another subsidiary Neusoft (Europe) Co., Ltd. with an equity ratio of 100% ;

Note 3: This subsidiary was acquired by another subsidiary Neusoft (Europe) Co., Ltd. with an equity ratio of 100% ;

Note 4: This subsidiary was acquired by another subsidiary Neusoft (Europe) Co., Ltd. with an equity ratio of 100% ;

Note 5: This subsidiary was acquired by the Company with an equity ratio of 61.67% ; and

Note 6: This subsidiary (former Beijing Viewhigh Technology Co., Ltd.) was acquired by Neusoft Group (Beijing) Co., Ltd. with an equity ratio of 73.14%.

4.2 Notes to the changes in consolidation

4.2.1 There are 15 newly consolidated companies in this year including Neusoft Group (Wuhu) Co., Ltd., Guangdong Neufashion Digital Technology Co., Ltd., Neusoft Group (Nanchang) Co., Ltd., Neusoft Group (Zhengzhou) Co., Ltd., Shenyang Neusoft Transportation Information Technology Co., Ltd., Neusoft Group (Nanjing) Co., Ltd., Beijing LBS Social Insurance Information Technology Co., Ltd., Beijing Neusoft Viewhigh Technology Co., Ltd., Neusoft Xikang Holding Co., Ltd., Neusoft Xikang International Co., Ltd., Neusoft Xikang Healthcare Technology Co., Ltd., Liaoning Neusoft Xikang Healthcare Co., Ltd., Shenyang Neusoft Xikang Medical Systems Co., Ltd., Shenzhen Neufashion Digital Technology Co., Ltd., Tianjin Xikang Healthcare Technology Co., Ltd.; and

4.2.2 The subsidiary Beijing YYT Software Technology Co., Ltd. is not included in the consolidation in this reporting period due to liquidation.

4.3 Entities newly included in the consolidated financial statements

Entity	Net assets at the end of this period	Net profit of this period
Neusoft Group (Wuhu) Co., Ltd. (Note 1)	10,005,974	5,974
Guangdong Neufashion Digital Technology Co., Ltd. (Note 2)	34,668,829	-2,831,171
Shenyang Neusoft Transportation Information Technology Co., Ltd. (Note 3)	6,287,199	-713,442
Neusoft Group (Nanjing) Co., Ltd. (Note 4)	9,613,032	-2,386,968
Neusoft Xikang Holding Co., Ltd. (Note 5)	-32,236	-357,490
Neusoft Xikang International Co., Ltd. (Note 6)	103,222	-1,325,944
Neusoft Xikang Healthcare Technology Co., Ltd. (Note 7)	36,005,044	-15,074,156
Beijing LBS Social Insurance Information Technology Co., Ltd. (Note 8)	15,051,031	-1,039,841
Beijing Neusoft Viewhigh Technology Co., Ltd. (Note 9)	21,013,264	1,669,753
Liaoning Neusoft Xikang Healthcare Co., Ltd. (Note 10)	29,995,111	-4,889
Neusoft Group (Zhengzhou) Co., Ltd. (Note 11)	9,998,082	-1,918
Shenyang Neusoft Xikang Medical Systems Co., Ltd. (Note 12)	9,993,811	-6,189
Neusoft Group (Nanchang) Co., Ltd. (Note 13)	20,000,000	
Shenzhen Neufashion Digital Technology Co., Ltd. (Note 14)	1,000,000	
Tianjin Xikang Healthcare Technology Co., Ltd. (Note 15)	6,000,000	

Note 1: This entity was invested by the Company in March 2011 with an equity ratio of 100% and included in the consolidated financial statements since the month of investment.

Note 2: This entity was invested by the Company in May 2011 with an equity ratio of 60% and included in the consolidated financial statements since the month of investment.

Note 3: The Company invested RMB 3,535,000 Yuan in July 2011 into this entity with an equity ratio of 50.5% and included it in the consolidated financial statements since the month of investment.

Note 4: The Company invested RMB 12 million Yuan in July 2011 into this entity with an equity ratio of 100% and included it in the consolidated financial statements since the month of investment.

Note 5: The Company invested USD 35,000 in July 2011 into this entity with an equity ratio of 70% and included it in the consolidated financial statements since the month of investment.

Note 6: This entity was acquired by the Company's indirect holding subsidiary Neusoft Xikang Holding Co., Ltd. in July 2011 and included in the consolidated financial statements since the month of acquisition.

Note 7: The Company's indirect holding subsidiary Neusoft Xikang International Co., Ltd. invested USD 8 million in July 2011 into this entity with an equity ratio of 100% and it was included in the consolidated financial statements since the month of investment.

Note 8: The Company purchased 28.33% equity in this entity with RMB 5,390,300 Yuan in August 2011, totally holding 61.67% after adding up the 33.33% it held before. The entity was included in the consolidated financial statements since the month of purchase.

Note 9: Neusoft Group (Beijing) Co., Ltd. purchased 73.14% equity in this entity (former Beijing Viewhigh Technology Co., Ltd.) with RMB 114.1 Yuan in August 2011 and it was included in the consolidated financial statements since the month of purchase.

Note 10: The Company's indirect holding subsidiary Neusoft Xikang Healthcare Technology Co., Ltd. invested RMB 30 million Yuan in this entity with an equity ratio of 100% in October 2011 and it was included in the consolidated financial statements since the month of investment.

Note 11: The Company invested RMB 10 million Yuan in this entity with an equity ratio of 100% in October 2011 and included it in the consolidated financial statements since the month of investment.

124 | Note 12: The Company's indirect holding subsidiary Neusoft Xikang Healthcare Technology Co., Ltd. invested RMB 10 million Yuan in this entity with an equity ratio of 100% in November 2011 and it was included in the consolidated financial statements since the month of investment.

Note 13: The Company invested RMB 20 million Yuan in this entity with an equity ratio of 100% in November 2011 and included it in the consolidated financial statements since the month of investment.

Note 14: Guangdong Neufashion Digital Technology Co., Ltd. invested RMB 30 million Yuan in this entity with an equity ratio of 100% in December 2011 and it was included in the consolidated financial statements since the month of investment.

Note 15: The Company's indirect holding subsidiary Neusoft Xikang Healthcare Technology Co., Ltd. invested RMB 4.5 million Yuan in this entity (registered capital of 30 million) with an equity ratio of 75% in October 2011 and it was included in the consolidated financial statements since the month of investment.

4.4 There is no business combination under common control in this period.

4.5 Business combination under non-common control in this period

4.5.1 Overview

(1) On the acquisition date August 31st, 2011, the Company purchased 28.33% equity in Beijing LBS Social Insurance Information Technology Co., Ltd. ("BJ LBS") with RMB 5,390,275 Yuan in cash. The recognition of fair value of the acquisition consideration is based on the fair value of the net assets in the Asset Assessment Report (Report NO.: ZRJS 2010-1-032) issued by Beijing Zhongrunjing-shi Asset Assessment Co., Ltd., which has been agreed upon by both the Company and BJ LBS. The Company held 33.33% equity in BJ LBS before the acquisition. According to equity method, the book value of the investment was RMB 5,875,503 Yuan; the fair value of the 33.33% equity on the acquisition date was RMB 6,341,500 Yuan; and the investment income in the consolidated statements which was re-measured and recognized based on fair value was RMB 465,997 Yuan. In addition, other changes in equity in the Company's long-term equity investment on BJ LBS with the amount of RMB 755,902 Yuan, which was confirmed before the acquisition, were recognized as investment income in the consolidated financial statements.

BJ LBS, established and headquartered in Beijing on January 16th, 2001, is a company specialized in technology development, consult-

ing services and sales of products. It had no parent company or final controller before the acquisition. The acquisition date is determined upon payment of over 50% equity is made whilst the process of register of change is finished.

Acquiree	Goodwill	Calculation method
Beijing LBS Social Insurance Information Technology Co., Ltd.	1,809,071	The Company totally held 61.67% equity in BJ LBS (newly acquired 28.33%+33.33% held before); the acquisition cost and fair value of BJ LBS' identifiable net assets obtained by the Company on the acquisition date is RMB 11,731,775 Yuan and RMB 16,090,872 respectively. The difference with amount of RMB 1,809,071 Yuan by which the acquisition cost exceeds the fair value of BJ LBS' identifiable net assets obtained by the Company based on its equity ratio, is recognized as goodwill.

Identifiable assets and liabilities of the Acquiree (BJ LBS)

Item	Acquisition date	
	Book value	Fair value
Current assets	15,472,729	15,472,729
Fixed assets	823,757	823,757
Intangible asset	287,930	287,930
Total assets	17,230,575	17,230,575
Total liabilities	1,139,703	1,139,703
Net assets	16,090,872	16,090,872

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(2) On the acquisition date August 31st, 2011, the Company's subsidiary Neusoft Group (Beijing) Co., Ltd. acquired 73.14% equity of Beijing Viewhigh Technology Co., Ltd. (renamed as "Beijing Neusoft Viewhigh Technology Co., Ltd.", "Neusoft Viewhigh" for short, after the acquisition) with RMB 114,101,440 Yuan in cash. The recognition of fair value of the acquisition consideration is based on the whole corporate value, which has been agreed upon by both the Company and Neusoft Viewhigh (Please refer to Neusoft Corporation's announcement with NO. 2011-001 for details). Neusoft Viewhigh, established and headquartered in Beijing in May 27th, 2003, is a company specialized in development, manufacturing and sales of computer software/hardware, technology support and service, commission agent (excluding auction), export and import business. The controlling shareholder of Neusoft Viewhigh before the acquisition was natural person Mr. Guo Xuewen.

The acquisition date is determined upon payment of over 50% equity interest is made whilst the process of register of change is finished.

Acquiree	Goodwill	Calculation method
Beijing Neusoft Viewhigh Technology Co., Ltd.	99,953,597	The Company acquired 73.14% equity in Neusoft Viewhigh with RMB 114,101,440 Yuan. The fair value of Neusoft Viewhigh's identifiable net assets obtained by the Company on the acquisition date is RMB 19,343,510 Yuan. The difference with amount of RMB 99,953,597 Yuan by which the acquisition cost exceeds the fair value of Neusoft Viewhigh's identifiable net assets obtained by the Company based on its equity ratio, is recognized as goodwill.

Identifiable assets and liabilities of the Acquiree (Neusoft Viewhigh)

Item	Acquisition date	
	Book value	Fair value
Current assets	35,158,967	35,158,967
Fixed assets	457,648	457,648
Intangible asset	217,806	217,806
Total assets	36,485,258	36,485,258
Total liabilities	17,141,748	17,141,748
Net assets	19,343,510	19,343,510

(3) Financial situation of subsidiaries through business combination under non-common control after consolidation:

Acquiree	Income from the acquisition date to the end of this period	Net profit from the acquisition date to the end of this period	Cash flow from the acquisition date to the end of this period
Beijing LBS	3,598,028	-1,039,841	1,036,558
Neusoft Viewhigh	19,080,938	1,669,753	231,731

4.6 No subsidiary is lost as a result of losing control right through selling equity in this period.

4.7 There is no reverse acquisition in this period.

4.8 There is no merger in this period.

4.9 Exchange rate for financial statements of overseas entities

The foreign currency-dominated assets and liabilities in balance sheets of the Company's overseas subsidiaries which were included in the consolidated financial statements were translated at the spot exchange rate on the balance sheet date; all the other items under the owners' equity except for "Undistributed Profits" were translated at the spot exchange rate on the date of the transactions. Income and expenses in the income statement were translated at the average rate in the reporting period. Difference arising from the translation of foreign currency was separately presented under the item of owners' equities in the balance sheet.

Note 5 Notes to Main Items in Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

5.1 Monetary capital

Item	Year-end balance			Year-begin balance		
	Foreign currency	Translation rate	RMB	Foreign currency	Translation rate	RMB
Cash						
RMB			198,093			254,766
USD	2,000	6.300 9	12,602	1	6.622 7	7
JPY	23,299	0.081 103	1,890	205,511	0.081 260	16,700

Continued table

Item	Year-end balance			Year-begin balance		
	Foreign currency	Translation rate	RMB	Foreign currency	Translation rate	RMB
ERU	5,462	8.162 5	44,584			
HKD	1,392	0.810 7	1,128	967	0.850 9	823
AED	1,467	1.715 9	2,517	12,236	1.812 9	22,183
ROL	3,203	1.897 2	6,077			
Subtotal			266,891			294,479
Bank deposit						
RMB			1,500,755,787			1,473,722,991
USD	17,631,079	6.300 9	111,091,666	11,890,672	6.622 7	78,748,353
JPY	1,112,200,915	0.081 103	90,202,831	1,200,795,563	0.081 260	97,576,647
ERU	3,461,400	8.162 5	28,253,678	3,050,726	8.806 5	26,866,219
HKD	1,294,766	0.810 7	1,049,667	283,847	0.850 9	241,525
SGD	499,014	4.867 9	2,429,150	925,342	5.119 1	4,736,918
CHF	1,619	6.728 7	10,894	146,133	7.056 2	1,031,144
ROL	229,574	1.897 2	435,548	1,013,672	2.011 5	2,039,001
VND	304,611,815	0.000 3	91,384	460,171,165	0.000 339	155,998
AED	986,564	1.715 9	1,692,845	97,105	1.812 9	176,042
CAD	69,053	6.177 7	426,589			
Subtotal			1,736,440,039			1,685,294,838
Other currency						
RMB			1,809,035			5,389,790
Subtotal			1,809,035			5,389,790
Total			1,738,515,965			1,690,979,107

1) The balance of overseas deposited monetary capital at the end of this period is RMB 170,496,927 Yuan after translation.

2) Among other monetary capital at the end of this period, RMB 1,809,035 Yuan is Beijing LBS Social Insurance Information Technology Co., Ltd.'s margin deposit, which was not recognized as cash or cash equivalent when preparing the cash flow statement.

5.2 Trading financial assets

Item	Year-end balance	Year-begin balance
Trading financial assets		
Foreign exchange forward contracts (Note)	863,170	969,350
Total	863,170	969,350

Note: Foreign exchange forward contracts shall be calculated based on exchange rate quoted in the open market; estimated floating income shall be included in income from change in fair value and presented as trading financial assets.

5.3 Notes receivable

5.3.1 Type

Type	Year-end balance	Year-begin balance
Banker's acceptance	33,772,838	12,798,400
Commercial acceptance bill	2,442,407	
Total	36,215,245	12,798,400

5.3.2 There is no pledged note receivable as of the end of this period;

5.3.3 There is no note that is converted into account receivable due to the drawer has no ability to perform the obligation and no note endorsed by the Company but undue yet as of the end of this period;

5.3.4 There is no undue but discounted banker's acceptance or commercial acceptance bill as of the end of this period;

5.3.5 Among notes receivable as of the end of this period, there is no note receivable from any shareholding company holding over 5% (including 5%) voting share of the Company.

5.4 Accounts receivable

5.4.1 Disclosure by type

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Type	Year-end balance				Year-begin balance			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Account receivable with significant single amount and single appropriation of provision for bad debts	203,808,369	16.70	13,811,688	6.78	117,846,230	11.76	9,903,231	8.40
Account receivable with appropriation of provision for bad debts by portfolio	971,097,433	79.57	31,862,593	3.28	856,562,486	85.48	22,911,031	2.67
Account receivable with insignificant single amount but single appropriation of provision for bad debts	45,459,795	3.73	13,402,767	29.48	27,605,463	2.76	9,474,787	34.32
Total	1,220,365,597	100.00	59,077,048		1,002,014,179	100.00	42,289,049	

5.4.2 Account receivable with significant single amount and single appropriation of provision for bad debts

Account receivable from	Book amount	Provision for bad debts	Appropriation ratio (%)	Reason
China Netcom	139,469,434	11,180,373	8.02	Significant amount with receivable proportion of over 90%
Nokia Siemens Networks Neusoft Commtch Company Ltd. ("NSNN")	33,113,689	2,040,901	6.16	Significant amount with recoverable proportion of over 90%
Liaoning Jinhui IT Service Co., Ltd.	16,074,138	253,094	1.57	Significant amount with recoverable proportion of over 95%
Shenyang Metro Co., Ltd.	15,151,108	337,320	2.23	Significant amount with recoverable proportion of over 95%
Total	203,808,369	13,811,688		

Accounts receivable with appropriation of provision for bad debts by aging analysis method in portfolio:

Age	Year-end balance			Year-begin balance		
	Book amount		Provision for bad debts	Book amount		Provision for bad debts
	Amount	Ratio (%)		Amount	Ratio (%)	
Within 1 year	753,616,537	77.61	7,536,165	699,564,802	81.67	6,995,648
1-2 years	131,858,322	13.58	2,637,167	80,423,826	9.39	1,608,477
2-3 years	41,610,955	4.28	2,080,548	41,877,917	4.89	2,093,896
3-5 years	27,114,340	2.79	2,711,434	24,981,035	2.92	2,498,104
Over 5 years	16,897,279	1.74	16,897,279	9,714,906	1.13	9,714,906
Total	971,097,433	100.00	31,862,593	856,562,486	100.00	22,911,031

Account receivable with insignificant single amount but single appropriation of provision for bad debts

Account receivable for	Book amount	Provision for bad debts	Appropriation ratio (%)	Reason
Contract payment for software and system integration	6,697,327	6,697,327	100.00	Account receivable with long age which is estimatedly unrecoverable
Contract payment for software and system integration	5,849,575	3,317,221	56.71	Account receivable with long age with recoverable proportion of about 50%
Contract payment for software and system integration	32,912,893	3,388,219	10.29	Account receivable with long age with recoverable proportion of about 90%
Total	45,459,795	13,402,767		

5.4.3 Accounts receivable received in full or part amount in this period with appropriation of provision for bad debts in full amount or at large proportion in preceding year:

Account receivable from	Receivable balance at the beginning of this year	Provision for bad debts at the beginning of this year	Appropriation ratio (%)	Received amount in this period
Qingdao Technicians College	1,141,700	1,110,200	97.24	740,700
Heilongjiang Electric Power Company Limited	273,000	273,000	100.00	273,000
Jinan Dezhou Power Plant Materials Company Limited	820,060	820,060	100.00	820,060
Fujian Electric Power Company Limited	593,001	593,001	100.00	593,001
Shanghai Toshiba Elevator Co., Ltd.	325,980	325,980	100.00	325,980
Huangneng Dezhou Power Plant	210,000	210,000	100.00	210,000
Total	3,363,741	3,332,241		2,962,741

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5.4.5 Actual write-off accounts receivable:

Receivable from	Category	Write-off amount	Reason	Whether caused by related transaction
The Fifth People's Hospital of Hengyang, Hunan Province	Sales payment	24,861	It is estimatedly unrecoverable.	No
Other	Sales payment	325,750	Estimatedly unrecoverable sales payment to the Company's subsidiary Shenyang Neusoft Boan Software Co., Ltd.	No
Total		350,611		

5.4.6 Accounts receivable from shareholder companies with over 5% (including 5%) voting share of the Company:

Receivable from	Year-end balance		Year-begin balance	
	Book amount	Provision for bad debts	Book amount	Provision for bad debts
Toshiba Corporation	4,616,409	46,164	6,825,586	68,256
Alpine	3,982,428	39,824	720,348	7,203
Baosteel Group Corporation ("Baosteel")	100,000	50,000	1,398,500	13,985

5.4.7 Top 5 debtors of accounts receivable

Debtor	Relationship with the Company	Amount	Age	Proportion to the total accounts receivable (%)
China Netcom	Non-related party	139,469,434	Within 1 year-Over 5 years	11.43
Shanxi Xingji Technology And Trade Co., Ltd.	Non-related party	47,394,000	Within 1 year	3.88
Sony	Non-related party	47,242,012	Within 1 year	3.87
Harman	Related party	34,075,916	Within 1 year	2.79
NSNN	Related party	33,113,689	Within 2 years	2.71
Total		301,295,051		24.68

5.4.8 Accounts receivable from related parties

The accounts receivable from related parties is RMB 76,471,290 Yuan, accounting for 6.27% of the total, please refer to Note 7.4.12 for details.

5.4.9 Account receivable with terminated recognition due to transfer of financial assets:

Item	Amount	Profit or loss related to the termination
Shenyang Branch of China CITIC Bank Corporation Limited	20,098,337	NA

Note: The account receivable with terminated recognition due to transfer of financial assets is caused by the non-recourse factoring business between Shenyang Neusoft Medical Systems Co., Ltd. and Shenyang Branch of China CITIC Bank Corporation Limited.

5.5 Other receivables

5.5.1 Disclosure by type:

Type	Year-end balance				Year-beginning balance			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Accounts receivable with significant single amount and single appropriation of provision for bad debts	8,854,730	4.55	8,854,730	100.00				
Accounts receivable with appropriation of provision for bad debts by portfolio	165,647,630	85.13	4,227,351	2.55	176,766,721	99.19	4,739,469	2.68
Accounts receivable with insignificant single amount and single appropriation of provision for bad debts	20,086,790	10.32	2,020,606	10.06	1,447,777	0.81	1,135,109	78.40
Total	194,589,150	100.00	15,102,687		178,214,498	100.00	5,874,578	

5.5.2 Other receivables with significant single amount and single appropriation of provision for bad debts

Receivable from	Book amount	Provision for bad debts	Appropriation ratio (%)	Reason
Sesca	8,854,730	8,854,730	100.00	It is estimatedly unrecoverable and provision for depreciation is appropriated in full amount.

5.5.3 Other receivables with appropriation of provision for bad debts by aging analysis method in portfolio:

Age	Year-end balance			Year-beginning balance		
	Book amount		Provision for bad debts	Book amount		Provision for bad debts
	Amount	Ratio (%)		Amount	Ratio (%)	
Within 1 year	128,905,982	77.83	1,289,060	144,490,646	81.74	1,444,906
1-2 years	20,513,771	12.38	410,275	9,528,751	5.39	190,575
2-3 years	2,754,906	1.66	137,745	17,724,394	10.03	886,220
3-5 years	12,314,111	7.43	1,231,411	3,116,847	1.76	311,685
Over 5 years	1,158,860	0.70	1,158,860	1,906,083	1.08	1,906,083
Total	165,647,630	100.00	4,227,351	176,766,721	100.00	4,739,469

Appropriation of provision for bad debts in other receivables with insignificant single amount and separate impairment test:

Other receivables	Book amount	Provision for bad debts	Appropriation ratio (%)	Reason
Revolving fund lending	16,644,588	1,810,069	10.87	It is estimated that the recoverable proportion is over 85%
Open credit	3,442,202	210,537	6.12	It is estimated that the recoverable proportion is over 90%
Total	20,086,790	2,020,606		

5.5.4 Other receivables received in full or part amount in this period with appropriation of provision for bad debts in full amount or at large proportion in preceding year:

Other receivables	Year-beginning balance	Provision for bad debts at the beginning of this year	Appropriation ratio (%)	Received amount in this reporting period
Margin lending	1,136,162	990,122	87.15	1,136,162
Revolving fund lending	713,547	634,032	88.86	713,547
Open credit	247,943	178,643	72.05	247,943
Total	2,097,652	1,802,797		2,097,652

5.5.5 Other actual write-off receivables:

Receivable from	Category	Write-off amount	Reason	Whether caused by related transaction
Other	Personal debt	256,828	Estimatedly unrecoverable personal debt to Shenyang Neusoft Boan Software Co., Ltd.	No

5.5.6 There is no other receivable from Shareholding Company with over 5% (including 5%) voting share of the Company;

5.5.7 Top 5 debtors of other receivables

Debtor	Relationship with the Company	Amount	Age	Proportion to the total other receivables (%)	Remark
China Merchants Bank Hong Kong Branch	Non-related party	11,089,978	Within 1 year	5.70	Deposit for dealing with the letter of credit
Sesca (Note)	Non-related party	8,854,730	1-2 years	4.55	Open credit
Henan Provincial Bureau of Health	Non-related party	5,799,750	Within 1 year	2.98	Margin
Pishro Darman Saz Co., Ltd.	Non-related party	3,299,681	Within 1 year	1.70	Open credit
Yunnan Provincial Research Institute of Medical Informatics	Non-related party	1,473,212	Within 1 year	0.75	Margin
Total		30,517,351		15.68	

Note: Impairment loss of this receivable has been appropriated in full amount in this reporting period;

5.5.8 Receivables from related parties

The accounts receivable from related parties is RMB 50,000 Yuan, accounting for 0.03% of the total, please refer to Note 7.4.12 for details;

5.5.9 There is no termination of recognition of other receivables in this period.

5.6 Prepayments

5.6.1 Presentation by age

Age	Year-end balance		Year-beginning balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	55,337,045	96.55	42,366,359	81.68
1-2 years	1,434,498	2.50	6,020,193	11.60
2-3 years	250,525	0.44	3,223,287	6.21
Over 3 years	290,019	0.51	266,022	0.51
Total	57,312,087	100.00	51,875,861	100.00

5.6.2 Top 5 prepayments

Prepayment to	Relationship with the Company	Amount	Term	Remark
Oracle (China) Software System Co., Ltd.	Non-related party	7,098,892	Within 1 year	Contracted prepayment
H3C Technologies Co., Limited	Non-related party	6,594,111	Within 1 year	Contracted prepayment
Yuncheng Constant Magnetic Technology Co., Ltd.	Non-related party	5,800,000	Within 1 year	Contracted prepayment
Dalian Powerstar Power Company Limited	Non-related party	4,480,000	Within 1 year	Contracted prepayment
Dalian Yuming Electronic Engineering Co., Ltd.	Non-related party	4,092,386	Within 1 year	Contracted prepayment
Total		28,065,389		

5.6.3 Among the prepayments at the end of this period, no Shareholding Company with over 5% (including 5%) voting share of the Company owes any debt for prepayment.

5.6.4 Prepayment to related parties

The prepayment to related parties is RMB 2,571,900 Yuan, accounting for 4.49% of the total, please refer to Note 7.4.12 for details;

5.7 Inventories

5.7.1 Presentation by type

Item	Year-end balance			Year-begin balance		
	Book amount	provision for inventory write-down	Book value	Book amount	Provisions for inventory write-down	Book value
Raw materials	174,664,750	10,058,024	164,606,726	150,094,897	9,422,858	140,672,039
Work in process	354,575,117	13,071,448	341,503,669	301,332,722	8,629,468	292,703,254
Finished products	79,252,821	204,348	79,048,473	53,652,760	204,348	53,448,412
Total	608,492,688	23,333,820	585,158,868	505,080,379	18,256,674	486,823,705

5.7.2 Provision for inventory write-down

Type	Year-begin book balance	Appropriation amount	Write-down amount		Year-end book balance
			Reversed	Write-off	
Raw materials	9,422,858	635,166			10,058,024
Work in process	8,629,468	4,441,980			13,071,448
Finished products	204,348				204,348
Total	18,256,674	5,077,146			23,333,820

5.7.3 Depreciation provision for inventory write-down

Item	Basis	Reason for reversion of the provision	Proportion of reversed amount to year-end balance of the inventory
Raw materials	Provision for inventory write-down is made or adjusted at the lower one between the cost and net realizable value	There is no reversion in this period	0%
Work in process	Provision for inventory write-down is made or adjusted at the lower one between the cost and net realizable value	There is no reversion in this period	0%
Finished products	Provision for inventory write-down is made or adjusted at the lower one between the cost and net realizable value	There is no reversion in this period	0%

5.8 Other current assets

Item	Year-end balance	Year-begin balance
Deferred business tax	7,293,081	4,656,766
Leasing expenses	337,391	472,575
Deferred property tax	289,335	264,031
Other (Note)	6,343,029	4,920,141
Total	14,262,836	10,313,513

Note: Other mainly refers to amortized heating expense.

5.9 Held-to-maturity investment

Item	Year-end balance	Year-begin balance
Bank finance product (Note)	401,931,507	
Total	401,931,507	

Note: The Company purchased finance product from bank based on its financial situation. The investment has been recovered at the end of February 2012.

5.10 Long-term receivables

Item	Year-end balance				Year-begin balance			
	Amount	Ratio (%)	Provision for bad debts	Net value	Amount	Ratio (%)	Provision for bad debts	Net value
Rental deposit (Note 1)	5,075,500	3.30		5,075,500	5,234,855	1.83		5,234,855
Instalment (Note 2)	42,830,601	27.88	826,061	42,004,540	67,825,066	23.67	1,011,857	66,813,209
Receivable from transfer of assets (Note 3)	105,745,047	68.82	2,114,900	103,630,147	213,493,174	74.50	2,134,932	211,358,242
Total	153,651,148	100.00	2,940,961	150,710,187	286,553,095	100.00	3,146,789	283,406,306

Note 1: This refers to the deposit paid by Neusoft (Japan) Co., Ltd. for rental which will be recovered upon the lease contract is terminated; Based on the operations of the subsidiary, the period when the contract will be terminated cannot be estimated precisely.

Note 2: This refers to receivable of Shenyang Neusoft Medical Systems Co., Ltd. from sales of products by instalment; and provision for bad debt based on the age of the receivable is appropriated.

Note 3: This refers to the payment for transfer of assets by Chengdu Neusoft Information Technology Development Co., Ltd. to Chengdu Neusoft Institute of Information Technology. The amount of this long-term receivable is RMB 2011105,745,047 Yuan; and the provision for bad debt is RMB 2,114,900 Yuan.

5.11 Investment in joint ventures and associates

Investee	Equity ratio (%)	Voting share (%)	Total assets at the end of the period	Total liabilities at the end of the period	Net assets at the end of the period	Total business income in this period	Net profit in this period
Associates							
Nokia Siemens Networks Neusoft Commtech Company Ltd.	46.00	46.00	513,658,789	402,984,686	110,674,103	465,910,571	17,894,061
Shenyang CataData Technology Co., Ltd.	16.67	16.67	18,155,172	11,208	18,143,964	151,293	-5,037,182
Philips-Neusoft Medical Systems Co., Ltd.	49.00	49.00	540,092,308	149,404,722	390,687,586	1,062,264,293	70,916,509
Liaoning Shengjing Xikang Health Management Co., Ltd.	49.00	49.00	239,884	3,337	236,547	45,290	-332,420
Chongqing Guo'ao 100 Years Xikang Health Management Co., Ltd.	20.00	20.00	1,694,253	292,765	1,401,488	3,397,864	-598,512
NEC Neusoft Information Technologies Company Limited	30.00	30.00	19,086,153	8,292,517	10,793,636		-4,206,364
Shenyang Toshiba Neusoft Information Systems Co., Ltd.	40.00	40.00	21,221,510	834,640	20,386,870	840,418	-2,240,630
AerotelMedical Systems (1998) Ltd.	30.76	30.76	18,906,472	7,351,046	11,555,426	17,430,591	775,418

5.12 Long-term equity investment

Investee	Method	Initial investment cost	Year-begin balance	Change in owners' equity	Year-end balance	Equity ratio (%)	Voting share (%)	Difference between equity ratio and voting share	Accumulated provision for impairment	Appropriated provision for impairment in this period	Cash dividend in this period
Nokia Siemens Networks Neusoft Comtech Company Ltd.	Equity method	26,713,621	42,678,819	8,231,268	50,910,087	46.00	46.00				
Shenyang CataData Technology Co., Ltd.	Equity method	15,000,000	14,675,191	-839,530	13,835,661	16.67	16.67				
Philips-Neusoft Medical Systems Co., Ltd.	Equity method	120,050,000	171,925,837	10,739,089	182,664,926	49.00	49.00				24,010,000
Liaoning Shengjing Xikang Healthcare Co., Ltd.	Equity method	490,000	278,794	-162,886	115,908	49.00	49.00				
Chongqing Guo'ao 100 Years Xikang Health Management Co., Ltd.	Equity method	400,000		212,290	212,290	20.00	20.00				
Shenyang Toshiba Neusoft Information Systems Co., Ltd.	Equity method	9,051,000		8,154,748	8,154,748	40.00	40.00				
NEC Neusoft Information Technologies Company Limited	Equity method	4,500,000		3,238,091	3,238,091	30.00	30.00				
Aerotel Medical Systems (1998) Ltd.	Equity method	10,675,548		11,073,220	11,073,220	30.76	30.76				
Beijing LBS Social Insurance Information Technology Co., Ltd. (Note 1)		10,390,275	6,332,370	-6,332,370		61.67	61.67				
Subtotal		197,270,444	235,891,011	34,313,920	270,204,931						24,010,000
Dalian WeaveSoft Co., Ltd.	Cost method	45,352	45,352		45,352	5.00	5.00				
Dalian Neusoft Institute of Information	Cost method	336,022,775	336,022,775		336,022,775	Direct:1.74 Indirect:97.10	98.84				
Dalian Neusoft Institute of Information Technology	Cost method	3,600,000	3,600,000		3,600,000	60.00	60.00				
Chengdu Neusoft Institute of Information Technology	Cost method	15,118,334	15,118,334		15,118,334	Direct:17.47 Indirect:70.88	88.35		6,050,000		
Nanghai Neusoft Institute of Information Technology	Cost method	21,227,945	21,227,945		21,227,945	Direct:12.82 Indirect:78.63	91.45				
Dalian Neusoft Information Services Co., Ltd.	Cost method	1,877,722	1,877,722		1,877,722	10.00	10.00				

Continued table

Investee	Method	Initial investment cost	Year-begin balance	Change in owners' equity	Year-end balance	Equity ratio (%)	Voting share (%)	Difference between equity ratio and voting share	Accumulated provision for impairment	Appropriated provision for impairment in this period	Cash dividend in this period
Dalian Neusoft Education Services Co., Ltd.	Cost method	1,000,000	1,000,000		1,000,000	10.00	10.00		1,000,000		
Tianjin Dongtai Development Co., Ltd.	Cost method	256,000	256,000		256,000	8.00	8.00				
Beijing Huada Infosec Technology Co., Ltd.	Cost method	150,000	150,000		150,000	0.90	0.90				
Beijing Co-Create Open Source Software Co., Ltd.	Cost method	770,000	770,000		770,000	6.29	6.29		770,000		
Beijing Shoufa Xin'an Data System Technology Co., Ltd.	Cost method	3,350,000	3,350,000		3,350,000	8.86	8.86				
Dongzhong Commtech Co., Ltd.	Cost method	3,000,000	3,000,000		3,000,000	10.00	10.00		3,000,000		
Shenyang Torch Company Limited	Cost method	100,000	100,000		100,000				100,000		
Lotus Business Consulting Co., Ltd.	Cost method	347,358	347,358		347,358	6.30	6.30				
Tianjin Shenzhen General Data Technology Co., Ltd.	Cost method	3,000,000	3,000,000		3,000,000	5.00	5.00				
Nanchang Biotech A&C Biotechnical Industry Incorporated Company	Cost method	27,600,000		27,600,000	27,600,000	9.01	9.01				
Appconomy, Inc.	Cost method	24,934,400		24,934,400	24,934,400	13.3226	13.3226				
Beijing YIT Software technology Co., Ltd. (Note2)	Cost method	2,989,600		2,989,600	2,989,600	74.00	74.00		1,448,028	1,448,028	
Subtotal		445,389,486	389,865,486	55,524,000	445,389,486				12,368,028	1,448,028	
Total		642,659,930	625,756,497	89,837,920	715,594,417				12,368,028	1,448,028	24,010,000

1) Remarks

Note 1: The Company acquired 28.33% equity in Beijing LBS in this period, totally holding 61.67% equity. BJ LBS was included in the consolidated statements since August 2011 and no accounting by equity method will be made for BJ LBS as an associate.

Note 2: This company went into liquidation in this reporting period and was not included in the consolidated financial statements since July 2011. The initial investment of the long-term equity investment is RMB 2,989,600 Yuan; RMB 1,541,572 Yuan may be recovered estimatedly; the difference RMB 1,448,028 Yuan is recognized as impairment loss of long-term equity investment and included in current P&L.

2) Limitation to the ability of transferring capital to the investee: NA.

5.13 Investment property

Item	Year-begin balance	Increase	Decrease	Year-end balance
1. Original book value	525,029,863	14,868,562		539,898,425
(1) Houses and buildings	452,306,650	14,862,941		467,169,591
(2) Land use right	72,723,213	5,621		72,728,834
2. Accumulated depreciation and amortization	88,017,940	13,745,548		101,763,488
(1) Houses and buildings	78,668,817	11,959,756		90,628,573
(2) Land use right	9,349,123	1,785,792		11,134,915
3. Net value of investment properties	437,011,923	2,903,185	1,780,171	438,134,937
(1) Houses and buildings	373,637,833	2,903,185		376,541,018
(2) Land use right	63,374,090		1,780,171	61,593,919
4. Accumulated provisions for impairment of investment properties				
(1) Houses and buildings				
(2) Land use right				
5. Book value of investment properties	437,011,923	2,903,185	1,780,171	438,134,937
(1) Houses and buildings	373,637,833	2,903,185		376,541,018
(2) Land use right	63,374,090		1,780,171	61,593,919

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5.13.1 The increase of accumulated depreciation and amortization is RMB 13,745,548 Yuan, of which, 13,294,350 Yuan is appropriated and 451,198 Yuan is transferred into depreciation due to re-classification.

5.13.2 For underlying security of investment properties as of December 31st, 2011, please refer to Note 5.31 for details.

5.14 Original price and accumulated depreciation of fixed assets

5.14.1 Fixed assets

Item	Year-begin balance	Increase		Decrease	Year-end balance
1. Original book value:	1,883,699,754	119,849,712		81,626,744	1,921,922,722
Including: Houses and buildings	1,356,084,769	24,660,776		31,122,837	1,349,622,708
Electronic equipment	321,865,524	67,814,492		41,242,536	348,437,480
Transportation equipment	16,389,141	2,473,889		2,508,532	16,354,498
Other equipment	189,360,320	24,900,555		6,752,839	207,508,036
		Increase in this period	Including: appropriation in this period		
2. Accumulated depreciation:	451,725,684	115,875,583	115,031,451	42,830,401	524,770,866
Including: Houses and buildings	132,572,833	40,181,086	40,181,086	10,736,153	162,017,766

Continued table

Item	Year-begin balance	Increase		Decrease	Year-end balance
Electronic equipment	223,722,915	50,894,585	50,050,453	25,998,802	248,618,698
Transportation equipment	9,578,151	2,571,998	2,571,998	2,236,688	9,913,461
Other equipment	85,851,785	22,227,914	22,227,914	3,858,758	104,220,941
3. Net book value of fixed assets	1,431,974,070		1,676,173	36,498,387	1,397,151,856
Including: Houses and buildings	1,223,511,936			35,906,994	1,187,604,942
Electronic equipment	98,142,609		1,676,173		99,818,782
Transportation equipment	6,810,990			369,953	6,441,037
Other equipment	103,508,535			221,440	103,287,095
4. Provisions for impairment	2,325,001			574,087	1,750,914
Including: Houses and buildings					
Electronic equipment	2,294,105			545,649	1,748,456
Transportation equipment					
Other equipment	30,896			28,438	2,458
5. Book value of fixed assets	1,429,649,069		2,221,822	36,469,949	1,395,400,942
Including: Houses and buildings	1,223,511,936			35,906,994	1,187,604,942
Electronic equipment	95,848,504		2,221,822		98,070,326
Transportation equipment	6,810,990			369,953	6,441,037
Other equipment	103,477,639			193,002	103,284,637

RMB 115,031,451 is appropriated for depreciation of fixed assets in this period.

The original value of fixed assets transferred from construction in process is RMB 3,779,233 Yuan.

For underlying security of investment properties as of December 31st, 2011, please refer to Note 5.31 for details.

The increase of accumulated depreciation of fixed assets caused by change in consolidation range is RMB 844,132 Yuan.

5.14.2 There is no idle fixed asset as of the end of this period;

5.14.3 There is no leased fixed asset based on financing lease;

5.14.4 There is no leased fixed asset based on operating lease;

5.14.5 There is no hold-to-sale fixed asset as of the end of this period;

5.14.6 Fixed assets without property right certificates:

Item	Book value	Reason	Remark
House and building	270,881,609	The application and approval procedures are in progress.	The certificates will be obtained after the procedures are finished.

5.15 Construction in progress

5.15.1 Overview

Project	Year-end balance			Year-begin balance		
	Book amount	Provision for impairment	Book value	Book amount	Provision for impairment	Book value
Beijing Software Park	128,934,960		128,934,960			
Shanghai Software Park	106,928,658		106,928,658	51,660,104		51,660,104
Guangzhou Software Park (Phase 1)	46,514,334		46,514,334	29,615,808		29,615,808
Reconstruction of dining hall in Shenyang Software Park	21,337,672		21,337,672			
Reconstruction of club in Shenyang Software Park				2,270,340		2,270,340
Medical informationization system	2,659,595		2,659,595	502,011		502,011
Hannan Software Park (Phase 1)	1,423,939		1,423,939	682,840		682,840
Total	307,799,158		307,799,158	84,731,103		84,731,103

5.15.2 Changes in construction in progress

Project	Budget	Year-begin balance	Increase in this period	Transfer into fixed assets	Other decrease	Proportion of project input to the budget (%)	rate of progress (%)	Accumulated amount of interest capitalization	Including: amount of interest capitalization in this period	Interest capitalization rate in this period	Capital source	Year-end balance
Beijing Software Park	336,000,000		128,934,960			38	1				Owned capital	128,934,960
Shanghai Software Park	192,860,014	51,660,104	55,268,554			55	90				Owned capital	106,928,658
Guangzhou Software Park (Phase 1)	95,240,339	29,615,808	16,898,526			49	85				Owned capital	46,514,334
Reconstruction of dining hall in Shenyang Software Park	35,000,000		21,337,672			61	45				Owned capital	21,337,672
Medical informationization system	11,950,392	502,011	2,948,117	790,533		29	36				Owned capital	2,659,595
Hannan Software Park (Phase 1)	166,180,897	682,840	741,099			1	1				Owned capital	1,423,939
Reconstruction of club in Shenyang Software Park	4,000,000	2,270,340	718,360	2,988,700		75	100				Owned capital	
Total	841,231,642	84,731,103	226,847,288	3,779,233								307,799,158

5.15.3 Schedule of major constructions in progress

Project	Rate of progress
Beijing Software Park	This project is being constructed with rate of progress of 1%
Shanghai Software Park	This project is being constructed with rate of progress of 90%
Guangzhou Software Park (Phase 1)	This project is being constructed with rate of progress of 85%

5.16 Intangible asset

Item	Year-begin book balance	Increase	Decrease	Year-end book balance
1. Original book value	618,754,840	65,121,493	540,959	683,335,374
(1) Land use right	413,142,884	37,086,048		450,228,932
(2) Property use right	5,000,000			5,000,000
(3) Purchased proprietary technology	177,559,324	23,726,237		201,285,561
(4) Other	23,052,632	4,309,208	540,959	26,820,881
2. Accumulated amortization	229,715,421	25,163,072		254,878,493
(1) Land use right	75,350,263	8,833,052		84,183,315
(2) Property use right	1,750,000	500,000		2,250,000
(3) Purchased proprietary technology	144,230,931	9,317,036		153,547,967
(4) Other	8,384,227	6,512,984		14,897,211
3. Net book value of intangible asset	389,039,419	42,662,197	3,244,735	428,456,881
(1) Land use right	337,792,621	28,252,996		366,045,617
(2) Property use right	3,250,000		500,000	2,750,000
(3) Purchased proprietary technology	33,328,393	14,409,201		47,737,594
(4) Other	14,668,405		2,744,735	11,923,670
4. Provisions for impairment	184,319		44,079	140,240
(1) Land use right				
(2) Property use right				
(3) Purchased proprietary technology	44,079		44,079	
(4) Other	140,240			140,240
5. Total of book value of intangible asset	388,855,100	42,706,276	3,244,735	428,316,641
(1) Land use right	337,792,621	28,252,996		366,045,617
(2) Property use right	3,250,000		500,000	2,750,000
(3) Purchased proprietary technology	33,284,314	14,453,280		47,737,594
(4) Other	14,528,165		2,744,735	11,783,430

5.16.1 All the decrease under the original book value of intangible asset is caused by change in exchange rate with overseas subsidiaries.

5.16.2 The amortization amount of intangible asset is RMB 25,163,072 Yuan.

5.16.3 For underlying security of intangible asset as of December 31st, 2011, please refer to Note 5.31 for details.

5.17 Goodwill

Investee or item forming goodwill	Year-begin balance	Increase	Decrease	Change caused by exchange rate	Year-end balance	Provision for impairment at the of the period
Neusoft (Japan) Co., Ltd. (Note1)	3,928,116				3,928,116	
Dalian Neusoft Finance Information Technology Co., Ltd. (Note2)	1,420,366				1,420,366	
Liaoning Neusoft Venture Capital Investment Co., Ltd. (Note3)	77,123				77,123	
Beijing Lanruisoft Co., Ltd. (Note4)	315,360				315,360	
Beijing YYT Software technology Co., Ltd. (Note5)	1,151,846		1,151,846			
NMSG business and assets (including goodwill of Neusoft Mobile Solutions Oy, former Almitas Oy and Neusoft Mobile Solutions SRL) (Note 6)	85,148,351			-6,226,712	78,921,639	14,065,480
Neusoft Technology Solutions GmbH (NTS) (Note 7)	35,226			-2,576	32,650	32,650
VND business and assets (Note8)	50,964,360			-3,726,911	47,237,449	4,283,792
Taproot business and assets (Note9)	19,482,458			-946,661	18,535,797	6,472,744
Beijing LBS Social Insurance Information Technology Co., Ltd. (Note10)		1,809,071			1,809,071	
Beijing Neusoft Viewhigh Technology Co., Ltd. (Note11)		99,953,597			99,953,597	
Total	162,523,206	101,762,668	1,151,846	-10,902,860	252,231,168	24,854,666

The Company conducted impairment test on goodwill at the end of this period; the present value of estimated future cash flow is adopted as the recoverable amount of related asset group and asset group portfolio. According to the Five-year Budget-based Cash Flow Forecast approved by the Company's managements, if the book value of goodwill is higher than the recoverable amount of related asset group, the difference shall appropriated as provision for impairment of goodwill. RMB 8,981,071 Yuan is appropriated as impairment loss of goodwill with operations and assets of NMSG and Taproot. Other provision for impairment is subject to change in exchange rate.

Note 1: This Company invested into the subsidiary in June 2001 with an equity ratio of 60%. In December 2003, the Company ac-

quired the remaining 40%. The difference by which the acquisition price exceeds the attributable net assets was recognized as equity investment difference and amortized by 10 years starting January 2004; On January 1st, 2007, according to the *Accounting Standards for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprises*, the Company presented the amortization of debit balance of the equity investment balance as of the end of 2006 as goodwill when preparing the consolidated financial statement.

Note 2: In April 2004, Neusoft (Japan) Co., Ltd. acquired 31% equity of this company. The difference by which the acquisition price exceeds the attributable net assets was recognized as equity investment difference and amortized by 10 years since May 2004; On January 1st, 2007, according to the *Accounting Standards for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprises*, the amortization of debit balance of the equity investment balance as of the end of 2006 was presented as goodwill when preparing the consolidated financial statements.

Note 3: On December 27th, 2004, the Company invested additional RMB 500 Yuan to acquire 4.76% equity in Liaoning Neusoft Venture Capital Investment Co., Ltd.. The difference by which the purchase price exceeds the fair value of identifiable net assets attributable to the Company was presented as goodwill; On January 1st, 2007, according to the *Accounting Standards for Business Enterprises No. 38 - First Time Adoption of Accounting Standards for Business Enterprise*, the amortization of debit balance of the equity investment balance as of the end of 2006 was presented as goodwill when preparing the consolidated financial statements.

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Note 5: In October 2009, the Company's indirect holding subsidiary Beijing Neusoft Yuetong software Technology Co., Ltd. acquired 74% equity in this company with RMB 2,990,000 Yuan; the difference by which the purchase price exceeds the fair value of identifiable net assets attributable to Beijing Neusoft Yuetong software Technology Co., Ltd. was presented as goodwill when preparing the consolidated financial statements. Beijing YYT Software technology Co., Ltd. went into liquidation in this reporting period, the goodwill and long-term equity investment are considered recoverable and provision for impairment of long-term equity investment is appropriated.

Note 6: In October 2009, Neusoft (Europe) Co., Ltd. (Neusoft Europe) acquired 100% equity in Sesca Mobile Software Oy (later changed for "Neusoft Mobile Solutions Oy"), Almitas Oy (nullified in 2012 with all operations and employees merged into Neusoft Mobile Solutions Oy) and Sesca Technologies SRL (later changed for "Neusoft Mobile Solutions SRL"), the consideration of the transactions aggregated 9 million ERU, the difference by which the acquisition price exceeds the fair value of identifiable net assets was presented as goodwill when preparing the consolidated financial statements. Because the key accounts, operations, management team of Neusoft Mobile Solutions Oy (including Almitas Oy) and Neusoft Mobile Solutions SRL are basically same, they are recognized as an asset group for goodwill impairment test; Among the change amount of provision for goodwill impairment comparing with the beginning of the year, RMB 4,551,431 Yuan was added for the provision after the impairment test; other was subject to change in exchange rate.

Note 7: In April 2010, Neusoft Europe acquired 100% equity in Johanna GmbH (later changed for "Neusoft Technology Solutions GmbH"); the consideration for this transaction aggregated 290,000 ERU; the difference by which the acquisition price exceeds the fair value of identifiable net assets attributable to Neusoft Europe was recognized as goodwill when preparing the consolidated financial statements.

Note 8: In June 2010, Neusoft Europe's subsidiary in Germany, Neusoft Technology Solutions GmbH (NTS), acquired the business of Car Navigation System-related computer hardware, mechanical hardware and applications as well as all supporting tangible fixed assets, inventories, rights, contracts, labor contracts from its subsidiary Harman (collectively referred to as "VND Operations and Assets")

with transaction consideration of ERU 6 million; the difference by which the acquisition price exceeds the fair value of its attributable net assets was recognized as goodwill when preparing the consolidated financial statements; Based on the result of impairment test, no provision for goodwill impairment was appropriated in this reporting period. The change amount was subject to exchange rate.

Note 9: In February 2010, the Company's wholly owned subsidiary Neusoft Science & Technology Co., Ltd. acquired the development service business for high-end smart phone embedded software from the US-based Taproot System Inc. with transaction consideration of USD 3.1 million; the difference by which the acquisition price exceeds the fair value of its attributable net assets was recognized as goodwill when preparing the consolidated financial statements; Among the change amount of provision for goodwill impairment comparing with the beginning of the year, RMB 4,429,640 Yuan was added for the provision after the impairment test, other was subject to change in exchange rate.

Note 10: In August 2011, the Company acquired 28.33% equity in Beijing LBS, totally holding 61.67% after that. The difference by which the combination cost exceeds the fair value of identifiable net assets, RMB 1,809,071 Yuan, was presented as goodwill when preparing the consolidated financial statements.

Note 11: In August 2011, the Company's wholly owned subsidiary Neusoft Group (Beijing) Co., Ltd. acquired 73.14% equity in Beijing Viewhigh Technology Co., Ltd. (changed for "Beijing Neusoft Viewhigh Technology Co., Ltd." after the acquisition); the difference by which the combination cost exceeds the fair value of identifiable net assets attributable, RMB 1,809,071 Yuan, was presented as goodwill when preparing the consolidated financial statements.

5.18 Long-term deferred expenses

Item	Year-begin balance	Increase	Amortization amount	Decrease	Year-end balance
Decoration expense	38,346,103	8,714,705	8,607,314		38,453,494
Landscaping expense	8,565,073		3,442,646		5,122,427
Reconstruction of leased fixed assets for operation	3,099,456	725,415	1,009,534		2,815,337
Other	4,906,575	4,132,293	1,735,980		7,302,888
Total	54,917,207	13,572,413	14,795,474		53,694,146

5.19 Deferred income tax assets/liabilities

Deferred income tax assets and liabilities are not presented as net value after offsetting.

5.19.1 Recognized deferred income tax assets/liabilities

Item	Year-end balance	Year-begin balance
Deferred income tax assets:		
Government subsidy	15,889,963	9,922,524
Withholding expense	13,432,311	12,285,848
Appropriated impairment provision above the standard in the Tax Law of P.R. China	7,134,586	5,096,663
Provision for inventory write-down	2,312,947	1,805,233
Estimated liabilities	1,758,432	1,536,661

Continued table

Item	Year-end balance	Year-begin balance
Undue loss not offsetted	1,588,528	1,588,528
Impairment of long-lived assets	1,122,869	610,616
Change in fair value of assets	17,057	122,730
Depreciation of fixed assets and other asset amortization	10,144	19,721
Amortization of organization expense		6,259
Other	2,324,685	1,772,375
Subtotal	45,591,522	34,767,158
Deferred income tax liabilities:		
Change in fair value of assets	86,317	96,935
Other	2,323,464	2,532,458
Subtotal	2,409,781	2,629,393

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5.19.2 Taxable differences and deductible differences:

Item	Amount
Deductible differences	
Government subsidy	146,661,733
Withholding expense	125,696,411
Appropriated impairment provision above the standard in the Tax Law of P.R. China	54,536,844
Provision for inventory write-down	23,129,472
Estimated liabilities	15,686,425
Undue loss not offsetted	6,354,112
Impairment of long-lived assets	8,056,326
Change in fair value of assets	170,567
Depreciation of fixed assets and other asset amortization	70,396
Other	5,656,031
Subtotal	386,018,317
Deferred taxable differences	
Change in fair value of assets	863,170
Other	15,489,758
Subtotal	16,352,928

5.20 Provision for asset impairment

Item	Year-begin balance	Increase	Decrease		Other (Note)	Year-end balance
			Reversed	Write-off		
Provision for bad debts	51,310,416	25,898,767		607,439	518,952	77,120,696
Provision for inventory write-down	18,256,674	5,077,146				23,333,820
Provision for impairment of goodwill	17,642,750	8,981,071			-1,769,155	24,854,666
Provision for long-term equity investment	10,920,000	1,448,028				12,368,028
Provision for impairment of fixed assets	2,325,001			574,087		1,750,914
Provision for impairment of intangible asset	184,319			44,079		140,240
Total	100,639,160	41,405,012		1,225,605	-1,250,203	139,568,364

Note: Other refers to change subject to fluctuation of exchange rate.

5.21 Short-term borrowings

5.21.1 Type

Item	2011	2010
Debt of honor	470,000,000	160,000,000

5.21.2 There is no unpaid due short-term borrowing in this period.

5.22 Trading financial liabilities

Item	Year-end balance	Year-begin balance
Trading financial liabilities		
Foreign exchange forward contract (Note)	170,567	1,227,304
Total	170,567	1,227,304

Note: Foreign exchange forward contract was calculated based on exchange rate quoted in the open market; estimated floating income was included in income from changes in fair value and presented under the tradable financial assets.

5.23 Note payable

5.23.1 Overview

Type	Year-end balance	Year-begin balance
Banker's acceptance	83,204,957	145,564,320

5.23.2 The amount due in following accounting period is RMB 83,204,957 Yuan.

5.23.3 There is no note payable to related party.

5.24 Accounts payable

5.24.1 Overview

Item	Year-end balance	Year-begin balance
Purchase payment	543,996,141	566,932,526

5.24.2 There is no account payable to Shareholding Company with over 5% (including 5%) voting share of the Company in this period.

5.24.3 Account payable to related parties at the end of this period is RMB 88,260,754 Yuan. Please refer to Note 7.4.12 for details.

5.24.4 Large-amount accounts payable with age of over 1 year

Debtor	Relationship with the Company	Amount	Remark
Sihua Tech (Shanghai) Co., Ltd.	Non-related party	3,973,478	Unsettled project payment
European Aeronautic Defense and Space Company N.V. (EADS)	Non-related party	3,072,341	Unsettled project payment
Dawning Information Industry (Beijing) Limited	Non-related party	2,815,869	Unsettled project payment
Beijing Beichen Xintong Network Technology Service Co., Ltd.	Non-related party	2,726,467	Unsettled project payment
Beijing Jiaxun Feihong Electrical Co., Ltd.	Non-related party	2,644,168	Unsettled project payment
Total		15,232,323	

5.25 Advance receipt

5.25.1 Overview

Item	Year-end balance	Year-begin balance
Contract payment received in advance	452,920,955	437,504,595

5.25.2 Advance receipt from Shareholding Company with over 5% (including 5%) voting share of the Company

Advance receipt from	Year-end balance	Year-begin balance
Toshiba Corporation	16,382	553,188

5.25.3 Advance receipt from related parties

Advance receipt from related parties at the end of this period is RMB 3,640,710 Yuan; please refer to Note 7.4.12 for details.

5.25.4 Large-amount advance receipt with age of over 1 year:

Debtor	Relationship with the Company	Amount	Remark
Harbin Lanke Technology Development Co., Ltd.	Non-related party	6,913,000	Unsettled project payment for contract being performed
Beijing Railway Construction and Management Co., Ltd.	Non-related party	5,046,640	Unsettled project payment for contract being performed
Gansu Branch of China National Tobacco Corporation	Non-related party	3,547,090	Unsettled project payment for contract being performed
The 205 th Hospital of People's Liberation Army	Non-related party	3,305,617	Unsettled project payment for contract being performed
PT. Sani Tiara Prima	Non-related party	3,181,822	Unsettled project payment for contract being performed
Total		21,994,169	

5.26 Employee pays payable

Item	Year-begin balance	Increase	Decrease	Year-end balance
(1) wage, bonus, allowance and subsidy	193,187,114	1,886,014,660	1,830,861,323	248,340,451
(2) Reward and welfare fund	18,314,894			18,314,894
(3) welfare expense	240,601	28,432,246	28,460,889	211,958
(4) social insurance premium	1,031,242	307,858,404	306,614,443	2,275,203
Covering: medical insurance	201,261	84,354,583	83,855,993	699,851
Basic pension insurance	374,491	156,954,907	157,046,480	282,918
Annuity	359,704	8,538,440	8,072,887	825,257
unemployment insurance	82,652	19,979,355	19,768,569	293,438
Employment injury insurance	7,626	7,277,682	7,279,856	5,452
Maternity insurance	5,508	30,753,437	30,590,658	168,287
(5) Housing reserve	-12,336	84,816,140	84,649,580	154,224
(6) Labor union fund and employee education fund	13,928,276	14,530,011	9,913,665	18,544,622
(7) Compensation for terminating labor relation		225,815	225,815	
(8) Retirement allowance	2,773,964	1,461,087	33,852	4,201,199
Total	229,463,755	2,323,338,363	2,260,759,567	292,042,551

5.26.1 There is no delinquent pay in this period;

5.26.2 The retirement allowance refers to the payment paid by Neusoft (Japan) Co., Ltd. for its employee retirement according to local applicable laws and regulations;

5.26.3 Wage, bonus, allowance and subsidy payable have been given before March 2012.

5.27 Taxes payable

Item	Year-end balance	Year-begin balance
Corporate income tax	12,479,460	-28,866,166
VAT	23,402,130	2,252,044
Business tax	15,111,631	13,581,853
Urban maintenance and construction tax	2,957,016	1,477,673
Other	13,616,855	12,239,922
Total	67,567,092	685,326

5.28 Other accounts payable

5.28.1 Overview

Item	Year-end balance	Year-begin balance
Temporary receipt payable to other company	78,710,156	100,018,304
Withholding account payable	19,263,076	12,498,478
Deposit for property	14,905,894	15,094,534
Margin for construction or project	9,550,877	9,501,958
Temporary receipt payable to individual	2,263,291	768,533
Other	25,188,721	22,302,730
Total	149,882,015	160,184,537

5.28.2 Other account payable to Shareholding Company with over 5% (including 5%) voting share of the Company:

Payable to	Year-end balance	Year-begin balance
Northeastern University, China	19,659,255	38,492,058
Alpine	772,303	772,303

5.28.3 Other accounts payable to related parties

Other account payable to related parties at the end of this period is RMB 20,431,558 Yuan; please refer to Note 7.4.12 for details.

5.28.4 Other large-amount account payable with age of over 1 year:

Payable to	Amount	Reason	Remarks
Northeastern University, China	19,659,255	Based on related agreement	(Note)

5.28.5 Other account payable with large amount

Payable to	Amount	Nature or content	Remarks
Northeastern University, China	19,659,255		
Including: Temporary receipt for right assignment commitment	12,975,375	Committed but undue payment	(Note)
Deferred payment for transfer of property	6,683,880	Final instalment payment for transfer of property	(Note)

Note: The temporary receipt for right assignment commitment (RMB 12,975,375 Yuan) refers to NEU Science & Technology Industry Co., LTD (NEU) 's cash payment for 8 properties and a plot of land without obtaining the ownership certificates yet after it merged the Company in 2008. This payment will be refunded after the ownership certificates are obtained; and the deferred payment for transfer of property refers to the final instalment payment for buying property from NEU in 2006 as contracted.

5.29 Estimated liabilities

Item	Year-begin balance	Increase	Decrease	Year-end balance
Product Quality Assurance	13,631,955	2,054,470		15,686,425

5.30 Non-current liabilities due within one year

Item	Year-end balance	Year-begin balance
Long-term account payable due within one year (Note)	0.00	136,060,526

Note: Chengdu Neusoft Information Technology Development Co., Ltd. (CD Neusoft Development) and Dujiangyan Qingcheng Information Industry Co., Ltd. (DJY QC) signed an agreement on September 27th, 2005, under which a special capital of RMB 180 million Yuan was financed by Municipal Government of Dujiangyan by interest-free loan to CD Neusoft Development for its construction of Software Park in Qingchengshan region. On December 7th, 2010, CD Neusoft Development refunded RMB 40 million Yuan. According to the Supplementary Agreement made by and between CD Neusoft Development and DJY QC in December 2010, CD Neusoft Development shall refund RMB 80 million Yuan on April 9th, 2011 and 60 million on May 25th, 2011. CD Neusoft Development has refunded all the loans within this reporting period.

5.31 Long-term borrowings

5.31.1 Overview

Type	Year-end balance	Year-begin balance
Mortgage loan (Note)	104,000,000	129,000,000

Note: Dalian Neusoft Park Industrial Development Co., Ltd. mortgaged its land and property with book value of RMB 93,423,943 Yuan, of which the investment property is RMB 82,410,455 Yuan, fix assets is RMB 2,976,303 Yuan, and intangible asset is RMB 8,037,186 Yuan.

5.31.2 Top five long-term borrowings

Borrowing from	Term	Currency	Interest rate (%)	Year-end balance		Year-begin balance	
				Foreign currency	Local currency	Foreign currency	Local currency
Shengyang Nanhu Branch of China Construction Bank	2007.06.11-2015.06.11	RMB	5.940		104,000,000		129,000,000

5.32 Bonds Payable

Bond	Par value	Date of issue	Term	Amount	Interest payable at the beginning of the year	Accrued interest in this period	Interest paid in this period	Interest payable at the end of the year	Year-end balance
Neusoft Corporation's first tranche of medium-term notes in 2011	400,000,000	2011.11.14	3 years	400,000,000		3,658,667		3,658,667	403,658,667

In this reporting period, based on the *Proposal to Issue Short-term Financing Bonds and Medium-term Notes* approved at the 2010 Meeting of Shareholders, the Company issued the first tranche of medium-term note in 2011 (Neusoft MTN 1/code:1182321) in inter-bank bond market on November 11th, 2011 by way of Book Building and concentrative allotment. Industrial Bank Co., Ltd. was the lead underwriter for this issuance with total amount of RMB 0.4 billion with a term of 3 years; the par value was RMB 100 Yuan per notes. It is a fixed interest bearing instrument with an interest rate of 6.86%. The raised capital has been arrived in the account on November 14th, 2011; the provision for interest as of the end of the year was RMB 3.66 million Yuan. For more information about the issuance of the MTNs, please refer to www.chinamoney.com.cn or www.chinabond.com.cn.

5.33 Long-term accounts payable

Item	Term	Year-begin balance	Interest rate (%)	Accrued interest	Year-end balance	Condition
Operating fund for housing		14,609,431			14,609,431	
Construction fund for Shenyang Neusoft IT Talent Training Base	2008.10.01-2018.10.01	120,000,000			120,000,000	(Note)
Total		134,609,431			134,609,431	

Note: This fund was borrowed from Administrative Committee of Hunnan New District, Shenyang in preceding year with use term of 10 years since October 1st, 2008 without paying any interest or any other fee. The Company shall refund RMB 24,000,000 Yuan as at every October 31st within 5 year since 2013.

5.34 Other non-current liabilities

Item	Year-end balance	Year-begin balance
Deferred income (Note)	186,425,966	155,208,310
Other	3,309,908	664,015
Total	189,735,874	155,872,325

Note: Deferred income refers to income-related subsidy received from the government for compensating for relevant expenses in following years.

5.35 Share capital

Item	Year-begin balance	Increase (+) / Decrease (-)					Year-end balance
		Newly issued share	Share dividend	Share transferred from surplus reserve	Other	Subtotal	
1. Shares with restrictive selling conditions							
(1) Share held by the state	121,838,079				-121,838,079	-121,838,079	
(2) Share held by state-owned companies	216,361,562				-216,361,562	-216,361,562	

Continued table

Item	Year-begin balance	Increase (+) / Decrease (-)					Year-end balance
		Newly issued share	Share dividend	Share transferred from surplus reserve	Other	Subtotal	
(3) Share held by other domestic-funded companies	382,071,106				-382,071,106	-382,071,106	
Including:							
Share held by domestically non-state owned companies	382,071,106				-382,071,106	-382,071,106	
Share held by domestically natural person							
(4) Share held by foreign companies	180,023,293				-180,023,293	-180,023,293	
Including:							
Share held by foreign companies	180,023,293				-180,023,293	-180,023,293	
Share held by foreign natural person							
Subtotal	900,294,040				-900,294,040	-900,294,040	
2. Shares outstanding without restrictive selling conditions							
(1) RMB-dominated common share	327,300,205				900,294,040	900,294,040	1,227,594,245
(2) Foreign share e listed in China							
(3) Foreign share listed overseas							
(4) Other							
Subtotal	327,300,205				900,294,040	900,294,040	1,227,594,245
Total	1,227,594,245						1,227,594,245

On March 5th, 2011, the Company released its *Announcement about the Issuance of Shares Outstanding with Restrictive Selling Conditions* in China Securities Journal and Shanghai Securities News, under which 900,294,040 shares outstanding held by shareholders including NEU Science & Technology Industry Co., Ltd. would be issued on March 14th, 2011. The Company's total 1,227,594,245 capital shares are all shares outstanding without restrictive selling conditions hereto.

On March 21st, 2011, the Company released its *Suggestive Announcement about Equity Change* and *Equity Change Briefing* in China Securities Journal and Shanghai Securities News, under which Chengdu Huixu Science & Technology Company Limited ("HX Sci-tech") was being put into compulsory liquidation. The Liquidation Program made by the liquidation group of HX Sci-tech was recognized after adjudication and the Company's 210,807,559 shares held by HX Sci-tech was distributed based on its shareholders' equity ratio in HX Sci-tech.

April 1st, 2011, the Company released its *Suggestive Announcement about Completion of Equity Change* in China Securities Journal and Shanghai Securities News, under which Shanghai Branch of China Securities Depository and Clearing Corporation Limited has made over the 210,807,559 shares originally held by HX Sci-tech to its 137 shareholders. No share of the Company is held by HX Sci-tech hereto.

5.36 Capital reserves

Item	Year-begin balance	Increase	Decrease	Year-end balance
1. Capital share premium (share premium)	340,128,038			340,128,038
2. Other capital reserves (Note)	22,874,741	324	755,902	22,119,163
Total	363,002,779	324	755,902	362,247,201

Note: The decrease of other capital reserves was caused by the Company's business combination with Beijing LBS Social Insurance Information Technology Co., Ltd. (BJ LBS). After the combination, the other composite income with amount of RMB 755,902 Yuan previously included in capital reserves was recognized as investment income when consolidating the financial statements of BJ LBS.

5.37 Surplus reserves

Item	Year-begin balance	Increase	Decrease	Year-end balance
Statutory surplus reserve	349,584,231	34,793,235		384,377,466
Arbitrary surplus reserve	194,929,630	17,396,618		212,326,248
Total	544,513,861	52,189,853		596,703,714

Note: The Company and domestic subsidiaries' policies for surplus reserves are as follows:

5.37.1 Statutory surplus reserve

According to the Company Law of the People's Republic of China and the Company's by-laws, the Company and its subsidiaries shall appropriate their respective surplus reserves based on 10% of the after-tax profit of statutory accounts (after the losses in preceding year are offsetted) prepared according to the Accounting Standards for Business Enterprises; and the appropriation of the reserve may be terminated if its balance aggregates 50% of the registered capital.

Statutory surplus reserve can be used to offset loss or increase capital upon approval. However, the balance after offsetting or transfer shall not lower than 25% of the registered capital.

5.37.2 Arbitrary surplus reserve

After the statutory surplus reserves are appropriated, arbitrary surplus reserve shall be then appropriated based on the by-laws after the appropriation proposal filed by the Board of Directors is approved by the Meeting of Shareholders. An amount of RMB 17,396,618 Yuan was appropriated as arbitrary surplus reserves of the Company and its subsidiaries at 5% the after-tax profit of statutory accounts (after the losses in preceding year are offsetted) prepared according to the Accounting Standards of Business Enterprises.

5.38 Undistributed profits

Item	Amount	Appropriation/distribution rate
Undistributed profits at the beginning of the year	2,171,819,047	
Add: Net profit attributable to the shareholders of the parent company	417,068,980	
Less: Appropriated statutory surplus reserves	34,793,235	Please refer to Note 5.37
Appropriated arbitrary surplus reserves	17,396,618	Please refer to Note 5.37
Common stock dividends payable		
Common stock dividends transferred into capital share		
Other		
Undistributed profit at the end of this period	2,536,698,174	13

5.39 Operating income and cost

5.39.1 Operating income

Item	Amount in this period	Amount in previous period
Primary business income	5,681,821,459	4,720,773,137
Other business income	69,427,871	216,923,303
Total	5,751,249,330	4,937,696,440

5.39.2 Operating cost

Item	Amount in this period	Amount in previous period
Primary business cost	3,968,485,614	3,232,117,807
Other business cost	36,512,791	151,511,038
Total	4,004,998,405	3,383,628,845

5.39.3 Operating income & cost (by industry):

Item	Amount in this period		Amount in previous period	
	Operating income	Operating cost	Operating income	Operating cost
System integration, sales of software products, software customization and other labor services	4,830,519,072	3,476,555,703	3,876,980,401	2,724,331,275
Medical systems	803,436,708	486,024,807	793,799,786	495,381,828
Property management service and rental	108,831,844	36,999,793	259,297,915	158,448,967
Advertising	8,461,706	5,418,102	7,618,338	5,466,775
Total	5,751,249,330	4,004,998,405	4,937,696,440	3,383,628,845

5.39.4 Primary business income and cost

Primary business income and cost (by industry):

Item	Amount in this period		Amount in previous period	
	Income	Cost	Income	Cost
System integration, sales of software products, software customization and other labor services	4,830,111,571	3,476,259,142	3,876,978,301	2,724,331,275
Medical systems	739,011,299	450,972,804	741,808,389	468,613,895
Property management service and rental	104,236,883	35,835,566	94,368,109	33,705,862
Advertising	8,461,706	5,418,102	7,618,338	5,466,775
Total	5,681,821,459	3,968,485,614	4,720,773,137	3,232,117,807

5.39.5 Operating income from top 5 customers:

Customer	Operating income	Proportion to the total (%)
Sony	330,734,579	5.75
Nokia	240,001,827	4.17
China Netcom	220,864,984	3.84
Haman	206,724,653	3.59
Toshiba Corporation	164,878,360	2.87
Total	1,163,204,403	20.22

5.40 Business tax and surtax

Item	Amount in this period	Amount in previous period	Tax rate (%)
Business tax	73,204,360	70,827,892	5
urban maintenance and construction tax	11,666,600	5,318,097	1-7
Educational surtax	9,816,712	3,123,856	2, 3
Other	1,418,015	1,925,335	
Total	96,105,687	81,195,180	

5.41 Sales expenses

Item	Amount in this period	Amount in previous period
Employee compensation	278,160,881	212,197,272
Transportation and business travel expenses	62,678,714	48,388,749
Advertising	48,043,707	39,723,746
Office materials	43,585,948	30,306,924
Entertainment expense	19,365,360	9,474,341
Rental and property management fee	6,252,920	6,343,166
Depreciation and amortization	5,848,673	4,897,512
Other	33,983,958	40,572,425
Total	497,920,161	391,904,135

5.42 Administrative expenses

Item	Amount in this period	Amount in previous period
Employee pay	459,790,468	365,382,578
Entertainment expense	60,590,196	60,403,411
Depreciation and amortization	65,556,233	66,402,268
Office materials	82,462,759	41,927,831
Transportation and business travel expenses	40,242,683	40,277,684
Rental and property management fee	32,015,989	33,773,823
Advertising	4,170,350	3,337,954
Other	75,129,147	102,411,126
Total	819,957,825	713,916,675

5.43 Financial expenses

Type	Amount in this period	Amount in previous period
Interest expenses	34,540,370	16,279,491
Less: Interest income	20,429,876	19,302,754
Profit or loss on exchange	6,278,727	1,219,820
Handling fee and other	3,259,975	1,446,694
Total	23,649,196	-356,749

5.44 Income from changes in fair value

Cause	Amount in this period	Amount in previous period
Trading financial assets - Foreign exchange forward contract	-106,180	532,990
Including: Income from changes in fair value caused by derivative financial instrument		
Trading financial liability - Foreign exchange forward contract	1,056,737	-1,227,304
Investment property measured by fair value		
Total	950,557	-694,314

5.45 Investment income

5.45.1 Details

Item	Amount in this period	Amount in previous period
Income from long-term equity investment calculated by cost method		
Income from long-term equity investment calculated by equity method	39,714,198	46,038,503
Investment income from disposal of long-term equity investment (Note 1)	-731,026	83,437
Investment income obtained during the holding period of held-to-maturity investment	1,931,507	
Investment income obtained during the holding period of available-for-sale financial assets		
Investment income from disposal of trading financial assets		
Investment income from disposal of available-for-sale financial assets		
Other (Note 2)	1,221,899	
Total	42,136,578	46,121,940

Note 1: Investment loss of RMB 731,026 Yuan was recognized in this period due to the liquidation of Beijing YYT Software technology Co., Ltd.

Note 2: This refers to that the Company purchased 28.33% equity in Beijing LBS Social Insurance Information Technology Co., Ltd. (BJ LBS), totally holding 61.67% after adding the 33.33% it holds before. BJ LBS was included in the consolidated financial statements after the acquisition. The difference of RMB 465,997 Yuan between the investment cost before the acquisition and the fair value of identifiable net assets attributable to the Company was recognized as investment income. In addition, other composite income with the amount of RMB 755,902 Yuan previously included in capital reserve was recognized as investment income when consolidating the financial statements.

5.45.2 Long-term equity investment income calculated by equity method:

Investee	Amount in this period	Amount in previous period	Cause of change
Nokia Siemens Networks Neusoft Commtech Company Ltd.	8,231,268	9,586,872	Change in net profit of investee
Beijing LBS Social Insurance Information Technology Co., Ltd.	-456,868	-1,542,774	Change in net profit of investee
Shenyang CataData Technology Co., Ltd.	-839,530	-324,809	Change in net profit of investee
Shengyang Toshiba Neusoft Information Systems Co., Ltd.	-896,252		Change in net profit of investee
Neusoft-Philips Medical Systems Co., Ltd.	34,780,482	38,165,939	Change in net profit of investee
Liaoning Shengjing Xikang Healthcare Co., Ltd.	-162,886	153,275	Change in net profit of investee
Chongqing Guo'ao 100 Years Xikang Health Management Co., Ltd.	-119,702		Change in net profit of investee
Aerotel Medical Systems (1998) Ltd.	439,595		Change in net profit of investee
NEC Neusoft Information Technologies Company Limited	-1,261,909		Change in net profit of investee
Total	39,714,198	46,038,503	

5.45.3 Note:

There is no significant limitation to the remittance of investment income.

5.46 Impairment losses on assets

Item	Amount in this period	Amount in previous period
Bad debt	25,898,767	-13,931,157
Inventory write-down	5,077,146	1,632,507
Impairment of long-term equity investment	1,448,028	
Impairment of investment property		
Impairment of fixed assets		
Impairment of construction supplies		
Impairment of construction in progress		
Impairment of intangible asset		
Impairment of goodwill	8,981,071	17,642,750
Total	41,405,012	5,344,100

5.47 Non-operating income

5.47.1 Overview

Item	Amount in this period	Amount in previous period	Amount included in non-recurring profit & loss of this period
Profits from disposal of non-current assets (Note 1)	21,660,226	18,735,735	21,660,226
Including: Profit from disposal of fixed assets	2,380,226	302,620	2,380,226
Profit from disposal of intangible asset	19,280,000	18,433,115	19,280,000
Government subsidies	105,173,354	109,335,552	105,173,354
VAT refund	32,253,175	29,001,189	
Other (Note 2)	28,999,199	3,748,580	28,999,199
Total	188,085,954	160,821,056	155,832,779

Note 1: The profits from disposal of non-current assets are mainly composed of the transfer income with amount of RMB 19,280,000 Yuan from selling of patent technology and non-patent technology by Shenyang Neusoft Medical Systems Co., Ltd. to Nanchang Biotech A&C Biotechnical Industry Incorporated Company.

Note 2: The Company subscribed the equity in U.S.A. Appconomy, Inc. with intangible asset - technology use right. The transfer price of the intangible asset was recognized based on evaluated price and the amount of non-operating income was recognized as RMB 24,930,000 Yuan.

5.47.2 Government subsidies

Item	Amount in this period	Amount in previous period	Amount included in non-recurring profit & loss of this period
(1) Fund appropriation for scientific research (included in current profit and loss)	58,128,282	53,518,252	58,128,282
(2) Development fund for service outsourcing business	28,066,200	32,298,300	28,066,200
(3) Industry supporting fund	3,598,709	6,466,991	3,598,709
(4) Fiscally subsidized interest	2,416,600	4,274,100	2,416,600
(5) Other government subsidies	12,963,563	12,777,909	12,963,563
Total	105,173,354	109,335,552	105,173,354

5.48 Non-operating expenses

Item	Amount in this period	Amount in previous period	Amount included in non-recurring profit & loss of this period
Loss on disposal of non-current assets	2,748,601	2,540,307	2,748,601
Including: Loss on disposal of fixed assets	2,717,587	1,920,307	2,717,587
Loss on disposal of intangible asset	31,014	620,000	31,014
Donation (Note)	1,136,014	3,205,474	1,136,014
Other	1,614,858	2,461,827	1,614,858
Total	5,499,473	8,207,608	5,499,473

Note: This refers to donation for Japan Earthquake in 2011.

5.49 Income tax

Item	Amount in this period	Amount in previous period
Income tax calculated by the Tax Laws and related regulations.	80,385,084	53,667,578
Adjustment of deferred income tax	-11,043,976	-864,746
Total	69,341,108	52,802,832

5.50 Calculation of Basic EPS and Diluted EPS

Formula:

5.50.1 Basic EPS

$$\text{Basic EPS} = P_0 \div S$$

$$S = S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k$$

PO means net profit attributable to the Company's common shareholders or net profit attributable to them after deducting non-recurring profit and loss; S means weighted average number of ordinary shares outstanding; S₀ means total shares at the beginning of this

period; S_1 means increased shares transferred from capital reserve or stock dividends in this reporting period; S_i means increased shares from issuance of new shares or debt-to-equity swap in this reporting period; S_j means decreased shares caused by buy-back in this reporting period; S_k means shares of reserve stock split; M_0 means the number of months in the reporting period; M_i means accumulated number of months from the following month of the share increase to the end of the reporting period; M_j means accumulated number of months from the following month of the share decrease to the end of the reporting period.

5.50.2 Diluted EPS

Diluted EPS = $P_1 / (S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0 - S_k + \text{weighted average number of increased ordinary shares from Warrants, Stock Option and convertible bonds})$

P_1 means net profit attributable to the Company's common shareholders or net profit attributable to them after deducting non-recurring profit and loss, which will be adjusted according to the Accounting Standards for Business Enterprises after considering the dilutive potential ordinary shares' influence on it. When calculating the diluted EPS, the Company shall consider the dilutive potential ordinary shares' influence on the net profit attributable to the Company's common shareholders or net profit attributable to them after deducting non-recurring profit and loss and weighted average number of shares, and include it in diluted EPS in the order of high to low dilution degree, up to the minimum value of diluted EPS.

5.50.3 Basic EPS and Diluted EPS

Item	EPS (Yuan)	
	Basic EPS	Diluted EPS
Net profit attributable to the Company's common shareholders	0.34	0.34
Net profit attributable to Company's common shareholders after deducting non-recurring profit and loss	0.23	0.23

5.50.4 Calculation process of basic EPS:

Item	Formula	Amount
Net profit attributable to the Company's common shareholders	P_0	417,068,980
Non-recurring profit and loss	F	130,261,411
Net profits attributable to Company's common shareholders after deducting non-recurring profit and loss	$P_1 = P_0 - F$	286,807,569
Total shares at the beginning of this period	S_0	1,227,594,245
Increased shares transferred from capital reserve or stock dividends	S_1	
Increased shares from issuance of new shares or debt-to-equity swap	S_i	
Accumulated number of months from the following month of the share increase to the end of the reporting period	M_i	
Decreased shares caused by buy-back	S_j	
Accumulated number of months from the following month of the share decrease to the end of the reporting period	M_j	

Continued table

Item	Formula	Amount
Shares of reserve stock split	S_k	
The number of months in the reporting period	M_0	12
Weighted average number of ordinary shares outstanding	$S = S_0 + S_1 + S_1 \times M_i \div M_0 - S_1 \times M_j \div M_0 - S_k$	1,227,594,245
Basic EPS	$EPS = P_0 / S$	0.34
Basic EPS after deducting non-recurring profit and loss	$EPS_1 = P_1 / S$	0.23

5.50.5 The Company does not have dilutive potential common share outstanding, so the diluted EPS is equal to the basic EPS.

5.51 Other composite income

Item	Amount in this period	Amount in previous period
1. Profit (loss) occurred by available-for-sale financial assets		
Less: Related income tax		
Net value previously included in other composite income and transferred into current profit and loss		
Subtotal		
2. Attributable amount in other composite income of the investee calculated by equity method		
Less: Related income tax		
Net value previously included in other composite income and transferred into current profit and loss	755,902	
Subtotal	-755,902	
3. Profit (loss) occurred by cash flow hedging instrument		
Less: Related income tax		
Net value previously included in other composite income and transferred into current profit and loss		
Adjustment of initially recognized amount of converted arbitrated items		
Subtotal		
4. Translation difference in foreign currency-dominated statements	-21,844,159	-7,899,412
Less: Net value transferred into current profit and loss when disposing overseas operations		
Subtotal	-21,844,159	-7,899,412

Continued table

Item	Amount in this period	Amount in previous period
5. Other composite income attributable to minority shareholders (translation difference in foreign currency-dominated statements)	186,776	
Subtotal	186,776	
6. Other		
Less: Related income tax		
Other Net value previously included in other composite income and transferred into current profit and loss		
Subtotal		
Total	-22,413,285	-7,899,412

5.52 Note to the cash flow statement

5.52.1 Other cash receipt relating to operating activities

Item	Amount
Interest income	20,074,310
Scientific research appropriation	84,352,442
Other transactions	236,628,998
Total	341,055,750

5.52.2 Other cash disbursement relating to operating activities

Item	Amount
Business promotion expense	32,425,704
Transportation and business travel expenses	102,925,105
Energy, automobile consumption and material expenses	39,915,082
Office, network and telephone expenses	30,602,105
Training, consulting, seminar expenses	41,291,790
Rental and property management expense	25,210,351
Transportation and property insurance expenses	5,127,890
Other transactions	205,710,847
Total	483,208,874

5.52.3 Other cash receipt relating to investment activities

Item	Amount
Interest income of fixed deposit	355,566
The portion by which the reduced money capital paid for purchasing equity in the subsidiary is less than the balance of the subsidiary's monetary capital (Note)	1,239,678
Government investment and infrastructure construction allowance	14,310,000
Total	15,905,244

Note: The refer to the difference by which the reduced money capital paid for purchasing equity in Beijing LBS Social Insurance Information Technology Co., Ltd. (included in the consolidated financial statement after the purchase) is less than the balance of monetary capital of Beijing LBS Social Insurance Information Technology Co., Ltd..

5.52.4 Other cash disbursement relating to investment activities

Item	Amount
Dividend income tax of subsidiaries withheld at the source	149,331
Reduced monetary capital due to the subsidiary is not included in the consolidation (Note)	2,251,595
Total	2,400,926

Note: Beijing YYT Software technology Co., Ltd. is not included in the consolidation due to liquidation.

5.52.5 Other cash disbursement relating to financing activities

Item	Amount in this period
Underwriting expense and register service expense for issuing bonds	1,242,000
Total	1,242,000

5.53 Supplementary Information to cash flow statements

5.53.1 Supplementary information to cash flow statements

Item	Amount in this period	Amount in previous period
1. The net profit is converted into cash flow from operating activities		
Net profit	423,545,552	507,302,496
Add: Provision for asset impairment	41,405,012	5,344,100
Depreciation of fixed assets and investment properties	128,325,801	151,634,147
Amortization of intangible asset	25,163,072	24,772,476
Amortization of long-term deferred expenses	14,795,474	12,614,781
Loss on disposal of fixed assets, intangible asset and other long-lived assets ("—" for profit)	-18,911,625	-43,338,675
Abandonment loss of fixed assets ("—" for profit)		119,196
Loss on change of fair value ("—" for profit)	-950,557	694,314

Continued table

Item	Amount in this period	Amount in previous period
Financial expenses ("—" for profit)	41,705,531	15,279,240
Investment loss ("—" for profit)	-42,136,578	-46,121,940
Decrease of deferred income tax assets ("—" for increase)	-10,824,364	-851,455
Increase of deferred income tax liabilities ("—" for decrease)	-219,612	-13,291
Decrease of inventories ("—" for increase)	-98,335,163	-189,541,274
Decrease of operating accounts receivable ("—" for increase)	-241,512,356	-272,589,823
Increase of operating accounts payable ("—" for decrease)	38,146,417	216,585,238
Other		
Net value of cash flow from operating activities	300,196,604	381,889,530
2. Significant investment and financing activities not relating to cash receipt and disbursement		
Debt conversion to equity		
Convertible Bonds due within one year		
Leased fixed assets from financing		
3. Change in cash and cash equivalent		
Year-end cash balance	1,736,706,930	1,687,979,107
Less: Year-begin cash balance	1,687,979,107	1,615,989,046
Add: Year-end cash equivalent balance		
Less: Year-begin cash equivalent balance		
Net increase in cash and cash equivalents	48,727,823	71,990,061

5.53.2 Information relating to obtaining or disposing subsidiaries and other operating units

Item	Amount in this period	Amount in previous period
1. Information relating to obtaining subsidiaries and other operating units:		
1) Acquisition price	197,778,092	43,895,212
2) Cash and cash equivalent paid for the acquisition	172,843,692	43,895,212
Less: Cash and cash equivalent held by subsidiaries and other operating units	21,038,926	28,794,277
3) Net cash received from subsidiaries and other operating units	151,804,766	15,100,935
4) Net assets obtained from the subsidiaries	35,434,382	29,921,677
Current assets	50,631,696	32,649,843
Non-current assets	3,084,138	215,065

Continued table

Item	Amount in this period	Amount in previous period
Current liabilities	18,281,452	2,943,231
Non-current liabilities		
2. Information relating to disposing subsidiaries and other operating units:		
1) Disposal price		12,920,000
2) Cash and cash equivalent received from the disposal		12,920,000
Less: Cash and cash equivalent held by subsidiaries and other operating units		
3) Net cash received from disposal of subsidiaries and other operating units		12,920,000
4) Net assets from disposal of subsidiaries		
Current assets		
Non-current assets		
Current liabilities		
Non-current liabilities		

5.53.3 Composition of cash and cash equivalent:

Item	Amount in this period	Amount in previous period
1. Cash	1,736,706,930	1,687,979,107
Including: Cash on hand	266,891	294,479
Bank deposit which can be used for payment at anytime	1,736,440,039	1,685,294,838
Other money capital which can be used for payment at anytime		2,389,790
2. Cash equivalent		
Including: Bond investment due within three months		
3. Ending balance in cash and cash equivalents	1,736,706,930	1,687,979,107

Note: Cash and cash equivalent with use limitation are not covered.

Note 6 There is no accounting treatment for asset backed securitization.

Note 7 Related Party and Related Transactions

7.1 Subsidiaries:

(Unit: RMB 10,000 Yuan)

Name	Type	Type	Domicile	Legal representative	Business scope	Registered capital	Equity ratio (%)	Voting share (%)	Organization Code
Neusoft Group (Chengdu) Co., Ltd.	Wholly owned	Limited liability company	Chengdu	Wang Jingxi	Computer software/hardware	100	100	100	78812157-9
Neusoft Group (Dalian) Co., Ltd.	Wholly owned	Limited liability company	Dalian	Wang Yongfeng	Computer software/hardware	30,000	100	100	79202132-7
Shenyang Neusoft IT Service Co., Ltd.	Wholly owned	Limited liability company	Shenyang	Wang Yongfeng	Computer software/hardware	31,000	100	100	78872654-3
Shenyang Shenyang Neusoft Property Management Co., Ltd.	Wholly owned	Limited liability company	Shenyang	Wang Jingxi	Property management & service	100	100	100	72091468-7
Neusoft Science & Technology Co., Ltd.	Wholly owned	Limited liability company	U.S.A.	Liu Jiren	Computer software/hardware, technology consulting & service	USD 1,000	100	100	
Shenyang Neusoft Medical Systems Co., Ltd.	Wholly owned	Limited liability company	Shenyang	Liu Jiren	Medical systems	7,800	100	100	70208754-2
Shenyang Zhuri Digital Advertising Communications Co., Ltd.	Wholly owned	Limited liability company	Shenyang	Wang Jingxi	Ad production/publicity	100	100	100	24376645-7
Xi'an Neusoft System Integration Co., Ltd.	Wholly owned	Limited liability company	Xi'an	Wang Yongfeng	Computer software/hardware	2,500	100	100	72628571-1
Nanjing Neusoft System Integration Co., Ltd.	Wholly owned	Limited liability company	Nanjing	Wang Yongfeng	Computer software/hardware	1,200	100	100	72173264-x
Shanghai Neusoft Times Digital Technology Co., Ltd.	Wholly owned	Limited liability company	Shanghai	Wang Yongfeng	Computer software/hardware	2,000	100	100	70333930-x
Neusoft Group (Shanghai) Co., Ltd.	Wholly owned	Limited liability company	Shanghai	Wang Yongfeng	Computer software/hardware, technology consulting and service	10,000	100	100	68095364-8
Hangzhou Neusoft Co., Ltd.	Wholly owned	Limited liability company	Hangzhou	Wang Yongfeng	Computer software/hardware, technology consulting and service	50	100	100	68908449-3

Continued table

Name	Type	Type	Domicile	Legal representative	Business scope	Registered capital	Equity ratio (%)	Voting share (%)	Organization Code
Neusoft Group (Beijing) Co., Ltd.	Wholly owned	Limited liability company	Beijing	Wang Yongfeng	Computer software/hardware and related products	25,000	100	100	77545727-6
Beijing Lanruisoft Co., Ltd.	Wholly owned	Limited liability company	Beijing	Lu Zhaoxia	Development/design/production/sales of computer software	1,000	100	100	78398520-4
Neusoft Group (Tianjin) Co., Ltd.	Wholly owned	Limited liability company	Tianjin	Wang Yongfeng	Computer software/hardware	2,000	100	100	69740643-x
Hunan Neusoft Co., Ltd.	Wholly owned	Limited liability company	Changsha	Wang Yongfeng	Computer software/hardware	1,200	100	100	18378979-5
Wuhan Neusoft Information Technology Co., Ltd.	Wholly owned	Limited liability company	Wuhan	Wang Yongfeng	Computer software/hardware	1,500	100	100	74143252-1
Shandong Neusoft System Integration Co., Ltd.	Wholly owned	Limited liability company	Qingdao	Wang Yongfeng	Computer software/hardware	1,500	100	100	70620482-2
Chengdu Neusoft System Integration Co., Ltd.	Wholly owned	Limited liability company	Chengdu	Wang Yongfeng	Computer software/hardware	2,000	100	100	72539482-8
Shenzhen Neusoft Co., Ltd.	Wholly owned	Limited liability company	Shenzhen	Wang Yongfeng	Computer software/hardware	500	100	100	19236465-x
Guangdong Neusoft Co., Ltd.	Wholly owned	Limited liability company	Guangzhou	Wang Yongfeng	Computer software/hardware	2,000	100	100	73144432-6
Neusoft Group (Guangzhou) Co., Ltd.	Wholly owned	Limited liability company	Guangzhou	Liu Jiren	Computer software/hardware, technology consulting and service	10,000	100	100	67972637-6
Dalian Neusoft Finance Information Technology Co., Ltd.	Wholly owned	Limited liability company	Dalian	Wang Yongfeng	Computer software/hardware	USD 3 million	Direct:69 Indirect:31	100	70219661-8
Neusoft (Japan) Co., Ltd.	Wholly owned	Limited liability company	Japan	Liu Jiren	Computer software/hardware	JPY 187,750,000	100	100	
Neusoft (Hong Kong) Co., Ltd.	Wholly owned	Limited liability company	Hong Kong	Liu Jiren	Computer software development/sales/consulting	USD 850,000	100	100	

Continued table

Name	Type	Type	Domicile	Legal representative	Business scope	Registered capital	Equity ratio (%)	Voting share (%)	Organization Code
Shenyang Neusoft Boan Software Co., Ltd.	Controlled	Limited liability company	Shenyang	Wang Yongfeng	Computer software/hardware	USD 2.5 million	60	60	71114763-1
Qinhuangdao Neusoft Co., Ltd.	Controlled	Limited liability company	Qinhuangdao	Xu Hongli	Computer software development & network integration	1,000	85	85	60128505-6
Shenyang Neusoft System Integration Technology Co., Ltd.	Wholly owned	Limited liability company	Shenyang	Wang Yongfeng	Computer software/hardware, technology consulting and service	2,000	100	100	67533650-6
Liaoning Neusoft Venture Capital Investment Co., Ltd.	Controlled	Limited liability company	Dalian	Liu Jiren	SME venture capital investment & management	10,500	71.43	71.43	71578937-5
Neusoft (Europe) Co., Ltd.	Wholly owned	Limited liability company	Switzerland	Liu Jiren	Computer software/hardware, technology consulting and service	CHF 37,900,000	100	100	
Neusoft Group (Tangshan) Co., Ltd.	Wholly owned	Limited liability company	Tangshan	Lu Zhaoxia	Computer software/hardware, technology consulting/service	3,000	100	100	55330512-x
Neusoft Group (Hannan) Co., Ltd.	Wholly owned	Limited liability company	Hannan	Wang Yongfeng	Computer software/hardware, technology consulting/service	10,000	100	100	55737352-5
Neusoft Group (Wuxi) Co., Ltd.	Wholly owned	Limited liability company	Wuxi	Wang Yongfeng	Computer software/hardware, technology consulting/service	2,000	100	100	56176638-0
Neusoft Group (Wuhu) Co., Ltd.	Wholly owned	Limited liability company	Wuhu	Wang Yongfeng	Computer software/hardware development & service	1,000	100	100	57175470-3
Guangdong Neufashion Digital Technology Co., Ltd.	Controlled	Limited liability company	Guangzhou	Lu Zhaoxia	Development and sales of computer hardware and software	3,750	60	60	6057403343-4
Shenyang Neusoft Transportation Information Technology Co., Ltd.	Controlled	Limited liability company	Shenyang	Wang Yongfeng	Computer service & consulting	700	50.5	50.5	573458836
Neusoft Group (Zhengzhou) Co., Ltd.	Wholly owned	Limited liability company	Zhengzhou	Wang Yongfeng	Development and sales of computer hardware and software	1,000	100	100	58288499-2
Neusoft Group (Nanchang) Co., Ltd.	Wholly owned	Limited liability company	Nanchang	Wang Yongfeng	Computer hardware R&D, technology consulting/service, etc.	2,000	100	100	58657721-X

Continued table

Name	Type	Type	Domicile	Legal representative	Business scope	Registered capital	Equity ratio (%)	Voting share (%)	Organization Code
Neusoft Group (Nanjing) Co., Ltd.	Wholly owned	Limited liability company	Nanjing	Wang Yongfeng	Development and sales of computer hardware and software, technology consulting, etc.	1,200	100	100	57593939-3
Beijing LBS Social Insurance Information Technology Co., Ltd.	Controlled	Limited liability company	Beijing	Hu Weiwei	Technology development, consulting and sales of products	1,500	61.67	61.67	80204827-6
Neusoft Mobile Solutions Oy	Wholly owned	Limited liability company	Finland	Klaus Zimmer	Computer software/hardware, technology consulting/service	ERU 8600	100	100	
Neusoft Mobile Solutions SRL	Wholly owned	Limited liability company	Roumania	Klaus Zimmer	Computer software/hardware, technology consulting/service	ROL 90,000	100	100	
Neusoft Technology Solutions GmbH	Wholly owned	Limited liability company	Germany	Klaus Zimmer	Computer software/hardware, technology consulting/service	ERU 10,250,000	100	100	
Beijing Neusoft Viewhigh Technology Co., Ltd.	Controlled	Limited liability company	Beijing	Lu Zhaoxia	Development and sales/wholesale of computer hardware and software; technology support, import/export agent	2,779	73.14	73.14	75010398-1
Neusoft Xikang Holding Co., Ltd.	Wholly owned	Limited liability company	Cayman Islands	Liu Jiren	IT and related consulting	USD 50,000	70	70	
Neusoft Xikang International Co., Ltd.	Wholly owned	Limited liability company	Hong Kong	Zhao Hong	IT and related consulting	HKD 1 million	100	100	
Neusoft Xikang Healthcare Technology Co., Ltd.	Wholly owned	Limited liability company	Beijing	Lu Zhaoxia	Computer software/hardware, development of electronic products, corporate investment management and consulting	USD 8 million	100	100	57515244-3
Liaoning Neusoft Xikang Healthcare Co., Ltd.	Wholly owned	Limited liability company	Shenyang	Lu Zhaoxia	Healthcare information management & consulting, development of management service/system	3,000	100	100	58385530-9
Shenyang Neusoft Xikang Medical Systems Co., Ltd.	Wholly owned	Limited liability company	Shenyang	Lu Zhaoxia	Development of medical system, computer software/hardware; health management and consulting	1,000	100	100	58387954-6
Shenzhen Neufashion Digital Technology Co., Ltd.	Wholly owned	Limited liability company	Shenzhen	Lu Zhaoxia	Development and sales of computer hardware and software	100	100	100	58790030-6

Continued table

Name	Type	Type	Domicile	Legal representative	Business scope	Registered capital	Equity ratio (%)	Voting share (%)	Organization Code
Tianjin Xikang Healthcare Technology Co., Ltd.	Controlled	Limited liability company	Tianjin	Lu Zhaoxia	Computer software/hardware, development of electronic products, corporate investment management and consulting	3,000	75	75	58975520-2
Tianjin Neusoft Technology Co., Ltd.	Wholly owned	Limited liability company	Tianjin	Wang Yongfeng	Computer software/hardware, system integration, technology consulting	500	100	100	78639469-6
Shenyang Neusoft Medical Systems Import & Export Co., Ltd.	Wholly owned	Limited liability company	Shenyang	Jiang Genmiao	Import & export of goods and technologies	500	100	100	76439265-7
Neusoft Medical System U.S.A. Inc.	Wholly owned	Limited liability company	U.S.A.	Liu Jiren	R&D/manufacturing of medical systems, technology consulting & service	USD 4 million	100	100	
Shenyang Neusoft Spectrum MRI Technologies Co., Ltd.	Controlled	Limited liability company	Shenyang	Jiang Genmiao	R&D and manufacturing of Low-filed permanent magnet products, MRI technology development and consulting	1,000	80	80	73464528-9
Neusoft Positron Medical Systems Co., Ltd.	Controlled	Limited liability company	Shenyang	Jiang Genmiao	Development and manufacturing of PET systems, technology consulting/service	3,500,000 USD	99	99	78005017-1
Beijing Neusoft Huiju Information Technology Co., Ltd.	Controlled	Limited liability company	Beijing	Rong Xinjie	Computer software/hardware, technology service	2,665	80.28	80.28	6621772-9
Shenzhen Neusoft Mobile Terminal Design Co., Ltd.	Controlled	Limited liability company	Shenzhen	Chen Ximin	Development & sales of electronics technologies, technology consulting	500	70	70	68537951-8
Beijing Neusoft Yuetong software Technology Co.,Ltd.	Controlled	Limited liability company	Beijing	Wang Limin	Computer software/hardware & service	1,500	70	70	69230700-2
Dalian Neusoft Park Industrial Development Co., Ltd.	Controlled	Limited liability company	Dalian	Liu Jiren	Computer software development and technology consulting, property rental service; property management; import/export of general goods and technologies	35,900	60	60	74090764-4
Foshan Nanhai Neusoft Information Technology Development Co., Ltd.	Controlled	Limited liability company	Foshan	Liu Jiren	Investment/construction/management of Nanhai Neusoft Information Institute; IT, management talent education/training and consulting	6,000	99	99	73500424-8

Continued table

Name	Type	Type	Domicile	Legal representative	Business scope	Registered capital	Equity ratio (%)	Voting share (%)	Organization Code
Chengdu Neusoft Information Technology Development Co., Ltd.	Controlled	Limited liability company	Chengdu	Liu Jiren	Computer software/hardware, development/rental/sales of education courseware; real estate development and sales; property management; venue rental; IT, management talent training and consulting	6,000	99	99	74031031-1
Beijing InBridge Consulting Co., Ltd.	Wholly owned	Limited liability company	Beijing	Song Li	Recruitment process outsourcing & talent hunting service	10	100	100	69231782-5
Dalian Neusoft BPO Service Co., Ltd.	Wholly owned	Limited liability company	Dalian	Wang Yongfeng	Computer software/hardware	500	100	100	69600028-6
Hefei Neusoft Information Technology Co., Ltd.	Wholly owned	Limited liability company	Hefei	Wang Yongfeng	Computer software/hardware, system integration, technology consulting	50	100	100	77735490-8
Beijing YYT Software technology Co., Ltd.	Controlled	Limited liability company	Beijing	Wang Cheng-peng	Computer software development and service	100	74	74	76679629-2
Neusoft Yuetong software Technology (Dalian) Co., Ltd.	Wholly owned	Limited liability company	Dalian	Ma Ximing	Computer software/hardware	500	100	100	55981522-7
Kunming Neusoft Jinsha Information Technology Co., Ltd.	Controlled	Limited liability company	Kunming	Shan Zhenglong	Design, development, manufacturing, service and sales of computer equipment and software products	2,965	51	51	21663341-3
Neusoft Medical Systems (Middle East) Co., Ltd.	Wholly owned	Limited liability company	United Arab Emirates	Jiang Genmiao	Medical systems, technology consulting/service	USD 3.5 million	100	100	

7.2. Joint ventures and associates

Investee	Type	Domicile	Legal representative	Business scope	Registered capital	Equity ratio (%)	Voting share (%)	Relation	Organization Code
Nokia Siemens Networks Neusoft Comtech Company Ltd.	Limited liability company	Dalian	Zhangzhiqiang	Mobile application products and solutions	USD 7 million	46.00	46.00	Associate	71699395-x
Shenyang CataData Technology Co., Ltd.	Limited liability company	Shenyang	Dongyanchun	Development and sales of computer software and hardware	RMB 12 million Yuan	16.67	16.67	Associate	55079395-7
Neusoft-Philips Medical Systems Co., Ltd. ("Neusoft-Philips")	Limited liability company	Shenyang	Liu Jiren	R&D, manufacturing and sales of CT equipment	USD 29.6 million Yuan	49.00	49.00	Associate	76007551-5
Liaoning Shengjing Xikang Healthcare Co., Ltd. ("SJ XK")	Limited liability company	Shenyang	Xian Jianfei	Development of health science and technology projects; health management service	RMB 1 million Yuan	49.00	49.00	Associate	69651276-7
Chongqing Guo'ao 100 Years Xikang Health Management Co., Ltd.	Limited liability company	Chongqing	Zhang Jingdong	Development of health science and technology projects; health management service	RMB 2 million Yuan	20.00	20.00	Associate	57342964-8
NEC Neusoft Information Technologies Company Limited	Limited liability company	Dalian	Tohru Miwa	Development and sales of computer hardware and software	RMB 50 million Yuan	30.00	30.00	Associate	57088436-2
Aerotel Medical Systems (1998) Ltd.	Limited liability company	Israel	David Rubin	Remote medical diagnosis, healthcare solutions	ILS 35,000	30.77	30.77	Associate	
Shenyang Toshiba Neusoft Information Systems Co., Ltd. (Toshiba Neusoft)	Limited liability company	Shenyang	Masahiko yabuuchi	Development and sales of computer hardware and software	USD 3.5 million	40.00	40.00	Associate	57349218-8

7.3 Other related parties

Other related party	Relation	Organization Code
NEU Science & Technology Industry Co., Ltd. ("NEU")	Shareholder with over 5% equity in the Company	11772782-8
Alpine Electronics, Inc., Alpine Electronics (China) Co., Ltd. ("Alpine")	Shareholder with over 5% equity in the Company, where the Company's directors take important position	
Toshiba Solutions Corporation ("Toshiba Corporation")	Shareholder with over 5% equity in the Company	
Baosteel Group Corporation	Shareholder with over 5% equity in the Company	13220082-1
Nanhai Neusoft Institute of Information Technology	Education organization jointly established by the Company and its subsidiary	74919300-0
Chengdu Neusoft Institute of Information Technology	Education organization jointly established by the Company and its subsidiary	74963918-0
Dalian Neusoft Institute of Information	Education organization jointly established by the Company and its subsidiary	76544538-6
Dalian Neusoft Institute of Information Technology	Education organization established by the Company	42244491-2
Dalian Neusoft Education Services Co., Ltd. ("DL Neusoft Education")	Holding subsidiary owned by the education organization established by the Company	75155503-1
Harman International Industries, Incorporated and its subsidiaries (Collectively referred to as "Harman")	The Company's chairman and CEO serves as director at Harman	
Dalian Neusoft Holding Co., Ltd.	The Company's chairman and CEO serves as Chairman of the Board at Dalian Neusoft Holding Co., Ltd.	58203862-2
Chengdu Neusoft Co., Ltd. ("CD Neusoft")	Wholly owned subsidiary owned by the education organization jointly established by the Company and its subsidiary	55643276-5

7.4 Related-party transactions

7.4.1 Transactions among the subsidiaries that are controlled by the Company and included in the consolidated financial statements and between such subsidiaries and the Company have been offsetted.

7.4.2 Related transactions from purchase of products and labor service

Related party	Type	Content	Pricing	Amount in this period		Amount in previous period	
				Amount	Proportion to similar transaction (%)	Amount	Proportion to similar transaction (%)
Neusoft-Philips	Purchase of products	Raw material or finished products	Negotiation based on market price	363,490,009	67.39	446,580,509	78.14
NSNN	Purchase of products	Raw material or finished products	Negotiation based on market price	7,906,916	0.69		
NEU	Purchase of products	Payment for training and technology service fees	Negotiation based on market price	54,000	0.03		
CD Neusoft	Labor service	Payment for labor service	Negotiation based on market price	5,090,855	0.69	1,464,496	0.46
NEU	Labor service	Payment for labor service	Negotiation based on market price	108,000	0.01		
Dalian Neusoft Institute of Information Technology	Labor service	Payment for training fee	Negotiation based on market price	12,000	0.002	380,000	0.12
Chengdu Neusoft Institute of Information Technology	Labor service	Payment for training fee	Negotiation based on market price			620,000	0.19
SJ XK	Labor service	Payment for service fee	Negotiation based on market price			1,718,800	0.54
Total				376,661,780		450,763,805	

7.4.3 Related transactions from product sales and provision of labor service

Related party	Type	Content	Pricing	Amount in this period		Amount in previous period	
				Amount	Proportion to similar transaction (%)	Amount	Proportion to similar transaction (%)
Harman	Product sales	System integration or software	Negotiation based on market price	206,724,653	4.28	95,361,624	2.46
Toshiba Corporation	Product sales	System integration or software	Negotiation based on market price	164,878,360	3.41	156,733,219	4.04
NSNN	Product sales	System integration or software	Negotiation based on market price	132,531,471	2.74	117,083,320	3.02
Alpine	Product sales	System integration or software	Negotiation based on market price	109,640,721	2.27	100,441,334	2.59
Neusoft Information Institute	Product sales	System integration or software	Negotiation based on market price	10,967,200	0.23	11,467,200	0.30
Dalian Neusoft Institute of Information Technology	Product sales	System integration or software	Negotiation based on market price	5,000,000	0.10	5,345,000	0.14
Chengdu Neusoft Institute of Information Technology	Product sales	System integration or software	Negotiation based on market price	3,933,333	0.08	5,150,000	0.13
CQ Guo'ao 100 Years	Product sales	System integration or software	Negotiation based on market price	3,522,802	0.07		
Nanhai Neusoft Institute of Information Technology	Product sales	System integration or software	Negotiation based on market price	1,500,000	0.03	3,774,466	0.10
Baosteel	Product sales	System integration or software	Negotiation based on market price	291,000	0.04	3,282,653	0.08
Toshiba Neusoft	Product sales	System integration or software	Negotiation based on market price	265,364	0.01		
Neusoft-Philips	Product sales	Materials and accessories	Negotiation based on market price	27,736,915	3.38	33,577,350	4.14
Neusoft Information Institute	Provision of labor service	Training service	Negotiation based on market price	13,697,000	0.28	12,536,000	0.32
Dalian Neusoft Institute of Information Technology	Provision of labor service	Training service	Negotiation based on market price	7,200,000	0.15	7,482,000	0.19

Continued table

Related party	Type	Content	Pricing	Amount in this period		Amount in previous period	
				Amount	Proportion to similar transaction (%)	Amount	Proportion to similar transaction (%)
Neusoft-Philips	Provision of labor service	Rental and property management income	Negotiation based on market price	10,935,815	10.05	15,582,006	15.54
Alpine	Provision of labor service	Rental and property management income	Negotiation based on market price	8,691,478	7.99	8,391,259	8.37
Neusoft-Philips	Provision of labor service	Management service	Negotiation based on market price	4,012,657	0.08	3,200,956	0.08
Neusoft Information Institute	Provision of labor service	Service fee	Negotiation based on market price	600,000	0.01	600,000	0.02
Total				712,128,769		580,008,387	

7.4.4 There is no related-party trusteeship in this period.

7.4.5 There is no related-party contract in this period.

7.4.6 Related leasing

Lessor	Lessee	Leased asset	Asset amount	Start date	Finish date	Income	Recognition basis	Treatment
Dalian Neusoft Park Industrial Development Co., Ltd.	Alpine	Property	26,174,59	2011.01.01	2011.12.31	8,691,478	Lease agreement	100% of the rental is recognized as lease income
Neusoft Corporation	Neusoft-Philips	Property	5,814,803	2011.09.01	2012.08.31	343,077	Lease agreement	100% of the rental is recognized as lease income
Neusoft Corporation	Neusoft-Philips	Property	33,718,538	2005.07.01	2012.08.31	7,562,184	Lease agreement	100% of the rental is recognized as lease income
Shenyang Neusoft Medical Systems Co., Ltd.	Neusoft-Philips	Property	16,689,355	2011.01.01	2011.12.31	3,030,554	Lease agreement	100% of the rental is recognized as lease income

7.4.7 Related guarantee

Warrantor	Warrantee	Amount	Start date	Expiration date	Whether the performance of the grantee is finished
Neusoft Corporation	Dalian Neusoft Institute of Information	RMB 50 million Yuan	2012.03.19	2014.3.19	No
Neusoft Corporation	Dalian Neusoft Institute of Information	RMB 50 million Yuan	2012.11.07	2014.04.20	No
Neusoft Corporation	Dalian Neusoft Institute of Information	RMB 50 million Yuan	2012.12.14	2014.12.13	No

Note: these guarantees are jointly and severally liable.

7.5 Other related-party transaction

(Unit: RMB 10,000 Yuan)

Item	Amount in this period	Amount in previous period
Benefits and compensations to directors, supervisors and senior executives	1,551.34	1,010.30

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7.6 Borrowing to related party

There is no borrowing to related party in this period.

7.7 There is no asset transfer and debt restructuring of related party in this period.

7.8 Other related transaction

In 2010, Chengdu Neusoft Development transferred its assets to Chengdu Neusoft Institute of Information Technology with total price of RMB 213,493,174 Yuan paid by installment based on People's Bank of China's benchmark interest rate for loan. Chengdu Neusoft Institute of Information Technology repaid RMB 107,748,127 Yuan in this period. The balance is RMB 105,745,047 Yuan. Chengdu Neusoft Development's recognized interest income in this period is RMB 9,946,738 Yuan.

7.9 Related-party accounts receivable and payable

Item	Related party	Year-end balance		Year-begin balance	
		Amount	Including: appropriation for impairment	Amount	Including: appropriation for impairment
accounts receivable					
	Harman	34,075,916	340,759	24,364,840	243,648
	NSNN	33,113,689	2,040,901	31,857,976	2,760,339
	Toshiba Corporation	4,616,409	46,164	6,825,586	68,256
	Alpine	3,982,428	39,824	720,348	7,203
	CQ Guo'ao 100 Years	320,400	3,204		
	Toshiba Neusoft	261,233	2,612		
	Baosteel	100,000	50,000	1,398,500	13,985

Continued table

Item	Related party	Year-end balance		Year-begin balance	
		Amount	Including: appropriation for impairment	Amount	Including: appropriation for impairment
	Neusoft-Philips	1,215	12	9,967,920	99,726
	Total	76,471,290	2,523,476	75,135,170	3,193,157
Prepayments receivable					
	Dalian Neusoft Institute of Information Technology	1,333,333		1,333,333	
	Chengdu Neusoft Institute of Information Technology	1,000,000		1,000,000	
	Nanghai Neusoft Institute of Information Technology	1,000,000		1,000,000	
	Harman	290,995		1,232,545	
	Toshiba Corporation	16,382		553,188	
	Alpine			357,017	
	Total	3,640,710		5,476,083	
Notes receivable					
	Baosteel			1,100,000	
Other receivable					
	Nanghai Neusoft Institute of Information Technology	50,000	500	15,980,200	159,802
Long-term receivable					
	Chengdu Neusoft Institute of Information Technology	105,745,047	2,114,900	213,493,174	2,134,932
Account payable					
	Neusoft-Philips	88,260,754		149,496,216	
Prepayment					
	NSNN	2,571,900			
Other accounts payable					
	NEU	19,659,255		38,492,058	
	Alpine	772,303		772,303	
	Total	20,431,558		39,264,361	

7.10 Related-party commitment

1) Listed company/Shareholding Company's commitment in or due in this reporting period

Commitment made by the Company's original shareholders of shares outstanding with restrictive selling conditions in the Share-for-Share merger:

Commitment made by	Content	Performance
NEU Science & Technology Industry Co., Ltd. (NEU)	This commitment was made for 8 properties and a plot of land for which the Company didn't obtain the ownership certificates as at September 30 th , 2007. As NEU committed, provided that the certificates was not obtained as at December 31 st , 2008, NEU should pay cash equivalent to the evaluated net value of the properties and land (base day: December 31 st , 2006), which (excluding interest) would be refunded by the Company after obtaining the certificates.	NEU has paid RMB 12,975,375 Yuan in cash. The Company is dealing with the application procedures for the certificates and will refund the money (excluding interest) after the certificates are obtained.

2) Contracted but not necessarily presented commitments with respect to related parties as at the balance sheet date:

Type	Content	Related party	Amount at the end of this period
Sales of products to related party	System integration or software	Alpine	4,366,919
	System integration or software	Harman	4,359,166
	System integration or software	Toshiba	19,493,248
	System integration or software	Toshiba Neusoft	2,914,356
	System integration or software	NSNN	47,179,171
		Subtotal	78,312,860
Provision of labor service for related party	Rental and property management income	Neusoft-Philips	5,727,741
		Subtotal	5,727,741
		Total	84,040,601

Note 8 Share-based Payment

There is no share-based payment in this reporting period.

Note 9 Contingent Items

9.1 No contingent liability and related financial impact caused by pending action or arbitration occur in this reporting period.

9.2 Contingent liability and related financial impact caused by debt guarantee for related party

Guaranteed party	Amount guaranteed (unit: 10,000 Yuan)	Maturity Date	Financial impact
Related party:			
Dalian Neusoft Institute of Information	5,000	2012.03.19	It is estimated that no guarantee loss will occur.
Dalian Neusoft Institute of Information	5,000	2012.04.20	It is estimated that no guarantee loss will occur.
Dalian Neusoft Institute of Information	5,000	2012.12.14	It is estimated that no guarantee loss will occur.
Total	15,000		

Note 10 Commitments

Significant commitments

10.1 Investment contract signed but not performed or fully performed yet and relevant expenditure

10.1.1 On March 18th, 2011, the Company and two natural persons Le Liuping and Yin Sheng signed an agreement on investment on new joint venture Guangdong Neufashion Digital Technology Co., Ltd. (GD Neufashion), where the Company invested 22,500,000 Yuan, accounting for 60% of the registered capital. GD Neufashion signed acquisition contract with Shenzhen Lezhiyi Technology Co., Ltd. (Lezhiyi) and Shenzhen Lezhiyuan Communications Co., Ltd. (Lezhiyuan) respectively to acquire all tangible assets, intangible asset and took over a certain number of employees with consideration of 22 million and 3 million Yuan. Le Liuping and Yin Sheng are the shareholders and actual controllers (hereafter refer to as "Counterparties"). In addition, the contract parties make following provisions about equity adjustment: (1) Within 36 months after the establishment of GD Neufashion, if its net profit of every 12 months exceeds the estimated net profit, the joint venture shall pay certain amount of reward in cash for the excess to the Counterparties (Le Liuping and Yin Sheng); otherwise, equity depreciation ratio shall be calculated based on the difference; and the Counterparties shall convert the depreciated equity without any condition or payment or transfer it to the Company. The term of the first 12 months is from June 1st, 2011 to May 31st, 2012, which is not applicable for this report as of the approved reporting date.

10.1.2 At the 23rd section of the 5th Meeting of Board of Directors on January 7th 2011, the Board of Directors agreed to acquire the equity of Beijing Neusoft Viewhigh Technology Co., Ltd. (Neusoft Viewhigh) and sign MoU, Equity Transfer Agreement and Letter of Agreement respectively with Viewhigh Technology Co., Ltd. (authorized representative Guo Xuewen), Intel China (authorized representative Duan Chenghui) and Beijing Taihedingcheng Investment Consulting Co., Ltd. (hereafter collectively referred to as "Counterparties"). According to the agreements, the acquisition consideration is within RMB 114,101,440 Yuan, and the Company will accept the transfer of 73.14 equity in Neusoft Viewhigh after the equity adjustment and completion of Registration of Change; In addition, following provisions for equity reward for managements and further acquisition are covered: (1) Provided that Neusoft Viewhigh's net profit reach contracted amount in 2011 and 2012 and relevant conditions are met, the Company will provide 3,00,00 shares as rewards for its managements and other qualified employees; (2) the Company will acquire the remaining equity of Neusoft Viewhigh by cash or share of Neusoft Corporation in 2014 and 2015 and hold 100% equity. (Please refer to Neusoft Corporation Announcement with number of L2011-001 for other transactions). Within this reporting period, the Company's wholly owned subsidiary Neusoft Group (Beijing) Co., Ltd. (Neusoft Beijing) has finished all the payments for the equity acquisition, counterparties' equity adjustment and Registration of

Change have been completed. Neusoft Viewhigh's net profit didn't reach the contracted amount, and the managements and other qualified employees didn't get the equity rewards.

10.1.3 At the 2nd section of the 6th Meeting of Board of Directors on January 7th 2011, the Board of Directors agreed to set up Neusoft Xikang Holding Co., Ltd. (Neusoft Xikang) and its subsidiaries in Cayman Islands and provide financial support for them. The Company's wholly owned subsidiary Neusoft (Hong Kong) Co., Ltd. (Neusoft Hong Kong) invested USD 35,000 to hold 70% shares of Neusoft Xikang and Smyway Holding Co., Ltd. invested 15,000 Yuan to hold 30%. The Company provided Neusoft Xikang with RMB 200 million Yuan to support it to set up subsidiaries and expand operations. As at the approved reporting date of this financial report, Neusoft Hong Kong provided financial assistance to Neusoft Xikang and Neusoft Xikang International Co., Ltd. (Subsidiary of Neusoft Xikang) respectively with HKD 1.5 million and USD 8 million; the Company provided Neusoft Xikang Healthcare Technology Co., Ltd. with entrusted loan with an amount of RMB 39 million Yuan.

10.2 Merger Agreement signed and being performed or to be performed

In December 2009, the Company acquired all the assets of software business for electric power information collection systems owned by Zhejiang Hiker Electric Power Software Technology Co., Ltd. (Zhejiang Hiker) with total consideration of RMB 23,268,000 Yuan. As at the approved reporting date of this financial report, the Company has paid RMB 19,400,000 Yuan, the remaining due payment will be paid after Zhejiang Hiker finishes the performance of contracted transactions.

10.3 There is no signed and being performed or to be performed restructuring plan in this reporting period.

10.4 There is no performance of significant financial commitment in this reporting period.

10.5 Other significant financial commitments

As at December 31st, 2011, the balance of Bank Guarantee of the Company and its subsidiaries which is within the period of validity is as follows:

Balance of Bank Guarantee: RMB 171,764,281 Yuan; USD 7,000,000.

Note 11 Items after the Balance Sheet Date

11.1 Profit distribution

According to the Profit Distribution Proposal 2011 approved at the 9th section of the 6th Meeting of Board of Directors on March 29th, 2012, no dividend is distributed and no capital reserve is shifted to share capital in this year.

Foregoing proposal shall be executed after approval by the Meeting of Board of Directors.

11.2 Other items

11.2.1 According to the *Proposal about Selling Equity of Indirect Holding Subsidiary and Other Related Education Assets* approved at the 1st temporary meeting of shareholders on December 22nd, 2011, the Company and Shenyang Neusoft IT Service Co., Ltd. (Neusoft IT Service), collectively as assignor, were approved to sign a transfer agreement with Dalian Neusoft Holding Co., Ltd. (assignee), under which, Neusoft IT Service shall transfer its education asset-related equity in its holding subsidiary (Dalian Neusoft Park Industrial Development Co., Ltd., "DNPID" for short) and the Company's investments on Chengdu Neusoft Institute of Information Technology, Nanhai Neusoft Institute of Information Technology, Dalian Neusoft Institute of Information and Dalian Neusoft Institute of Information Technology to Dalian Neusoft Holding Co., Ltd.. According to the evaluation report issued by China Enterprise Appraisals, the evaluated value of foregoing equity and investments is RMB 424,171,800 Yuan in total. Based on negotiation, the total price of foregoing transaction is RMB 44,234.38 Yuan, with a premium of 4.28% compared with the evaluated value. The concluded price of each subject matter is RMB 426,015,700 Yuan, 3,140,000 Yuan, 3,140,000 Yuan, 6,280,100 Yuan and 3,768,000 Yuan respectively. The payment is made in cash

by three instalments, of which the first instalment is 20% of the total price requiring payment within 20 days after the effective date of the Transfer Agreement; the second is 65% requiring payment within 30 days after the completion of registration of change in equity; and the third is 15% requiring payment within 30 days after the completion of registration of change in sponsors for the four educational organizations. The Transfer Agreement became to be effective since the approval date (December 22nd, 2011).

For more details, please refer to the *Announcement about Selling Equity in Indirect Subsidiary and Other Education Asset Related Transaction* released on China Securities Journal and Shanghai Securities News dated December 7th, 2011 as well as the *Announcement about Decisions at the 1st Temporary Meeting of Shareholders* released on China Securities Journal and Shanghai Securities News dated December 23rd, 2011. On January 10th, 2012, the Company and Neusoft IT Service received the first instalment with an amount of 88,470,000 Yuan; On February 15th, 2012, DNPID finished the registration of change in equity; on March 15th, Neusoft IT Service received the second payment with an amount of 287,520,000 Yuan. 85% of the total payment, with an amount of 375,990,000 Yuan, was received and the balance will be paid according to the agreement.

11.2.2 Settlement of large-amount account receivables, advance receipts and other receivable with age of over 1 year

Item	Receivable from	Year-end balance	Settled amount
Account receivable			
	Sihua Tech (Shanghai) Co., Ltd.	3,973,478	
	European Aeronautic Defense and Space Company N.V. (EADS)	3,072,341	
	Dawning Information Industry (Beijing) Limited	2,815,869	
	Beijing Beichen Network Technology Service Co., Ltd.	2,726,467	2,726,467
	Beijing Jiaxun Feihong Electrical Co., Ltd.	2,644,168	512,968
Other receivable			
	Northeastern University	19,659,255	
Advance receipts			
	Harbin Lanke Technology Development Co., Ltd.	6,913,000	5,550,000
	Beijing Railway Construction and Management Co., Ltd.	5,046,640	
	Gansu Branch of China National Tobacco Corporation	3,547,090	
	The 205 th Hospital of People's Liberation Army	3,305,617	
	PT. Sani Tiara Prima	3,181,822	

11.2.3 There is no event the Company shall announce occurring after the balance sheet date.

Note 12 Other Significant Items

12.1 There is no outstanding, convertible-for-share financial instrument in this period.

12.2 Assets and liabilities measured by fair value

Unit: RMB

Item	Year-begin balance	Profit/loss from change in fair value	Accumulated fair value change included in profit/loss	Appropriation for impairment	Year-end balance
Financial assets					
Financial assets measured at fair value through profit or loss (excluding derivative financial asset)	969,350	-106,180			863,170
Derivative financial asset					
Available-for-sale financial assets					
Subtotal	969,350	-106,180			863,170
Investment properties					
Capitalized biological assets					
Other					
Total	969,350	-106,180			863,170
Financial liabilities	1,227,304	1,056,737			170,567

12.3 Pension Plan and significant change

The Company initiated the Corporate Pension Plan in January 2008. The Company's contractual employees who have worked for more than a year and are legally involved in the basic pension insurance scheme are qualified to participate in the plan voluntarily. The Company and participating employees are jointly responsible for the payment of the pensions on a quarterly basis. The pensions assumed by the Company are appropriated on a monthly basis and included in related costs. The Company uses fund and entrust based measures and exclusive accounts to manage the pension plan; and the fund is strictly separated with fixed assets or other assets and not included in the financial statements.

12.4 There is no other significant item to be disclosed.

Note 13 Notes to Main Items of the Parent Company's Financial Statements

13.1 Accounts receivable

13.1.1 Accounts receivable

Type	Year-end balance				Year-begin balance			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Accounts receivable with significant single amount and single appropriation of provision for bad debts	185,834,934	34.10	13,626,325	7.33	117,159,077	31.11	9,903,231	8.45
Accounts receivable with portfolio appropriation of provision for bad debts	317,436,339	58.25	6,059,356	1.91	233,285,668	61.95	6,109,695	2.62
Accounts receivable with non-significant single amount and single appropriation of provision for bad debts	41,665,897	7.65	12,705,717	30.49	26,147,625	6.94	7,954,831	30.42
Total	544,937,170	100.00	32,391,398		376,592,370	100.00	23,967,757	

13.1.2 Accounts receivable with significant single amount and single appropriation of provision for bad debts

Receivable from	Book amount	Provision for bad debts	Appropriation ratio (%)	Reason
China Netcom	126,948,787	11,049,537	8.70	Significant amount with receivable proportion of over 90%
NSNN	27,660,903	1,986,373	7.18	Significant amount with receivable proportion of over 90%
Liaoning Jinhui IT Service Co., Ltd.	16,074,136	253,094	1.57	Significant amount with receivable proportion of over 95%
Shenyang Metro Co.,Ltd.	15,151,108	337,321	2.23	Significant amount with receivable proportion of over 95%
Total	185,834,934	13,626,325		

In account receivable portfolio, accounts receivable with appropriation of provision for bad debts by aging analysis method:

Age	Year-end balance			Year-begin balance		
	Book amount		Provision for bad debts	Book amount		Provision for bad debts
	Amount	Ratio (%)		Amount	Ratio (%)	
Within 1 year	314,522,206	99.08	3,145,223	229,470,680	98.36	2,294,707
1-2 years						
2-3 years						
3-5 years						
Over 5 years	2,914,133	0.92	2,914,133	3,814,988	1.64	3,814,988
Total	317,436,339	100	6,059,356	233,285,668	100.00	6,109,695

Account receivable with insignificant single amount but single appropriation of provision for bad debts

Account receivable for	Book amount	Provision for bad debts	Appropriation ratio (%)	Reason
Contract payment for software and system integration	6,000,277	6,000,277	100.00	Account receivable with long-time age which is estimatedly unrecoverable
Contract payment for software and system integration	6,362,145	3,422,635	53.80	Account receivable with long age with recoverable proportion of about 50%
Contract payment for software and system integration	29,303,475	3,282,805	11.20	Account receivable with long age with recoverable proportion of about 85%
Total	41,665,897	12,705,717		

13.1.3 Accounts receivable received in full or part amount in this period with appropriation of provision for bad debts in full amount or at large proportion in previous year:

Account receivable from	Receivable Year-begin balance	Provision for bad debts at the beginning of this year	Appropriation ratio (%)	Received amount in this reporting period
Qingdao Technicians College	1,141,700	1,110,200	97.24	740,700
Heilongjiang Electric Power Company Limited	273,000	273,000	100.00	273,000
Jinan Jinan Dezhou Power Plant Materials Company Limited	820,060	820,060	100.00	820,060
Fujian Electric Power Company Limited	593,001	593,001	100.00	593,001
Shanghai Toshiba Elevator Co., Ltd.	325,980	325,980	100.00	325,980
Huangneng Dezhou Power Plant	210,000	210,000	100.00	210,000
Total	3,363,741	3,332,241		2,962,741

13.1.4 Actual write-off accounts receivable in this period is RMB 79 Yuan.

13.1.5 Accounts receivable from shareholder Companies with over 5% (including 5%) voting share of the Company:

Receivable from	Year-begin balance		Year-end balance	
	Book balance	Provision for bad debts	Book balance	Provision for bad debts
Alpine	2,676,358	26,764		
Baosteel	100,000	50,000	1,398,500	13,985

13.1.6 Top 5 debtors of accounts receivable

Debtor	Relationship with the Company	Amount	Age	Proportion to the total accounts receivable (%)
China Netcom	Non-related party	126,948,787	Within 1 year-Over 5 years	23.30
NSNN	Related party	27,660,903	Within 5 years	5.08
Liaoning Jinhui IT Service Co., Ltd.	Non-related party	16,074,136	Within 2 years	2.95
Shenyang Metro Co., Ltd.	Non-related party	15,151,108	Within 2 years	2.78
Jiangsu Electric Power Information Technology Co., Ltd.	Non-related party	7,373,780	Within 1 year	1.35
Total		193,208,714		35.46

13.1.7 Accounts receivable from related parties

Receivable from	Relationship with the Company	Amount	Proportion to the total accounts receivable (%)
Alpine	Shareholder	2,676,358	0.49
NSNN	Associate	27,660,903	5.08
Baosteel	Shareholder	100,000	0.02
Harman	The Company's chairman & CEO serves as director in Harman	842,830	0.15
Toshiba Neusoft	Associate	261,233	0.05
Total		31,541,324	5.79

13.1.8 There is no account receivable which is consistent with conditions for termination of recognition.

13.2 Other receivables

13.2.1 Other receivables

Type	Year-end balance				Year-begin balance			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Accounts receivable with significant single amount and single appropriation of provision for bad debts								
Accounts receivable with portfolio appropriation of provision for bad debts	229,216,237	96.41	3,195,621	1.39	482,197,025	99.70	6,477,082	1.34
Accounts receivable with non-significant single amount and single appropriation of provision for bad debts	8,537,693	3.59	2,778,458	32.54	1,445,829	0.30	893,173	61.78
Total	237,753,930	100.00	5,974,079		483,642,854	100.00	7,370,255	

13.2.2 Other receivables with appropriation of provision for bad debts by aging analysis method in portfolio

Age	Year-end balance			Year-begin balance		
	Book amount		Provision for bad debts	Book amount		Provision for bad debts
	Amount	Ratio (%)		Amount	Ratio (%)	
Within 1 year	209,047,100	91.20	2,090,471	463,879,091	96.20	4,638,792
1-2 years	15,157,705	6.61	303,154	7,811,383	1.62	156,228
2-3 years	2,449,847	1.07	122,491	7,274,212	1.51	363,711
3-5 years	2,091,200	0.91	209,120	2,126,653	0.44	212,665
Over 5 years	470,385	0.21	470,385	1,105,686	0.23	1,105,686
Total	229,216,237	100.00	3,195,621	482,197,025	100.00	6,477,082

Other receivables with insignificant single amount but single appropriation of provision for bad debts

Other receivables	Book amount	Provision for bad debts	Appropriation ratio (%)	Reason
Revolving fund lending	4,295,491	1,767,921	41.16	Account receivable with long age with recoverable proportion of about 50%
Open credit	4,242,202	1,010,537	23.82	It is estimated that the recoverable proportion is over 90%
Total	8,537,693	2,778,458		

13.2.3 Other receivables received in full or part amount in this period with appropriation of provision for bad debts in full amount or at large proportion in previous year:

Other receivables	Year-begin balance	Provision for bad debts at the beginning of this year	Appropriation ratio (%)	Received amount in this reporting period
Margin lending	1,136,163	990,123	87.15	1,136,163
Revolving fund lending	713,547	634,032	88.86	713,547
Open credit	247,943	178,643	72.05	247,943
Total	2,097,653	1,802,798		2,097,653

13.2.4 There is no other actual write-off receivable in this period.

13.2.5 There is no other receivable from Shareholding Company with over 5% (including 5%) voting share of the Company;

13.2.6 Top 5 debtors of other receivables:

Debtor	Relationship with the Company	Nature or content	Amount	Age	Proportion to the total (%)
Henan Provincial Bureau of Health	Non-related party	Margin	5,799,750	Within 1 year	2.44
Zhen Li	Non-related party	Borrowing to employee	2,459,474	Within 1 year	1.03
Wang Jinsheng	Non-related party	Borrowing to employee	2,400,000	Within 1 year	1.01
Yunnan Provincial Research Institute of Medical Informatics	Non-related party	Margin	1,473,212	Within 1 year	0.62
Renmin University of China	Non-related party	Margin	1,470,000	Within 1 year	0.62
Total			13,602,436		5.72

13.2.7 Other receivable from related party

There is no other receivable from related party.

13.2.8 There is no transfer of other receivable inconsistent with recognition termination conditions.

13.3 Held-to-maturity investment

Item	Year-end balance	Year-begin balance
Bank finance product (Note)	401,931,507	

Note: The Company purchased finance product from bank based on its financial situation. The investment has been recovered at the end of February 2012.

13.4 Long-term equity investment

Unit: RMB

Investee	Method	Investment	Year-begin balance	Increase/decrease	Year-end balance	Equity ratio (%)	Voting share (%)	Difference between equity ratio and voting share	Provision for impairment	Appropriated provision for impairment	Cash dividend
Nokia Siemens Networks Neusoft Comtech Company Ltd.	Equity method	26,713,621	42,678,819	8,231,268	50,910,087	46.00	46.00				
Shenyang CataData Technology Co., Ltd.	Equity method	15,000,000	14,675,191	-839,530	13,835,661	16.67	16.67				
Shenyang Toshiba Neusoft Information Systems Co., Ltd.	Equity method	9,051,000		8,154,748	8,154,748	40.00	40.00				
Beijing LBS Social Insurance Information Technology Co., Ltd. (Note)			6,332,370	-6,332,370							
Subtotal		50,764,621	63,686,380	9,214,116	72,900,496						
Shenyang Zhuri Digital Advertising Communications Co., Ltd.	Cost method	1,000,000	1,000,000		1,000,000	100.00	100.00				
Hunan Neusoft Co., Ltd.	Cost method	12,000,000	12,000,000		12,000,000	100.00	100.00				
Shenzhen Neusoft Co., Ltd.	Cost method	5,000,000	5,000,000		5,000,000	100.00	100.00				
Shenyang Neusoft Medical Systems Co., Ltd.	Cost method	87,082,539	87,082,539		87,082,539	100.00	100.00				
Beijing LBS Social Insurance Information Technology Co., Ltd.	Cost method	10,390,275		11,265,778	11,265,778	61.67	61.67				
Shenyang Neusoft Transportation Information Technology Co., Ltd.	Cost method	3,535,000		3,535,000	3,535,000	50.50	50.50				
Neusoft Group (Nanjing) Co., Ltd.	Cost method	12,000,000		12,000,000	12,000,000	100.00	100.00				
Neusoft Group (Zhengzhou) Co., Ltd.	Cost method	10,000,000		10,000,000	10,000,000	100.00	100.00				
Neusoft Group (Nanchang) Co., Ltd.	Cost method	20,000,000		20,000,000	20,000,000	100.00	100.00				

Continued table

Investee	Method	Investment	Year-begin balance	Increase/decrease	Year-end balance	Equity ratio (%)	Voting share (%)	Difference between equity ratio and voting share	Provision for impairment	Appropriated provision for impairment	Cash dividend
Shandong Neusoft System Integration Co., Ltd.	Cost method	15,000,000	15,000,000		15,000,000	100.00	100.00				
Dalian Neusoft Finance Information Technology Co., Ltd.	Cost method	13,491,850	13,491,850		13,491,850	69.00	69.00				
Shenyang Neusoft Boan Software Co., Ltd.	Cost method	12,416,895	12,416,895		12,416,895	60.00	60.00				
Nanjing Neusoft System Integration Co., Ltd.	Cost method	12,000,000	12,000,000		12,000,000	100.00	100.00				
Neusoft (Hong Kong) Co., Ltd.	Cost method	7,037,915	7,037,915		7,037,915	100.00	100.00				
Chengdu Neusoft System Integration Co., Ltd.	Cost method	20,000,000	20,000,000		20,000,000	100.00	100.00				
Qinhuangdao Neusoft Co., Ltd.	Cost method	8,500,000	8,500,000		8,500,000	85.00	85.00				983,224
Shanghai Neusoft Times Digital Technology Co., Ltd.	Cost method	20,000,000	20,000,000		20,000,000	100.00	100.00				
Neusoft (Japan) Co., Ltd.	Cost method	11,826,901	11,826,901		11,826,901	100.00	100.00				1,493,307
Guangdong Neusoft Co., Ltd.	Cost method	20,000,000	20,000,000		20,000,000	100.00	100.00				
Xi'an Neusoft System Integration Co., Ltd.	Cost method	22,502,469	22,502,469		22,502,469	100.00	100.00				
Wuhan Neusoft Information Technology Co., Ltd.	Cost method	15,000,000	15,000,000		15,000,000	100.00	100.00				
Beijing Lanruisoft Co., Ltd.	Cost method	9,454,820	9,454,820		9,454,820	100.00	100.00				
Neusoft Group (Beijing) Co., Ltd.	Cost method	249,396,361	64,396,361	185,000,000	249,396,361	100.00	100.00				
Shenyang Neusoft Property Management Co., Ltd.	Cost method	1,000,000	1,000,000		1,000,000	100.00	100.00				

Continued table

Investee	Method	Investment	Year-begin balance	Increase/decrease	Year-end balance	Equity ratio (%)	Voting share (%)	Difference between equity ratio and voting share	Provision for impairment	Appropriated provision for impairment	Cash dividend
Neusoft Group (Chengdu) Co., Ltd.	Cost method	1,000,000	1,000,000		1,000,000	100.00	100.00				
Shenyang Neusoft IT Service Co., Ltd.	Cost method	310,000,000	310,000,000		310,000,000	100.00	100.00				
Neusoft Group (Dalian) Co., Ltd.	Cost method	100,000,000	100,000,000	200,000,000	300,000,000	100.00	100.00				
Neusoft Group (Shanghai) Co., Ltd.	Cost method	100,000,000	100,000,000		100,000,000	100.00	100.00				
Neusoft Group (Guangzhou) Co., Ltd.	Cost method	100,000,000	100,000,000		100,000,000	100.00	100.00				
Shenyang Neusoft System Integration Technology Co., Ltd.	Cost method	20,000,000	20,000,000		20,000,000	100.00	100.00				
Neusoft Science & Technology Co., Ltd.	Cost method	63,329,610	63,329,610		63,329,610	100.00	100.00				
Liaoning Neusoft Venture Capital Investment Co., Ltd.	Cost method	80,552,833	80,552,833		80,552,833	71.43	71.43				3,571,429
Hangzhou Neusoft Co., Ltd.	Cost method	500,000	500,000		500,000	100.00	100.00				
Neusoft (Europe) Co., Ltd.	Cost method	220,908,545	192,985,447	66,675,555	259,661,002	100.00	100.00				
Neusoft Group (Tianjin) Co., Ltd.	Cost method	20,000,000	20,000,000		20,000,000	100.00	100.00				
Neusoft Group (Tangshan) Co., Ltd.	Cost method	30,000,000	30,000,000		30,000,000	100.00	100.00				
Neusoft Group (Hamman) Co., Ltd.	Cost method	100,000,000	100,000,000		100,000,000	100.00	100.00				
Neusoft Group (Wuxi) Co., Ltd.	Cost method	20,000,000	20,000,000		20,000,000	100.00	100.00				
Neusoft Group (Wuhu) Co., Ltd.	Cost method	10,000,000		10,000,000	10,000,000	100.00	100.00				

Continued table

Investee	Method	Investment	Year-begin balance	Increase/decrease	Year-end balance	Equity ratio (%)	Voting share (%)	Difference between equity ratio and voting share	Provision for impairment	Appropriated provision for impairment	Cash dividend
Guangdong Neufashion Digital Technology Co., Ltd.	Cost method	22,500,000		22,500,000	22,500,000	60.00	60.00				
Dongzhong Commtech Co., Ltd.	Cost method	3,000,000	3,000,000		3,000,000	10.00	10.00		3,000,000		
Shenyang Torch Company Limited	Cost method	100,000	100,000		100,000				100,000		
Dalian Neusoft Institute of Information	Cost method	6,000,000	6,000,000		6,000,000	1.74	1.74				
Dalian Neusoft Institute of Information Technology	Cost method	3,600,000	3,600,000		3,600,000	60.00	60.00				
Chengdu Neusoft Institute of Information Technology	Cost method	3,000,000	3,000,000		3,000,000	17.47	17.47		1,200,000		
Nanhai Neusoft Institute of Information Technology	Cost method	3,000,000	3,000,000		3,000,000	12.82	12.82				
Appconomy, Inc.	Cost method	24,934,400		24,934,400	24,934,400	13.3226	13.3226				
Subtotal		1,841,060,413	1,514,777,640	565,910,733	2,080,688,373				4,300,000		6,047,960
Total		1,891,825,034	1,578,464,020	575,124,849	2,153,588,869				4,300,000		6,047,960

13.5 Bonds Payable

Bond	Par value	Date of issue	Term	Amount	Interest payable at the beginning of the year	Accrued interest in this period	Interest paid	Interest payable at the end of the year	Year-end balance
Neusoft Corporation's first tranche of medium-term notes in 2011	400,000,000	Year-end balance.11.14	3 years	400,000,000		3,658,667		3,658,667	403,658,667

In this reporting period, based on the *Proposal to Issue Short-term Financing Bond and Medium-term Note* approved at the year-begin balance meeting of stockholders, the Company issued the first tranche of medium-term note in Year-end balance (Neusoft MTN 1/ code:1182321) in inter-bank bond market on November 11th, Year-end balance by way of Book Building and concentrative allotment. Industrial Bank Co., Ltd. was the lead underwriter for this issuance with total amount of RMB 0.4 billion with a term of 3 years; the par value was RMB 100 Yuan per notes. It is a fixed interest bearing instrument with an interest rate of 6.86%. The raised capital has been arrived in the account on November 14th, Year-end balance; the provision for interest as of the end of the year was RMB 3.66 million Yuan. For more information about the issuance of the MTNs, please refer to www.chinamoney.com.cn or www.chinabond.com.cn.

13.6 Operating income and cost

13.6.1 Operating income

Item	Year-end balance	Year-begin balance
Primary business income	3,027,330,275	2,645,006,680
Other business income		15,980,200
Total	3,027,330,275	2,660,986,880

13.6.2 Operating cost

Item	Year-end balance	Year-begin balance
Primary business cost	2,193,319,213	1,952,280,277
Other business cost		10,274,417
Total	2,193,319,213	1,962,554,694

13.6.3 Operating income & cost (by industry)

Item	Year-end balance		Year-begin balance	
	Operating income	Operating cost	Operating income	Operating cost
System integration, sales of software products, software customization and other labor services	2,956,396,915	2,172,504,576	2,580,884,178	1,932,964,714
Property management service and rental	70,933,360	20,814,637	80,102,702	29,589,980
Total	3,027,330,275	2,193,319,213	2,660,986,880	1,962,554,694

13.6.4 Primary business income and cost (by industry)

Item	Year-end balance		Year-begin balance	
	Income	Cost	Income	Cost
System integration, sales of software products, software customization and other labor services	2,956,396,915	2,172,504,576	2,580,884,178	1,932,964,714
Property management service and rental	70,933,360	20,814,637	64,122,502	19,315,563
Total	3,027,330,275	2,193,319,213	2,645,006,680	1,952,280,277

13.6.5 Operating income from top 5 customers:

Customer	Operating income	Proportion to the total (%)
China Netcom	189,545,537	6.26
Shenyang Metro Co.,Ltd.	133,910,635	4.42
Alpine	105,840,835	3.50
Toshiba Corporation	101,656,159	3.36
NSNN	72,210,985	2.39
Total	603,164,151	19.93

13.7 Investment income

13.7.1 Details

Item	Year-end balance	Year-begin balance
Income from long-term equity investment calculated by cost method	6,047,960	1,390,458
Income from long-term equity investment calculated by equity method	6,038,618	7,719,289
Investment income from disposal of long-term equity investment		-18,327,854
Investment income obtained during the holding period of held-to-maturity investment	1,931,507	
Investment income obtained during the holding period of available-for-sale financial assets		
Investment income from disposal of trading financial assets		
Investment income from disposal of available-for-sale financial assets		
Other		
Total	14,018,085	-9,218,107

13.7.2 Long-term equity investment income calculated by cost method

Investee	Year-end balance	Year-begin balance	Cause of change
Neusoft (Japan) Co., Ltd.	1,493,307	1,390,458	Attributable cash dividend received by the Company
Liaoning Neusoft Venture Capital Investment Co., Ltd.	3,571,429		Attributable cash dividend received by the Company
Qinhuangdao Neusoft Co., Ltd.	983,224		Attributable cash dividend received by the Company
Total	6,047,960	1,390,458	

13.7.3 Long-term equity investment income calculated by equity method

Investee	Year-end balance	Year-begin balance	Cause of change
Nokia Siemens Networks Neusoft Commtech Company Ltd.	8,231,268	9,586,872	Change in net profit of investee
Beijing LBS Social Insurance Information Technology Co., Ltd.	-456,868	-1,542,774	Change in net profit of investee
Shenyang CataData Technology Co., Ltd.	-839,530	-324,809	Change in net profit of investee
Shengyang Toshiba Neusoft Information Systems Co., Ltd.	-896,252		Change in net profit of investee
Total	6,038,618	7,719,289	

13.8 Supplementary information to cash flow statement

Item	Year-end balance	Year-begin balance
1. The net profit is converted into cash flow from operating activities		
Net profit	347,932,350	292,656,574
Add: Provision for asset impairment	12,104,692	-5,822,840
Depreciation of fixed asset, oil & gas assets and capitalized biological assets	52,414,605	82,469,050
Amortization of intangible asset	6,689,718	6,636,218
Amortization of long-term deferred expenses	3,618,351	4,412,407
Loss on disposal of fixed assets, intangible asset and other long-lived assets ("—" for profit)	253,794	-4,435,825
Abandonment loss of fixed assets ("—" for profit)		
Loss on change of fair value ("—" for profit)	-950,557	694,314
Financial expenses ("—" for profit)	21,735,445	843,030
Investment loss ("—" for profit)	-14,018,085	9,218,107
Decrease of deferred income tax assets ("—" for increase)	-7,872,536	3,690,815
Increase of deferred income tax liabilities ("—" for decrease)	-10,618	53,299
Decrease of inventories ("—" for increase)	-59,795,034	-95,164,312

Continued table

Item	Year-end balance	Year-begin balance
Decrease of operating accounts receivable (" – " for increase)	67,317,394	56,132,554
Increase of operating accounts payable (" – " for decrease)	-12,943,913	-33,079,263
Other		
Net value of cash flow from operating activities	416,475,606	318,304,128
2. Significant investment and financing activities not relating to cash receipt and disbursement		
Debt conversion to equity		
Convertible Bonds due within one year		
Leased fixed assets from financing		
3. Change in cash and cash equivalent		
Year-end cash balance	831,393,669	932,706,502
Less: Year-begin cash balance	932,706,502	992,075,818
Add: Year-end cash equivalent balance		
Less: Year-begin cash equivalent balance		
Net increase in cash and cash equivalents	-101,312,833	-59,369,316

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Note 14 Supplementary Information

14.1 Non-recurring profits and losses

Item	Year-end balance	Remark
Profit and loss on disposal of non-current assets	18,180,599	Note 1
Tax refund & exemption through examination and approval in excess of authority or without official approval document		
Government subsidy included in current profits and losses (excluding the government subsidy highly associated with corporate business and issued by certain amount based on national standards)	105,173,354	Note 2
Payment for the use of funds charged to non-financial institutions and included in current profits and losses	9,946,738	Note 3
Revenue from the difference by which the investment cost for acquiring subsidiaries, associates or joint ventures is less than fair value of attributable net assets		
Profit and loss on non-monetary asset exchange	24,934,400	Note 4
Profit and loss on assets invested or managed by client		
Appropriation of provision for asset impairment caused by force majeure such as natural disaster		

Continued table

Item	Year-end balance	Remark
Profit and loss on debt restructuring		
Expenses for business restructuring, such as staffing and integration expenses		
Profit and loss on transactions with obvious unfair transaction price		
Subsidiaries' year-to-date net profit/loss arising from business combination under common control		
Profit and loss arising from contingent items which are not related to the Company's normal operations		
Except for effective hedging business related to normal operations, profit and loss on change in fair value arising from holding trading financial assets/liabilities, and investment income from disposal of trading financial assets/liabilities and available-for-sale financial assets	950,557	Note 5
Impairment provision for account receivable with separate impairment test which is reversed back		
Profit and loss on entrust loans		
Profit and loss on change in fair value of investment properties with subsequent measurement by fair value		
Effect by one-off adjustment on current profits and losses according to relevant tax and accounting laws and regulations		
Trusteeship revenue from trust operation		
Other non-operating income and expenditure	1,313,927	
Other profit and loss items consistent with the definition of non-recurring profit and loss	1,221,899	Note 6
Amount effected by minority interest	-11,201,619	
Amount effected by income tax	-20,258,444	
Total	130,261,411	

Note 1: This is mainly caused by profit arising from asset transfer by Shenyang Neusoft Medical Systems Co., Ltd.;

Note 2: This mainly refers to government subsidy for science research projects and investment subsidy;

Note 3: This mainly refers to the payment for use of funds charged to Chengdu Neusoft Institute of Information Technology due to delayed payment;

Note 4: This mainly refers to profit and loss arising from acquisition of equity in Appconomy, Inc. by the Company with technology use right. Please refer to Note 5.47 for details;

Note 5: This mainly refers to profit and loss on change in fair values of trading financial assets/liabilities; and

Note 6: The Company acquired 28.33% equity in Beijing LBS Social Insurance Information Technology Co., Ltd. and finished business combination under common control, the equity held by the Company before the acquisition was recalculated based on its fair value on

the acquisition date, the difference between fair value and book value, together with other composite income relevant to the equity held by the Company before the acquisition date were recognized as investment income in the consolidated financial statements. Please refer to Note 5.45 for details.

14.2 Net asset's rate of return and EPS:

Profits in this reporting period	Weighted average of return of net assets (%)	EPS (Yuan)	
		Basic EPS	Diluted EPS
Net profit attributable to the shareholders of the parent company	9.34	0.34	0.34
Net profit attributable to the shareholders of the parent company after deducing non-recurring profit and loss	6.42	0.23	0.23

14.3 Main financial items with abnormal change and reasons

Financial items with abnormal amount or abnormal change during comparison period

Item	Year-end balance (or amount of year-end)	Year-begin balance (or amount of previous year)	Change ratio (%)	Reason
Notes receivable	36,215,245	12,798,400	182.97	(1)
	14,262,836	10,313,513	38.29	(2)
Held-to-maturity investment	401,931,507			(3)
Long-term accounts receivable	150,710,187	283,406,306	-46.82	(4)
Construction in progress	307,799,158	84,731,103	263.27	(5)
Goodwill	227,376,502	144,880,456	56.94	(6)
Short-term borrowing	470,000,000	160,000,000	193.75	(7)
Trading financial liabilities	170,567	1,227,304	-86.10	(8)
Notes payable	83,204,957	145,564,320	-42.84	(9)
Taxes payable	67,567,092	685,326	9759.12	(10)
Other current liabilities	71,666	21,336	235.89	(11)
Non-current liabilities due within one year		136,060,526	-100.00	(12)
Bonds payable	403,658,667			(13)
Undistributed profits	2,536,698,174	2,171,819,047	16.80	(14)
Converted difference in foreign currency Statements	-48,565,779	-26,721,620	-81.75	(15)
Operating incomes	5,751,249,330	4,937,696,440	16.48	(16)
Operating costs	4,004,998,405	3,383,628,845	18.36	(17)

Continued table

Item	Year-end balance (or amount of year-end)	Year-begin balance (or amount of previous year)	Change ratio (%)	Reason
Sales expenses	497,920,161	391,904,135	27.05	(18)
Administrative expenses	819,957,825	713,916,675	14.85	(19)
Financial expenses	23,649,196	-356,749	6729.09	(20)
Impairment Losses on Assets	41,405,012	5,344,100	674.78	(21)
Income from changes in fair value	950,557	-694,314	236.91	(22)
Non-operating income	188,085,954	160,821,056	16.95	(23)
Non-operating expenses	5,499,473	8,207,608	-33.00	(24)
Income tax	69,341,108	52,802,832	31.32	(25)
Minority interest	6,476,572	22,627,318	-71.38	(26)

Reasons:

(1) This item increases by 23,420,000 Yuan, an increase of 182.97% over the year beginning, which is mainly caused by the increase of customer refund by banker's acceptance;

(2) This item increases by 3,950,000 Yuan, an increase of 38.29% over the year beginning, which is mainly caused by the increase of deferred expenses;

(3) This item increases by 401,930,000 Yuan compared with that of the year beginning, which is mainly caused by purchase of bank financing products;

(4) This item reduces by 132,700,000 Yuan, a decrease of 46.82% over the year beginning, which is mainly caused by the payment made by Chengdu Neusoft Institute of Information Technology for asset transfer in preceding year;

(5) This item increases by 223,070,000 Yuan, an increase of 263.27% over the year beginning, which is mainly caused by newly added investment into Beijing Software Park, further investment into Shanghai Software Park and Guangzhou Software Park;

(6) This item increases by 82,500,000 Yuan, an increase of 56.94% over the year beginning, which is mainly caused by acquisition of 73.14% equity in Beijing Viewhigh Technology Co., Ltd. (renamed as "Beijing Neusoft Viewhigh Technology Co., Ltd." after the acquisition) by Neusoft Group (Beijing) Co., Ltd. Goodwill arising from the difference by which the paid consideration is higher than the fair value of attributable identifiable net assets is 99,950,000 Yuan. Besides, 8980,000 Yuan is appropriated for goodwill impairment loss for merger business in Europe and the USA, and the other is caused by change in exchange rate;

(7) This item increases by 310 million Yuan, an increase of 193.75% over the year beginning, which is mainly caused by increase of short-term borrowing within Shenyang Neusoft Medical Systems Co., Ltd.;

(8) This item reduces by 1,060,000 Yuan, a decrease of 86.1% over the year beginning, which is mainly caused by the foreign exchange forward contract signed by the Company. In this reporting period, the foreign exchange forward contract is not quoted based on exchange rate and is calculated by different foreign currencies. The estimated fluctuation loss with a reduction amount of 1,060,000 Yuan is recorded in profit and loss on change in fair value and accordingly the trading financial liabilities are reduced;

(9) This item reduces by 62,360,000 Yuan, a decrease of 42.84% over the year beginning, which is mainly caused by payment for

bank's acceptance;

(10) This item increases by 66,880,000 Yuan compared with that of the year beginning, which is mainly caused by increase of due VAT and income tax;

(11) This item increases by 50,000 Yuan, an increase of 235.89% over the year beginning, which is mainly caused by increase of accrued expenses;

(12) This item reduces by 136,060,000 Yuan, a decrease of 100.00% over the year beginning, which is mainly caused by refund of interest-free loan to the government by Chengdu Neusoft Information Technology Development Co., Ltd. (Special fund for the 3rd phase construction of Chengdu Software Park provided by the government in manner of interest-free loan);

(13) This item increases by 403,660,000 Yuan compared with that of the year beginning, which is mainly caused by issuance of 400 million Yuan MTN and accrued interest with an amount of 3,660,000 Yuan;

(14) This item increases by 364,880,000 Yuan, an increase of 16.80% over the year beginning, which is mainly caused by the achievement of net profit with an amount of 417,070,000 Yuan;

(15) This item reduces by 21,840,000 Yuan, a decrease of 81.75% over the year beginning, which is mainly caused by fast growth of exchange rate between RMB and ERU. The annual average exchange rate (9.0230) for translation of foreign currency-dominated financial statement adopted by the Company's wholly owned subsidiary Neusoft (Europe) Co., Ltd. has a big difference with the rate (8.1625) at the end of this period. As a result, the converted difference in foreign currency statements reduces by 16,630,000 Yuan over the same period of last year;

(16) This item increases by 813,550,000 Yuan, an increase of 16.48% over the same period of last year, which is mainly caused by growth of revenue from domestic solution operations and international software business;

(17) This item increases by 621,370,000 Yuan, an increase of 18.36% over the same period of last year, which is mainly caused by cost increase (such as labor expense) due to the revenue growth;

(18) This item increases by 106,020,000 Yuan, an increase of 27.05% over the same period of last year, which is mainly caused by business expansion and marketing promotion;

(19) This item increases by 106,040,000 Yuan, an increase of 14.85% over the same period of last year, which is mainly caused by increase of labor expense and R&D expenses;

(20) This item increases by 24,010,000 Yuan, an increase of 6729.09% over the same period of last year, which is mainly caused by increase of bank loan based on the Company's fund condition, accrued interest and underwriting expense for the MTN issued in this period, increase of interest expenses and handling expenses among comprehensive financial expenses by 20,070,000 Yuan;

(21) This item increases by 36,060,000 Yuan, an increase of 674.78% over the same period of last year, which is mainly caused by increase of impairment loss on account receivable estimated based on balance and age, 8,850,000 Yuan appropriated for loss on bad debt from account receivable which is not recovered in full amount by Neusoft Europe from Sesca; In addition, at the same period of previous year, Chengdu Neusoft Development, based on actual situation, reversed back 6,600,000 Yuan exclusively appropriated for bad debt provision for long-term accounts receivable due to Sichuan Earthquake;

(22) This item increases by 1,640,000 Yuan, an increase of 236.91% over the same period of last year, which is mainly caused by change in fair value of the foreign exchange forward contract;

(23) This item increases by 27,260,000 Yuan, an increase of 16.95% over the same period of last year, which is mainly caused by the non-operating income, with an amount of 27,260,000 Yuan, from purchase of equity in Appconomy, Inc. by the Company with technology use right;

(24) This item reduces by 2,710,000 Yuan, a decrease of 33.00% over the same period of last year, which is mainly caused by payment by Neusoft Medical for indemnity from legal action;

(25) This item increases by 16,540,000 Yuan, an increase of 31.32% over the same period of last year, which is mainly caused by expiration of Neusoft Group (Dalian) Co., Ltd.'s tax holiday, 9480,000 Yuan income tax is increased accordingly based the tax rate at 10%; and increase of taxable income of the Company and profitable subsidiaries; and

(26) This item reduces by 16,150,000 Yuan, a decrease of 33.00% over the same period of last year, which is mainly caused by transfer of investment property from Chengdu Neusoft Development to Chengdu Neusoft Institute of Information Technology.

Note 15 Authorization of Publication of Financial Statements

The Board of Directors has authorized to publicize the financial statements on March 29th, 2012.

Neusoft Corporation

Date: March 29th, 2012

(XII) Documents Available For Inspection

1. Annual Report 2011 with signature of the Chairman Liu Jiren and seal of the Company;
2. Financial Report with signatures of Chairman Liu Jiren, Senior VP & CFO Wang Li and Finance Operation Director Chen Lei and seal of the Company; and
3. All the original documents and announcements disclosed in newspapers or magazines designated by CSRC.

Liu Jiren

Chairman of Neusoft Corporation

Date: March 29th, 2012

Neusoft Corporation Directors' Statement on the Company's Annual Report 2011

In accordance with the *Securities Law of the People's Republic of China* and relevant regulations made by the CSRC, we hereby represent and warrant that Neusoft Corporation's annual report for year 2011 does not contain any false record, misleading presentation or material omission, and shall assume individual, joint, and several liability for its genuineness, accuracy and completeness.

Signatures:

Liu Jiren, Wang Yongfeng, Wang Li, Seizo Ishiguro, Klaus Michael Zimmer, Akira Kasano, Fang Hongxing, Xue Lan, Gao Wen

Date: March 29th, 2012

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Neusoft Corporation Senior Executives' Statement on the Company's Annual Report 2011

In accordance with the *Securities Law of the People's Republic of China* and relevant regulations made by the CSRC, we hereby represent and warrant that Neusoft Corporation's annual report for year 2011 does not contain any false record, misleading presentation or material omission, and shall assume individual, joint, and several liability for its genuineness, accuracy and completeness.

Signatures:

Liu Jiren, Wang Yongfeng, Chen Ximin, Lu Zhaoxia, Wang Li, Zhang Xia, Wang Jingxi, Zhang Xiaou, Li Jun, Klaus Michael Zimmer, Wang Nan

Date: March 29th, 2012

Neusoft Corporation

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